



Are Banks on the Map?



An Analysis of
Bank Branch Location in
Working Class and
Minority Neighborhoods

NATIONAL
COMMUNITY
REINVESTMENT
COALITION **NCRC**

The National Community Reinvestment Coalition

The National Community Reinvestment Coalition (NCRC) is the nation's trade association for economic justice whose members consist of local community based organizations. Since its inception in 1990, NCRC has spearheaded the economic justice movement. NCRC's mission is to build wealth in traditionally underserved communities and bring low- and moderate-income populations across the country into the financial mainstream. NCRC members have constituents in every state in America, in both rural and urban areas.

The Board of Directors would like to express their appreciation to the NCRC professional staff who contributed to this publication including:

John Taylor, President and CEO
David Berenbaum, Executive Vice President
Joshua Silver, Vice President of Research and Policy
Tim Westrich, Research Analyst
Anna Gullickson, Research Assistant

The Board would especially like to thank Tim Westrich, the project's principal investigator.

© 2007 by the National Community Reinvestment Coalition.

Reproduction of this document is permitted and encouraged, with credit given to the National Community Reinvestment Coalition.



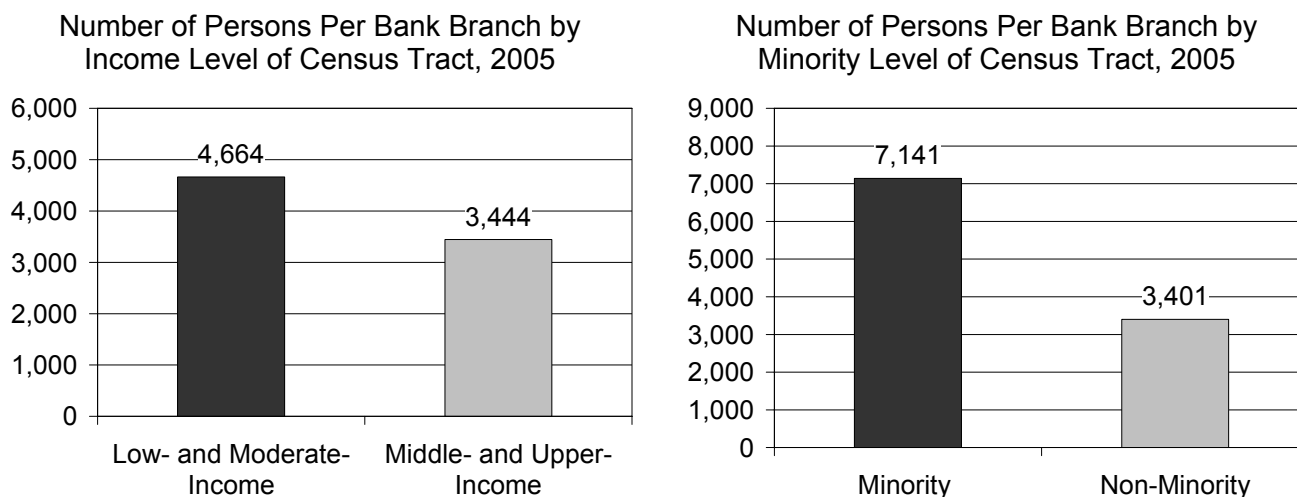
727 15th St NW, Suite 900
Washington, DC 20009
(202) 628-8866
www.ncrc.org

Executive Summary

In most of the largest 25 metro areas in the US, banks are not located in working class and minority neighborhoods in the same proportions that they are located in wealthy and white neighborhoods. As part of this report, bank branches were mapped in the largest metro areas in the US, and then compared to the income level and minority level of the census tracts of the cities. While a few cities stand out as models of even distribution, most maps (a sample of which appears in the back of this report) show a stark disparity: upper-income and white neighborhoods contain the great majority of bank branches. A comprehensive statistical analysis, included in this report, confirms that the number of branches per person is consistently lower in working class and minority neighborhoods.

This disparity has an impact on the ability of families in these neighborhoods to build assets and/or climb out of poverty. Nearly 21 percent of all US households are “unbanked” – that is, they have no relationship with a bank or credit union. Countless other consumers are “underbanked” in that they have deposit accounts but still resort to abusive payday lenders and check cashers. This means they cannot access wealth-building tools such as savings accounts, and thus are not able to accumulate wealth. Furthermore, it is difficult for them to establish a credit history, making them less able to obtain a mortgage and become homeowners. Instead, low-income and minority families are likely using the “fringe banking industry” – the check cashers, payday loan stores, and pawnshops that charge much higher costs for similar services. This study concludes that banks ought to consider low- and moderate-income neighborhoods as an untapped market area ripe for expansion. In addition to the munificent effects of locating in working class and minority neighborhoods, these neighborhoods often are much denser than affluent areas, meaning they have more income per square mile and would be an attractive location for a bank branch.

The maps of four of the 25 cities follow in the back of this report. The complete set of maps is available on NCRC’s website at www.ncrc.org.



A lower number connotes a better (lower) number of persons per branch. Numbers reflect the median of Metro Areas included in this study.

Recommendations

This report concludes with two recommendations. First, banks ought to develop and expand products in demand by unbanked and underbanked consumers. Rather than trust services, investments, wealth management, and the like, low-income people demand more basic services such as simple checking and savings accounts, credit cards, small consumer loans, and so forth. This report includes a survey of such products currently in place by banks, and advocates that they are developed and expanded further. Second, this report asserts that the Service Test of the Community Reinvestment Act (CRA), a federal law requiring banks to meet the credit needs of the communities in which they are located, ought to be improved to become more performance-based. While CRA currently grades banks on their percentage of branches in low- and moderate-income communities, very few banks are graded rigorously for poor performance in this measure. Furthermore, the CRA Service Test ought to evaluate banks on how well they extend innovative services for low-income people – for example, reaching unbanked and underbanked persons through financial education programs, check cashing services, or Individual Development Accounts (IDAs). Currently, the Service Test does not consistently evaluate banks on the innovativeness and quantity of their products for low-income people, and allows for only weak repercussions for poor performance.

This report is composed of three components. First, it compares the benefits of the mainstream banking industry over fringe banking outlets, showing how banks provide superior and more affordable services. Second, it explains the methodology behind how the mapping analysis was carried out and then presents the analysis's key findings. Third, it will offer recommendations on how to improve the types of services offered to working class and minority individuals, in order to increase their prospects of building wealth and creating assets.

Bank Branches vs. Fringe Banking Outlets

Many families living in modest income and minority neighborhoods in the US have been left out of the mainstream banking industry,¹ and instead rely on high-cost “fringe banking” outlets. An article written by the Federal Reserve Board² in 1997 concluded that low-income areas had the lowest amount of branches per capita in 1995, relative to moderate-, middle-, and upper-income areas. Furthermore, it concluded that from 1985 to 1995 the number of branches in low-income areas decreased, both in absolute numbers and in their proportion relative to moderate-, middle-, and upper-income areas. In fact, low- and moderate-income zip codes accounted for almost two-thirds of the total decline in bank branches between 1985 and 1995.

Since that time, however, large banks have rapidly increased their number of branches. Banks again view their branches as revenue-generating assets, where tellers can open a variety accounts and market new products to customers. This is in marked contrast to the mid-1990s, when bankers were betting on reaching their consumers through automated teller machines (ATMs) and online banking, a less expensive strategy than operating a branch. However, consumers indicated that they still prefer doing business in bank offices and by face-to-face interactions with a teller.³ While branch-building has been on the rise, a flurry of newspaper articles indicate that the increase in the number of bank offices has not occurred evenly across neighborhoods of varying income. For example, a handful of wealthy suburban Chicago

¹ In this paper, the term “mainstream banking industry” is used as an umbrella term to capture all financial institutions. This includes banks, savings-and-loans, and credit unions.

² Robert B. Avery, Raphael W. Bostic, Paul S. Calem, and Glenn B. Canner, “Changes in the Distribution of Banking Offices,” Federal Reserve Bulletin, 1997.

³ New York Times, “A Bank for Every Block,” 9 August 2006.

municipalities such as Lake Forest and Highland Park enacted moratoria on branch building, as banks were crowding out other retail stores in shopping districts. At the same time, low-income and minority suburban Chicago municipalities had actually experienced declines in bank branches.⁴ The question this report seeks to answer is whether the recent branch activity is being applied to all market segments, absent disparate treatment based on race or income.

It is estimated that nearly 22 million households or 21 percent of all US households⁵ are “unbanked” – that is, they have no formal relationship with a bank, savings-and-loan, or credit union. Banks don’t appear to be pursuing the unbanked: a survey of banking executives in the American Banker found that 69 percent of financial institutions polled was not pursuing unbanked consumers or were just studying the market.⁶ Millions of other families may be “underbanked” – while they may have a checking account, they do not utilize other bank services, such as savings accounts and other wealth-building tools. Without basic checking accounts, the unbanked are less able to manage their income and expenses; and without affordable saving and lending products, it is difficult for them to build assets and climb out of poverty. With their ability to build wealth impeded, low-income families often are often vulnerable to predatory or usurious lenders and unlikely to establish a consistent and strong credit history.

