

# HIGH-IMPACT Giving Opportunities

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## Poverty Reduction: Increasing Access to Financial Services for the 'Unbanked'

**FACT:** *More than 22 million U.S. households do not have access to traditional financial services.<sup>1</sup>*

### THE PROBLEM

Financial services mean different things to different people in the United States. In middle- and upper-class communities, such services include free checking, investment advice, and an ATM on every corner. In low-income communities, the benefits of banking often are not understood – creating a disconnect between the services people need and what banks usually offer. Alternatives like pawnshops and liquor stores and others that offer payday lending and cash advances fill the gap. Many of these providers engage in predatory lending with loans with unreasonably high fees and/or penalties. Short-term, these banking alternatives reduce the already-limited spending and saving power of the unbanked; long-term, their use can result in debilitating debt.

According to the Federal Deposit Insurance Corp. (FDIC), the terms unbanked and underbanked refer to households without accounts at banks or other mainstream financial institutions. The unbanked tend to be elderly, low-income, minority, immigrant, or young. Almost 25 percent of families earning less than \$25,000 a year are unbanked,<sup>2</sup> and as a result, have greater difficulty generating a secure base of assets and a credit history to help lift them out of poverty.

### THE URGENCY

*Wealth in the United States is becoming increasingly polarized.* In the past five years, the number of millionaires in the United States has increased by 62 percent while median household income has stagnated.<sup>3</sup> The wealthiest 20 percent in the United States earn 50 percent of the country's total income; the poorest 20 percent make less than 4.

*The recent crash of the sub-prime mortgage market puts vulnerable families at greater risk.* As the number of foreclosures in the United States skyrockets, some of America's most vulnerable families are losing what little equity they had, making them more likely to turn to more expensive alternatives. These foreclosures make potential customers more risky for traditional investment firms.

### THE OPPORTUNITY

Donors can help make financial services more widely available:

- **Support organizations offering financial services to the poor.** Many organizations help the unbanked grow their assets, and they often partner with banks that need guidance on working effectively with the unbanked. Whether providing classes on how to access and use traditional financial services, providing such services directly, or assisting those in crisis climb out of credit traps, these organizations help people help themselves.
- **Help organizations fight predatory lending.** Interested donors can fund organizations that work to fight or regulate the businesses that take advantage of the unbanked. Across the country, local and statewide campaigns that seek to regulate predatory practices like payday lending need support.
- **Consider putting your own assets at a credit union.** Credit unions work to keep assets invested in the local community, and thus offer a wider range of tailored services to unbanked potential clients.

Excellent sources of further information include:

- The **Center for Financial Services Innovation** works with the financial-services industry to address issues the underbanked face (<http://www.cfsinnovation.com/research-strategy.php>).
- The **Community Giving Resource**, a project of the Neighborhood Funders Group and the Aspen Institute, works to increase family stability by helping the unbanked ([http://www.communitygivingresource.org/families/families\\_list.htm?cat\\_id=1050](http://www.communitygivingresource.org/families/families_list.htm?cat_id=1050)).

1. Jacob, Katy, "Retailers as Financial Services Providers: The Potential and Pitfalls of This Burgeoning Distribution Channel," Center for Financial Services Innovation, May 2005, [http://www.cfsinnovation.com/research-paper-detail.php?article\\_id=280](http://www.cfsinnovation.com/research-paper-detail.php?article_id=280).

2. Barr, Michael S., "Banking the Poor: Policies to Bring Low-Income Americans into the Financial Mainstream." Metropolitan Policy Program, Brookings Institution, October 2004, [http://www.brookings.edu/~media/Files/rc/reports/2004/10children-families\\_barr/20041001\\_Banking.pdf](http://www.brookings.edu/~media/Files/rc/reports/2004/10children-families_barr/20041001_Banking.pdf).

3. Jeffrey, Clara, "A Look at the Numbers: How the Rich Get Richer." *Mother Jones*, May/June 2006, News section, [http://www.motherjones.com/news/exhibit/2006/05/perks\\_of\\_privilege.html](http://www.motherjones.com/news/exhibit/2006/05/perks_of_privilege.html).