

## Why 21st Century Financial Services Need Strong Regulation and Consumer Protections

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Access to basic banking and financial services is very unequal in the United States. Nearly half of all Black, Latinx, and Native American households either lack a bank account or have one but also borrow from high-cost alternative financial services like payday lenders. Community access to financial services also mirrors social inequalities. Cities with sizable Black and Brown populations have lost up to 25% of their bank branches since the Great Recession, and rural areas have watched as bank closures caused branches to inch farther and farther away. High-cost alternative financial services companies have swooped in to fill the vacancies created by bank branch closures in many less privileged areas. Furthermore, unequal access to cost-effective financial services matters – across generations. Growing up in isolation from banks or near payday lenders is associated with worse outcomes later in life, such as lower credit scores.

### Improving Individual Skills Is Insufficient

Efforts to improve access often focus on the financial knowledge, sophistication, and resources of individuals – factor that can indeed affect people's use of basic banking and financial services. This approach includes such steps as educating individuals to navigate a complex financial system and ensuring that they are knowledgeable about concepts ranging from account overdraft fees and credit scores to fixed rate mortgages and stock dividends.

Unfortunately, efforts that focus on individuals are insufficient for reducing inequalities. A person may carefully sequence his or her debit card transactions to avoid overdrawing the account balance, only to discover that the bank does not process transactions in the order they occurred. What is more, the average transaction that triggers an overdraft is \$4, and, the bank's \$35 fee mirrors the interest rates of payday lenders. Hopes for removing expensive overdraft charges may depend on individuals' negotiating power with the bank. And any savings depositors hope to accrue can disappear with a few swipes of a card, quickly transforming balances into high-cost debt.

Another way that banks contribute to inequalities is by charging Black and Brown customers more than Whites for basic banking and financial services. Average checking account costs are \$190.09 higher for Blacks, \$25.53 higher for Asians, and \$262.09 higher for Latinx. In a well-known scandal, Wells Fargo paid \$1.5 billion in damages for targeting Native and immigrant consumers by opening transaction accounts and lines of credit without their knowledge. And a 2017 lawsuit by the National Association for the Advancement of Colored People alleged that Capital One Bank discriminated by closing branches in Black and Brown communities.

Such scandals have made salient what mainstream policy conversations often forget: institutions often bear responsibility for inequalities in individual access to basic financial services.

### Reforms Should Focus on Improving Services

Better solutions to inequalities depend on improving services themselves, not just individual skills. A focus on improving services shifts blame away from individuals and unveils aspects of banks' policies and practices that could otherwise remain concealed. For example, a focus on service provision illuminates how many banks charge residents of communities of color higher, predatory rates to use products and services. This approach unveils how discriminatory practices undermine dignified access to basic banking and financial services that, in turn, serve as gatekeepers to broader economic opportunities.

## Policies for 21st Century Financial Services

Strong regulatory oversight and consumer protections can transform financial services, ensuring that inequitable policies and practices are identified and fixed. Several steps can help:

- **Fully fund and authorize the Consumer Financial Protection Bureau.** Established by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the Bureau has been a staunch advocate for consumers, regulating high-cost payday and title lending and regulating such bank practices as fees for overdrafts and insufficient deposits.
- **Update the Community Reinvestment Act to evaluate banks based on whether they locate branches and key services in communities of color.** Even though this act was first passed to counter racist redlining, its rating system focuses only on low-income communities, overlooking some racially unequal practices. Neighborhoods, often racially segregated, still rely on local bank investments; and even in the Internet age most consumers still depend and need access to in-person transactions at local bank branches.
- **Require banks to follow safe and affordable checking account standards.** Federal rules should imitate Canada's 2001 law requiring banks to offer basic accounts at less than \$4 per month and ensuring every citizen with requisite identification the right to open a bank account, regardless of criminal record, history of bankruptcy, or employment status.
- **Prohibit banks from reporting customer activities to screening agencies.** Banks often report consumer records to agencies like Chex and Early Warning Systems that share such information when consumers later try to use financial services. However, such personal information can be inaccurate and unfairly exclude consumers.

Policies such as these could better balance the scales, so that often racially skewed personal knowledge and local resources are not as consequential in deciding who can benefit from basic banking and financial services in the United States.

Read more in Jacob Faber and Terri Friedline, **The Racialized Costs of Banking**, (New America, 2018); Terri Friedline, **Unequal Fintech Landscapes: Communities' Rates of High-speed Internet Access, Smartphone Ownership, and Online and Mobile Banking**, (New America 2018); Terri Friedline and Nancy Kepple, **"Does Community Access to Alternative Financial Services Relate to Individuals' Use of These Services? Beyond Individual Explanations,"** *Journal of Consumer Policy*, 40, no. 1, (2017): 51-79; Terri Friedline and Matthieu Despard **"Mapping Financial Opportunity,"** (New America 2018); Terri Friedline, Matthieu Despard, Rachel Eastlund, and Nik Schuetz, **"Are Banks' Entry-level Checking Accounts Safe and Affordable?"** (New America, 2017).