Research has shown that the unbanked population is disproportionately made up of low-income and minority individuals. A survey by the Joint Center for Housing Studies at Harvard University⁷ found that the group characterized as “unbanked” has disproportionately lower incomes, is disproportionately African-American and Hispanic, is less educated, and is younger than the population as a whole. Through interviews with 1,532 respondents in three major American cities in late 2003, the survey found that 52.4 percent of those termed unbanked were black and 35.3 percent were Hispanic. Immigrants also were much less likely to have a bank account. On the other hand, whereas about 40 percent of *banked* households were white, only about 7 percent of unbanked households were white. Education and income were even stronger predictors of being unbanked. Nearly 70 percent earn less than \$15,000, and only 3 percent have a college degree.

Instead of mainstream financial institutions, low-income people are more likely to use the “fringe banking industry.” This includes the check cashers, payday loan stores, pawnshops, and rent-to-own stores that are frequently located in low- and moderate-income neighborhoods. These establishments charge a much higher price for the similar services that would be provided by a bank or credit union. Many fringe banking establishments have taken on a professional, legitimate look with storefronts that resemble banks. In fact, some rent-to-own stores have large national advertising campaigns with celebrity spokespersons. The result is a two-tiered financial services industry, where the affluent pay less and access better services at banks and credit unions, and the poor pay more and have fewer options at fringe operations.

Data also show that the fringe banking industry has expanded rapidly in recent years. These establishments were virtually unknown until the mid-1990s but have proliferated since. The number of check-cashing outlets (CCOs) in the US doubled between 1996 and 2001; they now cash more than 180 million checks annually. Further, whereas payday lending was all but unknown in the early 1990s, in 2002 more than 10,000 payday lending stores existed, serving an enormous section of the population.⁸

⁴ Geoff Smith, “Increase in Bank Branches Shortchanges Lower-Income and Minority Communities: An Analysis of Recent Growth in Chicago-Area Bank Branching,” Woodstock Institute, 2005.

⁵ General Accounting Office, “Electronic Transfers.” Report to the Subcommittee on Oversight and Investigations, House of Representatives, September 2002.

⁶ “Executive Forum 4Q ’06: Consumer Finance at a Challenging Time,” American Banker, 16 February 2007.

⁷ Christopher Barry, “To Bank or Not to Bank? A Survey of Low-Income Households.” Joint Center for Housing Studies Working Paper Series, BABC 04-3. February 2004.

⁸ Kenneth Temkin and Noah Sawyer, “Analysis of Alternative Financial Service Providers.” Fannie Mae Foundation, 2004.

Broader social and economic trends also have raised the dependency of modest income families on fringe financial services. Additional low-income adults were forced into the workforce as a result of welfare reform, and immigration is at a recent high; this means that additional low-income persons and immigrants are increasingly using the fringe banking industry. Furthermore, wages have not kept pace with inflation in recent years, putting a strain on the household budgets of low-income families and increasing the dependency on short-term loan programs.⁹

Fringe Banks Charge Higher Rates for Similar Services

Use of the following scenarios shows just how costly the fringe banking industry can be relative to the cost of the same services at mainstream institutions. The primary service of a check cashing outlet (CCO) is to cash the customer's check for a fee, whether the check is from an employer, public assistance program, or another individual. These fees typically are 1.0 to 6.0 percent of the check; typically, the fee is higher for larger checks. In addition to check-cashing, most CCOs offer ancillary services such as money orders, bill payments, remittance transfers, postal services, and fax and copy services. While the individual fee for each of these services may not be exorbitant, when added up and used frequently the cost is almost seven times more than the same services at a bank.

Figure 1. A Comparison of CCO and Bank/Credit Union Costs

Service	Cost at CCO	Cost at Bank/Credit Union
Basic Monthly Fee	\$0	\$0-\$8, depending on average monthly balance
Check Cashing	A \$875 payroll check at a fee rate of 4.11% : \$35.96	\$0
Check Writing	n/a	\$0 (most banks no longer charge to write checks)
ATM	n/a	<ul style="list-style-type: none"> ▪ Free within a bank's ATM network ▪ \$0.50-\$2.00 per transaction for an out-of-network transaction ▪ \$0.50-\$2.00 per transaction surcharge applied by the bank for an out-of-network transaction
Money Order	\$1.08 for a \$100 transaction	n/a
Utility Bill-Pay	\$1.29 per transaction	

Consider a low-income individual earning \$21,000 per year (net \$1,750 per month, or \$875 bi-monthly). Figure 1 shows the comparative costs of CCO and bank/credit union services that this individual might use. These costs are based on averages from a national survey of CCOs conducted by the Consumer Federation of America.¹⁰

⁹ Matt Fellowes, "From Poverty, Opportunity: Putting the Market to Work for Lower Income Families." Brookings Institution, 2006.

¹⁰ Jean Ann Fox and Patrick Woodall, Cashed Out: Consumers Pay Steep Premium to "Bank" at Check Cashing Outlets, November 2006.

Figure 2 then implements these costs in a scenario given the individual’s typical use of financial services. As the figure illustrates, financial services cost much more at a CCO than at a bank or credit union, by a margin of \$70.48 per month. Over the course of a year, a person in this scenario will spend an additional \$845.76 by using a CCO instead of a bank. This represents 4.6 percent of his annual income, as opposed to 0.6 percent for the same services at a bank or credit union. Once again, this scenario of costs does not consider access to other savings and lending products at banks.

Figure 2. One-month Scenario Involving an Individual with Monthly Income of \$1,750

Use	Check-Cashing Outlet		Bank/Credit Union	
	Description	Cost	Description	Cost
Monthly Fee	n/a	\$0.00		\$3
Cashes \$585 payroll check twice per month	\$35.96 x 2 transactions	\$71.92		\$0
ATM Usage	n/a	\$0.00	Uses ATM 6 times per month, 3 times at own bank, 3 times at a “foreign” ATM	\$7.50
Bill Payments	Purchases six money orders per month at \$1.08 per transaction, buys two utility bill pays at \$1.29 per transaction	\$9.06	Makes payments by eight checks or internet transactions	\$0
Total Monthly Costs		\$80.98		\$10.50
Total Annual Costs		\$971.76		\$126.00
Total Annual Costs as a Percentage of Annual Income		4.6%		0.6%

Check-cashing outlets are not the only costly fringe-banking service that has expanded in recent years. Consider these “lending” services:¹¹

- Payday lenders offer small consumer loans of \$100 to \$300, and typically charge 15 percent per two-week period. In addition to annualized interest of over 400 percent, abusive payday lenders often encourage consumers to rollover loans several times, capturing the individual in a cycle of permanent debt.
- Pawnshops offer small, short-term loans that use personal items, such as jewelry or large electronics, as collateral. Pawnshops typically charge interest as high as 25 percent. Loopholes in state usury laws often allow them to rollover fees and finance charges also. The pawnshop collects the item if the borrower defaults on payment.
- Car title loans are a variation of the typical pawn loan. A person who owns his/her car outright can take out a small loan, usually around 25 percent of the value of the car, using the car title as collateral. Repayment is usually made over a number of monthly payments, and interest rates are

¹¹ List adapted from James H. Carr and Jenny Schuetz, “Financial Services in Distressed Communities: Framing the Issue, Finding Solutions.” Fannie Mae Foundation, 2001.

typically up to 20 percent per month. Car title loan contracts are set up so the lender can collect the car if the borrower defaults, even on only one payment.

- Rent-to-own stores offer credit to consumers to purchase large appliances, electronics, and furniture. The consumer agrees to a series of weekly or monthly payments, but usually ends up paying back two to three times the retail amount of the item. However, no equity accrues in the leased item until the final payment. Thus, if the consumer does not complete all the payments, the item must be returned and the consumer is not compensated.

Thus, it follows that safe and affordable financial services must be located in the low-income neighborhoods of the US in order for those individuals to build wealth instead of losing equity. Access to a checking account means better access to other wealth building tools (discussed later in this report). While poor families find it difficult to save given their low incomes, evidence suggests that low-income people can save if they are given the means to do so.¹² Checking and savings accounts give the consumer a better opportunity to manage expenses. Money market accounts and Individual Development Accounts (IDAs) give the consumer a method for savings for large expenses, such as furniture, appliances, or higher education. Banks also offer affordable small loan services, such as credit cards. Last, a relationship with a bank can help to establish a customer's credit for large loans such as a home mortgage. Home loans that originate at bank branches (rather than through brokers or other channels) tend to have a lower likelihood of being high-cost, according to a Federal Reserve study.¹³ Thus, if banks increase their branches in minority and working class neighborhoods, it is likely that community residents will have more access to affordable and market-rate home loans.

Methodology

Metropolitan Areas

In order to show that the trends in this study are deep-seated, the twenty-five most populous metro areas in the United States were included in the analysis. This sample of twenty-five includes a diverse assortment of cities. That is, they are located in all regions of the United States – east coast, west coast, southern, western, and midwestern. Furthermore, these cities are diverse in terms of their development – the sample includes both older cities based on manufacturing and shipping as well as newer cities based on technology and services industries.

An effort was made to consider both urban and suburban areas in the analysis. Therefore, the central Metropolitan Statistical Area (MSA) or Metropolitan Division (MD) of each of these cities was considered.¹⁴ An MSA or MD, as defined by the US Census Bureau, generally consists of a core urban area containing substantial population, and also includes adjacent suburban counties that have a high degree of economic and social links with the core city.

Definitions of Income Level and Minority Level

¹² Michael S. Barr, "Banking the Poor," *Yale Journal of Regulation*, Vol 21:121, 2004.

¹³ Robert B. Avery, Kenneth P. Brevoort, and Glenn B. Canner, "Higher Priced Home Lending and the 2005 HMDA Data," *Federal Reserve Bulletin*, September 2006.

¹⁴ To determine the most populous MSAs in for the purpose of this study, this analysis first considered a list of Consolidated Metropolitan Statistical Areas (CMSAs), as defined in the 2000 Census, ranked in order of their population in 2000. Following this, the MSA or MD that contains the central business district of the CMSA was selected. For example, the New York—Northern New Jersey—Long Island CMSA is the first city on this ranked list; for the sake of the analysis, only the New York City MD was considered.

The definitions used for income correspond to those used in the Community Reinvestment Act (CRA), a critical law with which all banks and thrifts operating in the United States must comply. This law, passed in 1977 at the request of community groups and activists, affirmatively requires that banks and thrifts “meet the credit needs of the local communities in which the institution is chartered.”¹⁵ In order to meet this need, the CRA sets forth certain definitions of income. It defines “low-income” as being less than 50 percent of median family income of an MSA; “moderate-income” is at least 50 percent and less than 80 percent of medium family income; “middle-income” is at least 80 percent and less than 120 percent of median family income; and “upper-income” is greater than 120 percent of area medium income.

For the sake of this report, two income categories were chosen: “low- and moderate-income,” a category that includes all census tracts with a median family income less than 80 percent; and “middle- and upper-income,” a category that includes all census tracts with a median family income greater than 80 percent.

This study considers a minority individual to be anyone other than a non-Hispanic white, as defined by the US Census.¹⁶ Thus, a minority neighborhood is defined as a census tract in which more than 50 percent of the residents are minorities.

Bank Branches

The database of bank branch addresses was procured from the Federal Deposit Insurance Corporation (FDIC). The FDIC and Office of Thrift Supervision (OTS) collect data annually on the deposit balances and office locations of all banks and thrifts. These records can be downloaded through the FDIC’s website and, using Geographic Information System (GIS) software, their addresses can be geocoded and placed on a map. This analysis includes all “full-service” type branches, as defined by the FDIC.¹⁷ All bank branch data in this report are accurate as of 30 June 2005, the most recent data available from the FDIC at the time this study began.

Key Findings

Two indicators used in this report show how bank branches are located in a lower proportion in low- and moderate-income (LMI) neighborhoods than in middle- and upper-income (MUI) neighborhoods in 2005. Furthermore, banks are located in a lower proportion in minority neighborhoods than in non-minority neighborhoods. This analysis will first consider differences in bank branch location by income level, and then will consider differences by minority level.¹⁸

¹⁵ See the Code of Federal Regulations, Title 12 Part 228.2.

¹⁶ For more information about how the US Census Bureau defines race and ethnicity, see <http://www.census.gov/main/www/cen2000.html>. Last accessed 22 October 2006.

¹⁷ For more information, see the FDIC’s website on Summary of Deposits at <http://www2.fdic.gov/sod/>. Last accessed 22 October 2006.

¹⁸ The study does not control for the differences in the amount of commercial activity in a census tract or the proximity of neighborhoods to downtown central business districts. Future NCRC studies will attempt to control for these characteristics. The aforementioned Federal Reserve study examining branching patterns over a twenty year period reveals *greater* disparities when controlling for commercial activity across census tracts.

Disparities in Bank Branch Location by Income Level

Two measures were used to illustrate the proportion of bank branches per population. Both of these measures show that, in most cities surveyed, banks are located in a lower proportion in LMI neighborhoods than MUI neighborhoods. The first measure is *Persons Per Branch*, where a lower number connotes a better (lower) number of persons per branch. A higher number of persons per branch indicate that branches are less accessible since one branch has to serve a larger population. The second measure, *Percentage Point Difference*, captures the difference between the percent of population in LMI tracts and the percent of branches in LMI tracts.

Figure 3. MSAs Ranked by Persons Per Branch in LMI Census Tracts, 2005 (Ascending Order)

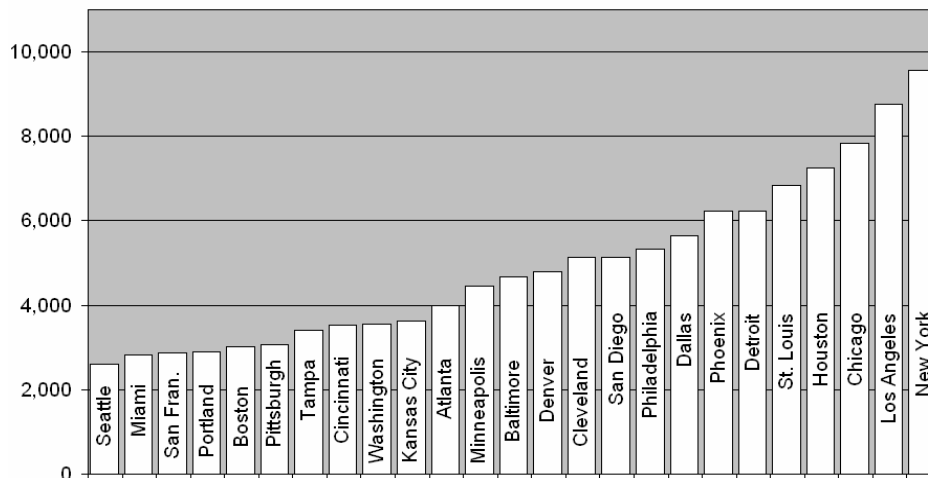
Rank	MSA	(a) Persons Per Branch in LMI Tracts	(b) Persons Per Branch in MUI Tracts	(c) (b) minus (a)	(d) Persons Per Branch in All Tracts
1	Seattle	2,601	4,110	1,509	3,515
2	Miami	2,821	3,462	641	3,169
3	San Francisco	2,881	4,174	1,293	3,699
4	Portland	2,897	4,271	1,374	3,930
5	Boston	3,025	3,221	196	3,166
6	Pittsburgh	3,058	3,026	-32	3,032
7	Tampa	3,398	3,697	299	3,592
8	Cincinnati	3,526	2,981	-545	3,136
9	Washington	3,558	3,103	-455	3,278
10	Kansas City	3,614	2,775	-839	2,975
11	Atlanta	3,981	3,056	-925	3,327
12	Minneapolis	4,444	3,758	-686	3,922
13	Baltimore	4,664	2,900	-1,764	3,333
14	Denver	4,799	3,216	-1,583	3,627
15	Cleveland	5,131	3,444	-1,687	3,835
16	San Diego	5,137	5,162	25	5,154
17	Philadelphia	5,321	2,617	-2,704	3,161
18	Dallas	5,635	3,231	-2,404	3,894
19	Phoenix	6,221	3,914	-2,307	4,561
20	Detroit	6,240	3,395	-2,845	4,027
21	St. Louis	6,836	4,527	-2,309	5,026
22	Houston	7,255	3,161	-4,094	4,259
23	Chicago	7,825	4,120	-3,705	5,116
24	Los Angeles	8,772	4,767	-4,005	6,021
25	New York	9,571	4,494	-5,077	6,168
	Median of MSAs	4,664	3,444	-925	3,699

The first measure, *Persons Per Branch*, illustrates that the proportion of bank branches is much higher in MUI tracts than in LMI tracts in most of the cities surveyed. Using Persons Per Branch metric, 18 of 25 metropolitan areas had a number of persons per branch in LMI areas that was higher than the number of persons per branch in MUI areas. On the positive side, the banks in the Seattle MSA best served persons in LMI census tracts; Seattle had the lowest number of persons per branch in LMI areas at 2,601 (see Figure 3). The other six MSAs in which the number of persons per branch was lower in LMI areas (Column C in Figure 3) are Miami, San Francisco, Portland, Boston, Tampa, and San Diego MSAs.

Figure 4. MSAs Ranked by Difference in Number of Persons Per Branch in LMI and MUI Neighborhoods, 2005 (Descending Order)

Rank	MSA	(a)	(b)	(c)	(d)
		Persons Per Branch in LMI Tracts	Persons Per Branch in MUI Tracts	Column (b) - Column (a)	Persons Per Branch in All Tracts
1	Seattle	2,601	4,110	1,509	3,515
2	Portland	2,897	4,271	1,374	3,930
3	San Francisco	2,881	4,174	1,293	3,699
4	Miami	2,821	3,462	641	3,169
5	Tampa	3,398	3,697	299	3,592
6	Boston	3,025	3,221	196	3,166
7	San Diego	5,137	5,162	25	5,154
8	Pittsburgh	3,058	3,026	-32	3,032
9	Washington	3,558	3,103	-455	3,278
10	Cincinnati	3,526	2,981	-545	3,136
11	Minneapolis	4,444	3,758	-686	3,922
12	Kansas City	3,614	2,775	-839	2,975
13	Atlanta	3,981	3,056	-925	3,327
14	Denver	4,799	3,216	-1,583	3,627
15	Cleveland	5,131	3,444	-1,687	3,835
16	Baltimore	4,664	2,900	-1,764	3,333
17	Phoenix	6,221	3,914	-2,307	4,561
18	St. Louis	6,836	4,527	-2,309	5,026
19	Dallas	5,635	3,231	-2,404	3,894
20	Philadelphia	5,321	2,617	-2,704	3,161
21	Detroit	6,240	3,395	-2,845	4,027
22	Chicago	7,825	4,120	-3,705	5,116
23	Los Angeles	8,772	4,767	-4,005	6,021
24	Houston	7,255	3,161	-4,094	4,259
25	New York	9,571	4,494	-5,077	6,168
Median of MSAs		4,664	3,444	-925	3,699

Figure 5. Persons Per Branch in Low- and Moderate-Income Census Tracts, 2005.



However, in most MSAs the number of persons per branch was much higher in LMI census tracts. At 9,571 branches per person, the New York MSA was on the bottom of the list with the lowest proportion of branches in LMI areas. The other MSAs at the bottom of the list included Los Angeles (8,772), Chicago (7,825), and Houston (7,255). These same four cities were also weakest in terms of the difference in number of branches per person in LMI versus MUI census tracts (Column C in Figure 3). Figure 4 contains the same information but ranks the MSAs based on the difference in the number of persons per branch in LMI versus MUI neighborhoods.

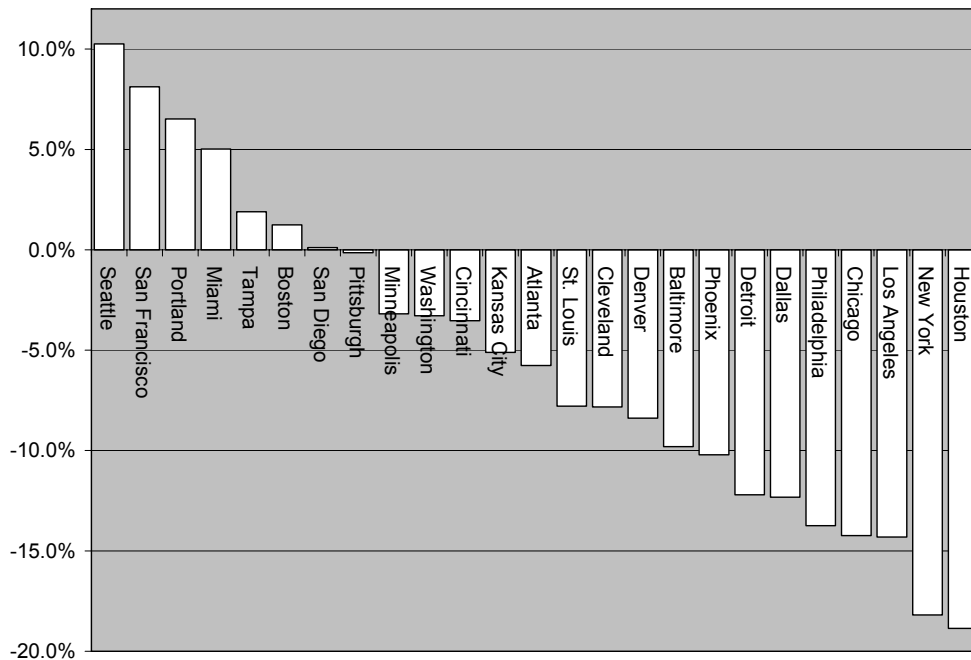
The second measure, *Percentage Point Difference*, shows this disparity in a different way. First, as seen in Figure 6, two measures are computed: the percent of branches in LMI tracts and the percent of population in LMI tracts. Then, percent of population in LMI tracts is subtracted from percent of branches in LMI tracts – this number expresses the difference between the two. A positive number, as was the case in Seattle for example, shows that the percent of bank branches in LMI neighborhoods exceeds the population located there. A negative number, as was the case in Houston, for example, shows that the percent of bank branches in LMI neighborhoods is lower than the percent of the population located there.

Figure 6. MSAs Ranked by Percentage Point Difference in LMI Census Tracts, 2005
(in Descending Order)

		(a)	(b)	(c)
Rank	MSA	Percent of Branches in LMI Tracts	Percent of Population in LMI Tracts	Column (a) - Column (b)
1	Seattle	39.45%	29.19%	10.26%
2	San Francisco	36.75%	28.63%	8.13%
3	Portland	24.80%	18.27%	6.52%
4	Miami	45.71%	40.69%	5.02%
5	Tampa	35.08%	33.19%	1.90%
6	Boston	27.81%	26.57%	1.24%
7	San Diego	33.15%	33.05%	0.10%
8	Pittsburgh	17.74%	17.89%	-0.15%
9	Minneapolis	23.91%	27.10%	-3.19%
10	Washington	38.42%	41.71%	-3.29%
11	Cincinnati	28.38%	31.91%	-3.53%
12	Kansas City	23.79%	28.90%	-5.11%
13	Atlanta	29.29%	35.05%	-5.76%
14	St. Louis	21.62%	29.41%	-7.79%
15	Cleveland	23.17%	31.00%	-7.83%
16	Denver	25.95%	34.34%	-8.39%
17	Baltimore	24.54%	34.34%	-9.80%
18	Phoenix	28.05%	38.26%	-10.21%
19	Detroit	22.21%	34.42%	-12.21%
20	Dallas	27.57%	39.90%	-12.33%
21	Philadelphia	20.11%	33.86%	-13.75%
22	Chicago	26.89%	41.13%	-14.24%
23	Los Angeles	31.31%	45.62%	-14.31%
24	New York	32.98%	51.17%	-18.19%
25	Houston	26.81%	45.67%	-18.86%
	Median of MSAs	27.57%	33.86%	-5.76%

On this measure, a few MSAs stand out as models of even distribution of bank branches. With a percentage point difference of 10.26 percent, Seattle ranked best in this measure; that is, bank branches were located in LMI neighborhoods in a greater percent than the population in those areas. Six other MSAs had a positive percentage point difference: these are San Francisco, Portland, Miami, Tampa, Boston, and San Diego.

Figure 7. Percent of Branches MINUS Percent of Population in LMI Census Tracts, 2005



However, in 18 of the 25 cities surveyed, the percentage point difference was negative, meaning that the percent of branches was lower than the percent of population in LMI tracts. At 18.86 percentage points, Houston MSA proved to have the worst difference. Also performing poorly were New York, Los Angeles, Chicago, and Philadelphia MSAs.

Disparities in Bank Branch Location by Minority Level

These same measures illustrate how banks are located in a lower proportion in predominantly minority census tracts than in predominantly nonminority census tracts.

The first measure, Persons Per Branch, shows that in only one MSA (San Francisco) was the number of persons per branch lower in minority areas than in nonminority areas. However, in San Francisco this number was lower only by a small margin (see Column C in Figure 8). Also ranking well were Boston, Miami, Washington, and Seattle MSAs, although their number of persons per branch was greater in minority areas. Figure 9 shows the same data but ranked by the difference in number of persons per branch in minority and nonminority neighborhoods.

**Figure 8. MSAs Ranked by Persons Per Branch in 51-100% Minority Census Tracts, 2005
(Ascending Order)**

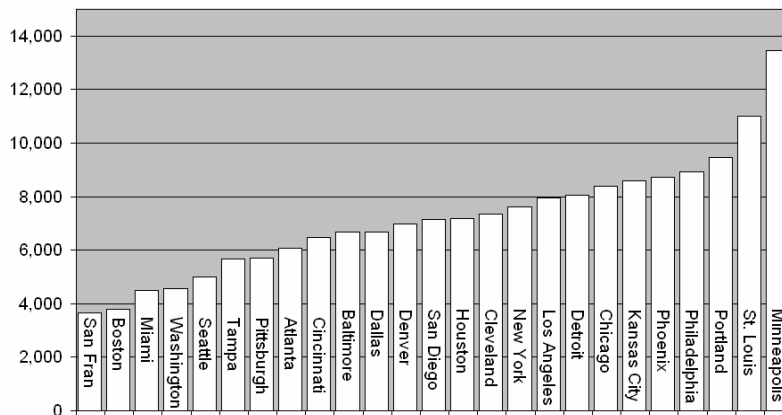
Rank	MSA	(a)	(b)	(c)	(d)
		Persons Per Branch In 51-100% Minority Tracts	Persons Per Branch In 0-50% Minority Tracts	Column (b) - Column (a)	All Tracts
1	San Francisco	3,662	3,731	69	3,699
2	Boston	3,802	3,111	-691	3,166
3	Miami	4,500	848	-3,652	3,169
4	Washington	4,566	2,849	-1,717	3,278
5	Seattle	4,987	3,438	-1,549	3,515
6	Tampa	5,674	3,401	-2,273	3,592
7	Pittsburgh	5,699	2,954	-2,745	3,032
8	Atlanta	6,084	2,730	-3,354	3,327
9	Cincinnati	6,491	2,940	-3,551	3,136
10	Baltimore	6,692	2,869	-3,823	3,333
11	Dallas	6,692	3,123	-3,569	3,894
12	Denver	6,973	3,268	-3,705	3,627
13	San Diego	7,141	4,401	-2,740	5,154
14	Houston	7,182	2,921	-4,261	4,259
15	Cleveland	7,361	3,441	-3,920	3,835
16	New York	7,619	5,406	-2,213	6,168
17	Los Angeles	7,956	3,677	-4,279	6,021
18	Detroit	8,056	3,431	-4,625	4,027
19	Chicago	8,376	4,150	-4,226	5,116
20	Kansas City	8,578	2,689	-5,889	2,975
21	Phoenix	8,735	3,896	-4,839	4,561
22	Philadelphia	8,922	2,623	-6,299	3,161
23	Portland	9,471	3,885	-5,586	3,930
24	St. Louis	11,014	4,566	-6,448	5,026
25	Minneapolis	13,473	3,729	-9,744	3,922
	Median of MSAs	7,141	3,401	-3,705	3,699

In 24 of the 25 MSAs sampled, the number of persons per branch was lower in nonminority tracts than in minority tracts. This illustrates the troubling situation that bank branches tend not to locate in minority neighborhoods in the same proportions as nonminority neighborhoods. Performing poorest in this measure were Minneapolis, St. Louis, Portland, and Philadelphia MSAs. Especially noteworthy is the wide gap in persons per branch in several of these MSAs. For example, in nonminority areas in Minneapolis there was one branch for 3,729 persons, but in minority areas, there was one branch for 13,473 persons.

Figure 9. MSAs Ranked by Difference in Number of Persons Per Branch in Minority and Nonminority Neighborhoods, 2005 (Descending Order)

Rank	MSA	(a)	(b)	(c)	(d)
		Persons Per Branch In 51-100% Minority Tracts	Persons Per Branch In 0-50% Minority Tracts	Column (b) - Column (a)	All Tracts
1	San Francisco	3,662	3,731	69	3,699
2	Boston	3,802	3,111	-691	3,166
3	Seattle	4,987	3,438	-1,549	3,515
4	Washington	4,566	2,849	-1,717	3,278
5	New York	7,619	5,406	-2,213	6,168
6	Tampa	5,674	3,401	-2,273	3,592
7	San Diego	7,141	4,401	-2,740	5,154
8	Pittsburgh	5,699	2,954	-2,745	3,032
9	Atlanta	6,084	2,730	-3,354	3,327
10	Cincinnati	6,491	2,940	-3,551	3,136
11	Dallas	6,692	3,123	-3,569	3,894
12	Miami	4,500	848	-3,652	3,169
13	Denver	6,973	3,268	-3,705	3,627
14	Baltimore	6,692	2,869	-3,823	3,333
15	Cleveland	7,361	3,441	-3,920	3,835
16	Chicago	8,376	4,150	-4,226	5,116
17	Houston	7,182	2,921	-4,261	4,259
18	Los Angeles	7,956	3,677	-4,279	6,021
19	Detroit	8,056	3,431	-4,625	4,027
20	Phoenix	8,735	3,896	-4,839	4,561
21	Portland	9,471	3,885	-5,586	3,930
22	Kansas City	8,578	2,689	-5,889	2,975
23	Philadelphia	8,922	2,623	-6,299	3,161
24	St. Louis	11,014	4,566	-6,448	5,026
25	Minneapolis	13,473	3,729	-9,744	3,922
	Median of MSAs	7,141	3,401	-3,705	3,699

Figure 10. Persons Per Branch in Minority Census Tracts, 2005.



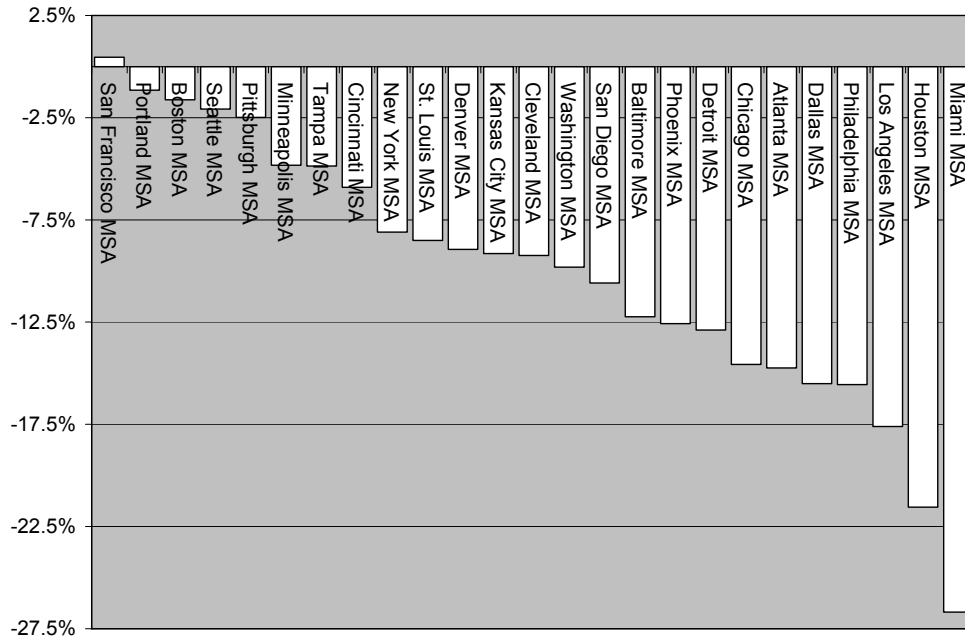
The second measure, *Percentage Point Difference*, illustrates a similar result. Again, as seen in Figure 11, two measures are computed: the percent of branches in minority tracts and the percent of population in minority tracts. Then, percent of population in minority tracts is subtracted from percent of branches in minority tracts – this number expresses the difference between the two. As was the case in *Branches Per Person*, only in the San Francisco MSA did this measure show a distribution of bank branches in favor of minority communities. That is, only in the San Francisco MSA was the percent of branches in minority census tracts greater than the percent of population in minority census tracts. Also performing well on this measure were Portland, Boston, Seattle, and Pittsburgh MSAs.

Figure 11. MSAs Ranked by Percentage Point Difference in Minority Census Tracts, 2005 (Descending Order)

		(a)	(b)	(c)
		Percent of Branches in 50-100% Minority Tracts	Percent of Population in 50-100% Minority Tracts	Column (b) - Column (a)
	MSA			
1	San Francisco	45.94%	45.48%	0.46%
2	Portland	0.82%	1.98%	-1.16%
3	Boston	8.07%	9.70%	-1.62%
4	Seattle	4.95%	7.02%	-2.07%
5	Pittsburgh	2.83%	5.32%	-2.49%
6	Minneapolis	1.98%	6.81%	-4.83%
7	Tampa	8.40%	13.26%	-4.86%
8	Cincinnati	5.52%	11.43%	-5.91%
9	New York	34.44%	42.54%	-8.10%
10	St. Louis	7.14%	15.65%	-8.51%
11	Denver	9.69%	18.63%	-8.94%
12	Kansas City	4.86%	14.01%	-9.15%
13	Cleveland	10.05%	19.29%	-9.24%
14	Washington	24.97%	34.78%	-9.81%
15	San Diego	27.47%	38.07%	-10.59%
16	Baltimore	12.14%	24.38%	-12.24%
17	Phoenix	13.74%	26.32%	-12.58%
18	Detroit	12.87%	25.76%	-12.88%
19	Chicago	22.87%	37.44%	-14.57%
20	Atlanta	17.80%	32.55%	-14.75%
21	Dallas	21.58%	37.09%	-15.51%
22	Philadelphia	8.54%	24.10%	-15.56%
23	Los Angeles	54.78%	72.38%	-17.61%
24	Houston	31.40%	52.95%	-21.55%
25	Miami	63.57%	90.26%	-26.69%
Median of MSAs		12.14%	24.38%	-9.24%

However, this table illustrates that bank branches were poorly distributed among minority and nonminority census tracts in most MSAs. Performing poorest on this measure were Miami, Houston, Los Angeles, and Philadelphia MSAs. In sum, these statistics confirm what the maps suggest: bank branches are located in a lower proportion in LMI and minority neighborhoods in most cities.

Figure 12. Percent of Branches MINUS Percent of Population in Minority Census Tracts, 2005



Income Level versus Minority Level and Cumulative Rankings

When comparing minority level versus income level, the data clearly indicate that branches are located in a better proportion in LMI communities rather than minority communities. That is, the indicators above show that LMI communities have better access than MUI communities in 7 of 25 cities, but minority communities have better access than nonminority communities in only 1 of 25 cities. Furthermore, the median Persons Per Branch in LMI communities of the 25 cities was 4,664, while in minority neighborhoods this number is 7,141. This suggests that while banks do a mediocre job reaching persons of varying income, the greater challenge remains how to reach persons of varying race.

Figure 13 displays each MSA’s rank on four of the indicators examined in this study: two income level indicators and two minority level indicators. “Column C” in the charts for the income level and minority level indicators (see Figures 4, 6, 9, 11) was used to develop the rankings. Lower scores reflect better performance. For example, an MSA scoring 1 on a minority indicator means that the MSA exhibited the least disparity out of the 25 MSAs in branch location in minority and white neighborhoods. Three MSAs – San Francisco, Seattle, and Boston – performed relatively well across all four indicators. Three MSAs performed particularly poorly – Philadelphia, Los Angeles, and Houston. Generally, MSAs that performed poorly on the income level indicators also performed poorly on the minority level indicators. However, New York and Miami MSAs were exceptions in that they performed inconsistently on the minority indicators and the income indicators.

Figure 13. Cumulative Ranking of MSAs.

Overall Rank	MSA	(Persons Per Branch in MUI Tracts) MINUS (Persons Per Branch in LMI Tracts)	(Percent of Branches in LMI Tracts) MINUS (Percent of Population in LMI Tracts)	(Persons Per Branch in 0-50% Minority Tracts) MINUS (Persons Per Branch in 51-100% Minority Tracts)	(Percent of Branches in 50-100% Minority Tracts) MINUS (Percent of Population in 50-100% Minority Tracts)	Sum of Ranks
1	San Francisco	3	2	1	1	7
2	Seattle	1	1	3	4	9
3	Boston	6	6	2	3	17
4	Tampa	5	5	6	7	23
5	Portland	2	3	21	2	28
6	Pittsburgh	8	8	8	5	29
7	San Diego	7	7	7	15	36
8	Washington	9	10	4	14	37
9	Cincinnati	10	11	10	8	39
10	Miami	4	4	12	25	45
11	Minneapolis	11	9	25	6	51
12	Denver	14	16	13	11	54
13	Atlanta	13	13	9	20	55
14	Kansas City	12	12	22	12	58
15	Cleveland	15	15	15	13	58
16	Baltimore	16	17	14	16	63
17	New York	25	24	5	9	63
18	St. Louis	18	14	24	10	66
19	Dallas	19	20	11	21	71
20	Phoenix	17	18	20	17	72
21	Detroit	21	19	19	18	77
22	Chicago	22	22	16	19	79
23	Philadelphia	20	21	23	22	86
24	Los Angeles	23	23	18	23	87
25	Houston	24	25	17	24	90

Change in Bank Branch Location Over Time

Evidence indicates that number of bank branches in working class and minority neighborhoods has remained stagnant; in other words, the situation is not getting better. The aforementioned Federal Reserve study¹⁹ concluded that the number of branches in LMI zip codes declined between 1985 and 1995. A separate analysis by NCRC²⁰ from 1997 to 2005 concluded that the number of bank branches in LMI

¹⁹ Robert B. Avery, Raphael W. Bostic, Paul S. Calem, and Glenn B. Canner, "Changes in the Distribution of Banking Offices," Federal Reserve Bulletin, 1997.

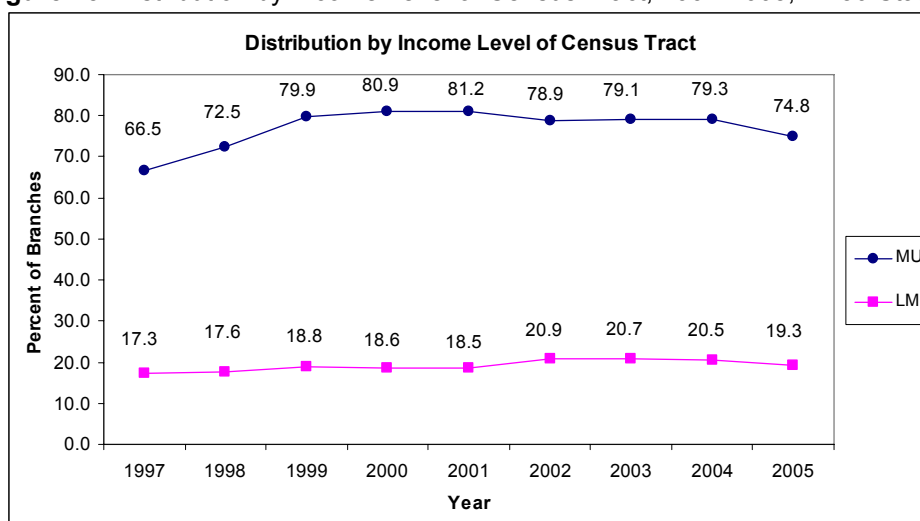
²⁰ The time series analysis developed for this study was conducted using CRAWiz, which implements the FDIC Summary of Deposits database. The study area includes all parts of the US, rather than just the 25 most populous MSAs, as was the case in the rest of this report. The analysis excluded credit union branches. In a few cases, either the income level or minority level of the census tract could not be found, and the tract was thus excluded from the analysis.

communities had not changed significantly. As Figure 14 below indicates, the percent of all branches located in LMI census tracts increases only slightly from 1997 to 2005. While this study does not explore all the factors behind changes in branch distributions, changing demographics as reflected in the 1990 and 2000 census most likely accounts for some of the change. For the time period as a whole, the LMI tracts had their greatest portion of branches (20.9 percent) in 2002 before dipping back to 19.3 percent in 2005.

Figure 14. Distribution of Bank Branch Location Over Time, All 50 States.

Year	Low- and Moderate-Income		Middle- and Upper-Income	
	Count	Percent	Count	Percent
1997	11,403	17.33	43,751	66.50
1998	13,874	17.57	57,268	72.53
1999	15,093	18.83	64,068	79.91
2000	15,134	18.60	65,829	80.92
2001	15,046	18.45	66,198	81.16
2002	17,133	20.85	64,842	78.92
2003	17,300	20.72	65,996	79.05
2004	17,528	20.50	67,751	79.26
2005	16,985	19.34	65,721	74.83

Figure 15. Distribution by Income Level of Census Tract, 1997-2005, All 50 States.



Unlike the Federal Reserve study, this analysis also examined changes in the number of bank branches in predominantly minority census tracts over time. This analysis found that from 1997 to 2005, the number of bank branches in minority neighborhoods increased in absolute numbers. However, as a percent of all bank branches, the amount of all branches in minority census tracts increased from only 8.44 percent to 13.09 percent. A significant part of the increase was probably due to a surge in population in minority tracts. According to an article by the Federal Financial Institutions Examination Council (FFIEC), the number of census tracts that were over 80 percent minority increased by 30 percent from 1990 to 2000 censuses.²¹ Despite the increase in branches in minority tracts, this study still reveals striking inequalities in branching in minority and nonminority tracts. In addition, minority tracts across the country had their

²¹ Nationwide Summary Statistics for 2003 HMDA Data Fact Sheet, July 2004. Available online at www.ffiec.gov/hmcrpr/hm_fs03.htm.

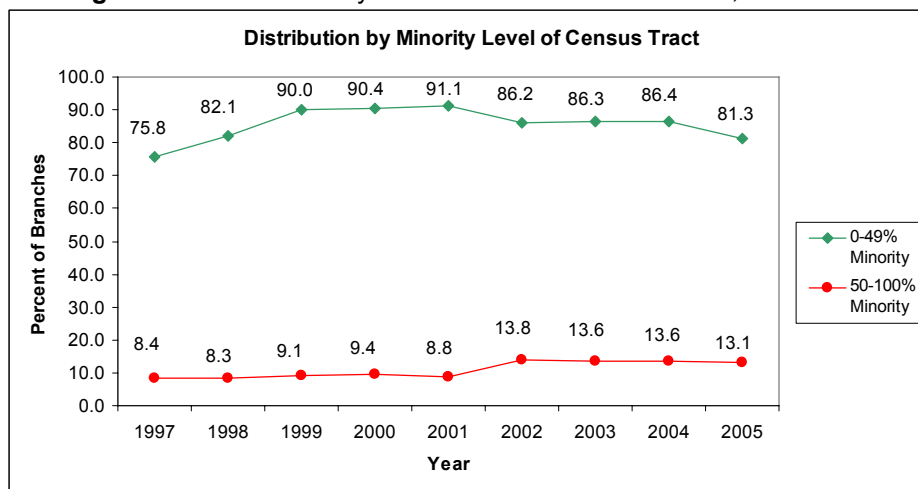
highest percentage of branches in 2002 (13.8 percent) but the percentage declined to 13.1 percent by 2005.

Figure 16. Distribution of Bank Branch Location Over Time, All 50 States.

Distribution by Tract Minority Level

Year	0-50% Minority		51-100% Minority	
	Count	Percent	Count	Percent
1997	49,849	75.76	5,552	8.44
1998	64,811	82.09	6,520	8.26
1999	72,167	90.01	7,259	9.06
2000	73,569	90.44	7,667	9.42
2001	74,317	91.12	7,197	8.83
2002	70,816	86.19	11,345	13.80
2003	72,089	86.34	11,381	13.63
2004	73,856	86.40	11,608	13.58
2005	71,400	81.28	11,498	13.09

Figure 17. Distribution by Income Level of Census Tract, 1997-2005



Bank Products for the Unbanked

Not only is the location of branches critical to increasing access to bank products and services, but also banks must offer the services that the unbanked and underbanked demand. Other studies²² have shown how both banks and fringe banking outlets often exist in the same neighborhoods; low-income persons therefore have a choice but choose to use the fringe banking outlets. This suggests that not only should banks do a better job locating in these neighborhoods, but also they must offer the types of products that low-income people demand. Rather than trust services, investments, wealth management, and the like, low-income people demand more basic products such as basic checking and savings accounts. To understand what types of products are currently offered, NCRC surveyed nine banks which are among the largest in the country. They were asked about the services that they offer that are directed particularly to

²² Kenneth Temkin and Noah Sawyer, "Analysis of Alternative Financial Service Providers." Fannie Mae Foundation, 2004.

previously unbanked and LMI consumers. Of the nine banks that responded to the survey, six services were repeatedly mentioned.

Figure 18. Sample of Products Intended for the Unbanked

Product	Description
1 Simple Checking/Savings	Easily-understood accounts with minimal fees, low or no account balances
2 Credit Builder/Repair Program	A program in which the bank provides a secured credit card or other loan which allows the consumer to build or rebuild good credit
3 Financial Education Training	A curriculum offered through the bank, a nonprofit partner, a high school or housing counselor to offer information and resources on financial services
4 Volunteer Income Tax Assistance (VITA) Partnership	A partnership with a nonprofit or other organization that prepares taxes for low-income consumers; often banks open accounts into which tax refunds are directly deposited, giving the consumer an account for the first time
5 Individual Development Account (IDA) Program	An easy-to-understand savings account in which the consumer's savings are matched by a foundation or bank; the proceeds must be used for a mortgage down payment, secondary education, starting a small business, etc.
6 Check-Cashing Program	Done at a cost lower than check-cashers in order to familiarize the consumer with other products available at the bank

First, most banks in the survey promoted their basic free checking and free savings account as the best entrée to the range of banking services. Some of them touted the low overdraft fees on their account, or their willingness to waive overdraft fees for new customers. Many have additional features that are very useful for unbanked persons, such as direct deposit and accept consular cards (ID cards from foreign embassies) to enroll recent immigrants.²³ Second, most banks in the survey also offer a type of credit builder/repair program. Typically, the bank provides a special secured credit card that the consumer keeps open for a period of six to eight months. This effectively re-establishes the consumers' credit, and may assist in removing their name from ChexSystems,²⁴ a privately-run service that serves as a barrier to getting a checking account when used in an inflexible manner. The credit builder/repair program is typically done in tandem with a financial education course, the third service on the list. Banks often will fund, partner with, or provide staff to a nonprofit financial education provider, whose curriculum focuses on household budget, financial services products, and the like.

²³ For a list of features that would ideally be offered as part of a checking account for an unbanked person, see the California Reinvestment Coalition's "Essential Bank Account," available at <http://www.calreinvest.org/banking-insurance/essential-bank-account>. Last accessed 31 January 2007.

²⁴ ChexSystems is a privately-run consumer credit reporting agency whose central purpose is to provide information on how consumers have handled banking relationships (checking and savings accounts). It is different from the three main credit reporting agencies (Experian, TransUnion, and Equifax) which measure how consumers handle credit relationships. Many banks use it as a step in approving new customers applying for accounts to assess the consumers' reliability.

Next, about half of the banks partner with a nonprofit that provides Volunteer Income Tax Assistance (VITA) to low-income individuals. These nonprofits' primary mission is to assist low-income individuals in claiming all exemptions and credits on their income tax forms, specifically the Earned Income Tax Credit (EITC). However, these sites can also bank unbanked consumers: typically, banks send a staff member to the tax preparation site, who assists individuals to open accounts into which their tax refund can be directly deposited. Several banks have shared success stories in which a previously unbanked household opens a checking account at a VITA site, obtains several other products through the same bank, and later gets a mortgage as well. Also, many banks partner with other agencies that administer Individual Development Accounts (IDAs). IDAs are savings accounts in which each dollar saved by an individual is matched by a foundation, government agency, or bank. Thus, an individuals' savings are rewarded. The funds in the account can be used only for a mortgage down payment, secondary education, starting a small business, or similar purpose.²⁵

Last, one bank in the survey, KeyBank, offered a check-cashing program as part of its larger and particularly innovative "KeyBank Plus" program. The bank offers check-cashing at a small percent of the check's value, a price much lower than the 4.0 to 7.0 percent charged by many CCOs in the same market. In this way, potential customers walk inside the branch to use the check-cashing service and become familiar with the greater range of products available to them. The bank reports that this innovative program has been profitable for the bank and has helped them to serve several thousand new bank customers. Its KeyBank Plus program is intended to serve the unbanked and underbanked consumer segment. In addition to check cashing, KeyBank has partnered with non profit organizations to offer financial education courses with classes involving credit building, budgeting, and money management.

Surveys of low-income consumers uncover a number of incorrect beliefs for why they remain unbanked. Many low-income people distrust financial institutions given stories of hidden fees; others believe that they have to write a certain amount of checks to justify an account.²⁶ Another survey suggests that low-income people often cannot maintain the minimum balance needed to open or maintain an account.²⁷ Banks ought to tailor their marketing materials and products to dispel these myths and gain the trust of low-income consumers. In addition to efforts by the banking industry, a diverse collection of community development financial institutions (CDFIs) has also reached out to the unbanked population. Consisting of traditionally-chartered banks and credit unions with a social mission, as well as loan pools and venture capital funds, CDFIs have been creative in offering "entry-level" checking accounts and easy-to-understand banking products.²⁸

An issue brought forth by the industry was that the economies of LMI communities are incompletely understood, and that banks tend to locate their branches only in areas that demonstrate high purchasing power. While this observation may have merit, a body of research uses alternative sources of data to show that traditional methods of measuring income often underestimate the purchasing power of LMI neighborhoods. Although affluent neighborhoods have the largest median household incomes in a given MSA, often the lowest income neighborhoods have the largest income per square mile because they are

²⁵ For more information on Individual Development Accounts, see the Center for Social Development at <http://gwbweb.wustl.edu/csd/asset/index.htm/>. Last accessed 31 January 2007.

²⁶ James H. Carr and Jenny Schuetz, "Financial Services in Distressed Communities: Framing the Issue, Finding Solutions." Fannie Mae Foundation, 2001.

²⁷ Christopher Barry, "To Bank or Not to Bank? A Survey of Low-Income Households." Joint Center for Housing Studies Working Paper Series, BABC 04-3. February 2004.

²⁸ The CDFI Data Project, "Community Development Financial Institutions: Providing Capital, Building Communities, Creating Impact," The CDFI Data Project, 2006.

usually many times more dense than upper-income suburbs.²⁹ Thus, low-income, urban communities pack more purchasing power into each square mile than upper-income neighborhoods. Banks, as well as other retailers, ought to take heed. In fact, a study by the Woodstock Institute³⁰ measured income per zip code in the Chicago area and found that LMI areas often had many times the income per zip code than MUI areas. This amount of income, often undetected by traditional methods of analyzing market geography, creates a demand for check-cashing, checking accounts, and the range of financial services. “Alternative” market data, such as tax assessments, bill payments data, and rent data can also be used to illustrate a neighborhood’s income and business strengths that go unrecorded by traditional methods of collecting data. This strategy of turning unbanked and underbanked families into regular bank customers may be better than banks’ current strategy, which is focused on grabbing customers from competitors.³¹

Recommendations

While many may suggest that the lack of financial institutions in working class and minority neighborhoods is a failure on the part of financial institutions, it instead ought to be viewed as a tremendous market opportunity. That is, in addition to the munificent benefits of providing financial services to the unbanked and underbanked, expanding into working class and minority neighborhoods is also an expansion into a new and underserved market for banks.

This paper has two conclusions. First, getting the unbanked and underbanked to become full-fledged bank customers means that they must be able to access the financial services that they demand. This also means that information about the economies of low-income neighborhoods needs to be collected and understood in a better way. Thus, information about innovative products for the unbanked ought to be shared and disseminated. Second, the CRA Services Test ought to become more performance-based in order to reward banks whose innovative products have high rates of usage.

Bank Products for the Unbanked

The six sample bank products for the unbanked and underbanked mentioned in the previous section ought to be further expanded and developed in order to allow more individuals to access the full range of financial services. These represent the most innovative ideas to date about how to extend banking opportunities to low-income persons so that they can enter the economic mainstream. Many of these ventures can also be profitable in the long-run for the banks who participate in them.

Figure 18. Sample of Products Intended for the Unbanked

- | | |
|---|--|
| 1 | Simple Checking/Savings |
| 2 | Credit Builder/Repair Program |
| 3 | Financial Education Training |
| 4 | Volunteer Income Tax Assistance (VITA) Partnership |
| 5 | Individual Development Account (IDA) Program |
| 6 | Check-Cashing Program |

While these products are an excellent start, many of them are still in the developmental stages or need to be expanded through better sharing of information. For example, having a bank representative available at a VITA site can help to enroll a low-income person with a bank account; yet what is less clear is how

²⁹ Robert Weissbund and Christopher Berry, “The Market Potential of Inner-City Neighborhoods: Filling the Information Gap,” Brookings Institution, 1999.

³⁰ Geoff Smith, “Increase in Bank Branches Shortchanges Lower-Income and Minority Communities: An Analysis of Recent Growth in Chicago-Area Bank Branching,” Woodstock Institute, 2005. NCRC will consider a systematic measure of purchasing power across neighborhoods of various income and minority levels in future studies. The available evidence and research suggests that there remains untapped purchasing power in LMI and minority neighborhoods.

³¹ New York Times, “A Bank for Every Block,” 9 August 2006.

long the low-income person holds the account, and whether or not (s)he accessed more services. More research needs to be done on the experience of individuals who went from being unbanked to banked to determine exactly how successful these approaches have been. Further, as will be addressed below, bank regulators ought to provide incentives for those institutions that successfully extend these services.

More research also ought to be done to better understand the economies of LMI neighborhoods and how much demand exists there for bank services. A body of reports suggests that traditional methods of collecting information on income and demographics underestimate the purchasing power of neighborhoods that are dense yet low-income.

Changes to the Community Reinvestment Act

A re-vamped Community Reinvestment Act (CRA) Service Test could be better used by regulators of banks to gauge the location of bank branches and the range of services offered. CRA is a federal law that requires financial institutions to meet the needs of low- and moderate-income individuals and communities. At the time it was passed in 1977, it was intended to reverse “redlining,” a process in which banks would not lend to entire neighborhoods, deeming them too risky. These very often were LMI and minority communities.

Under CRA, large banks (those over \$1 billion in assets) undergo three tests in each CRA exam: Lending, Investments, and Service. The Service Test requires that a federal examiner consider four aspects of the bank’s systems for delivering banking services. These include: 1) The current distribution of branches among low-, middle-, moderate-, and upper-income neighborhoods; 2) the bank’s record of opening and closing branches, particularly those serving LMI neighborhoods and individuals; 3) alternative delivery systems serving LMI neighborhoods and individuals; and 4) the range and degree of tailoring of services in low-, middle-, moderate-, and upper-income neighborhoods. A bank is given a grade on its Services Test – Outstanding, High Satisfactory, Low Satisfactory, Needs to Improve, or Substantial Noncompliance. If a bank performs poorly on its CRA exam, its regulator can prohibit it from entering new lines of business or merging with other banks.³²

However, the Services Test remains the least clearly defined part of the CRA exam, and serves as a kind of “catch-all” for aspects not covered in the other two tests. A Brookings Institution study³³ examined scoring patterns on almost 2,000 CRA exams conducted over five years, and found high passage rates, inconsistent and superficial examinations, and minimal incentives for banks to increase their service performance.

Instead, the Service Test ought to be re-tooled to become more performance-based and to measure rates of usage of special products for the unbanked. Currently, it is not clear how the federal regulators evaluate banks for innovative and flexible products that they offer. CRA exams tend to rattle off services and products without discussing why the products are particularly suited to LMI consumers or quantifying how many LMI consumers received the products. Regulators ought to consider banks’ innovative approaches to reaching out to the unbanked and underbanked. Furthermore, more weight ought to be paid to a bank’s distribution of branches among neighborhoods of varying income: as this report shows, banks in aggregate perform inadequately at this. Last, CRA exams should consistently compare branch locations to census tract demographics, as was the focus of this study. Based on demographic data and comparisons to other banks’ branch distributions, CRA exams should carefully discuss if a bank’s branch locations in

³² See the Code of Federal Regulations, Title 12 Part 228.2.

³³ Michael Stegman, Kelly Cochran, and Robert Faris, “Creating a Scorecard for the CRA Services Test,” Policy Brief No. 96, March 2002.

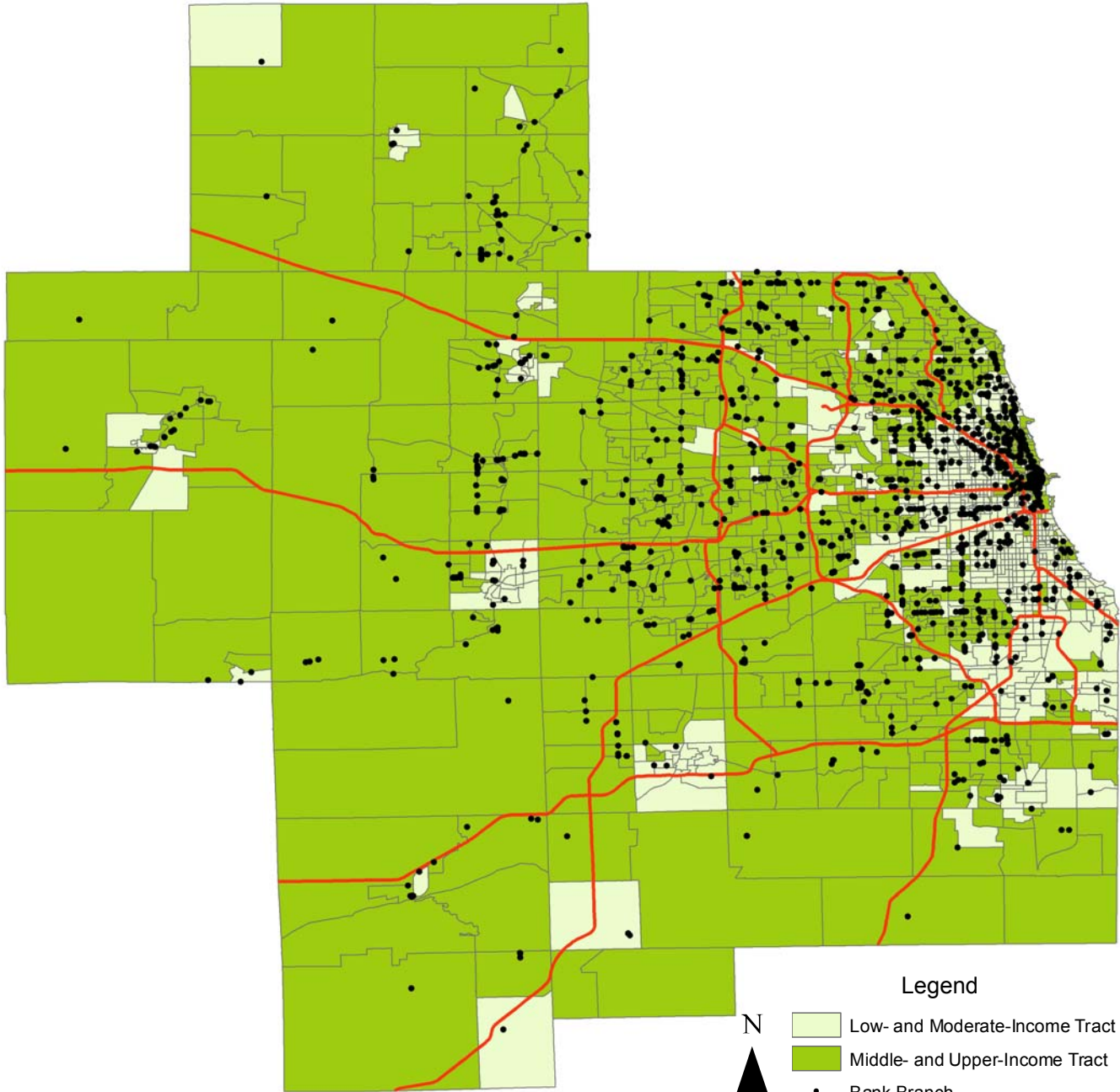
LMI census tracts are sufficient in number and accessibility. Many exams currently lack adequate explanations regarding how a bank performs on the criteria of the service test.

A further consideration for the Community Reinvestment Act is to consider minority level of census tract in addition to income level of census tract. If the original intent of CRA was to reverse redlining, CRA ought to test how well banks are now serving minorities. This report demonstrates that banks performed worse in locating branches in minority neighborhoods than in LMI neighborhoods. Whereas CRA exams now analyze branches and lending among geographies and borrowers of varying income, they ought also to test this criterion among geographies and borrowers of varying minority level.³⁴ In this way, community groups and the general public could tell if banks are serving minority individuals and minority neighborhoods.

Through innovative products and better location of branches, banks would be more responsive to the needs of their communities.

³⁴ For more information on modifying CRA to include minorities, see Richard D. Marsico, *Democratizing Capital: The History, Law, and Reform of the Community Reinvestment Act*, Carolina Academic Press, 2005. This book proposes specific measures of performance, including criteria of lending to and providing banking services to minorities and minority neighborhoods.

Bank Branch Location by Income Level of Census Tract Chicago MSA, 2005



Legend

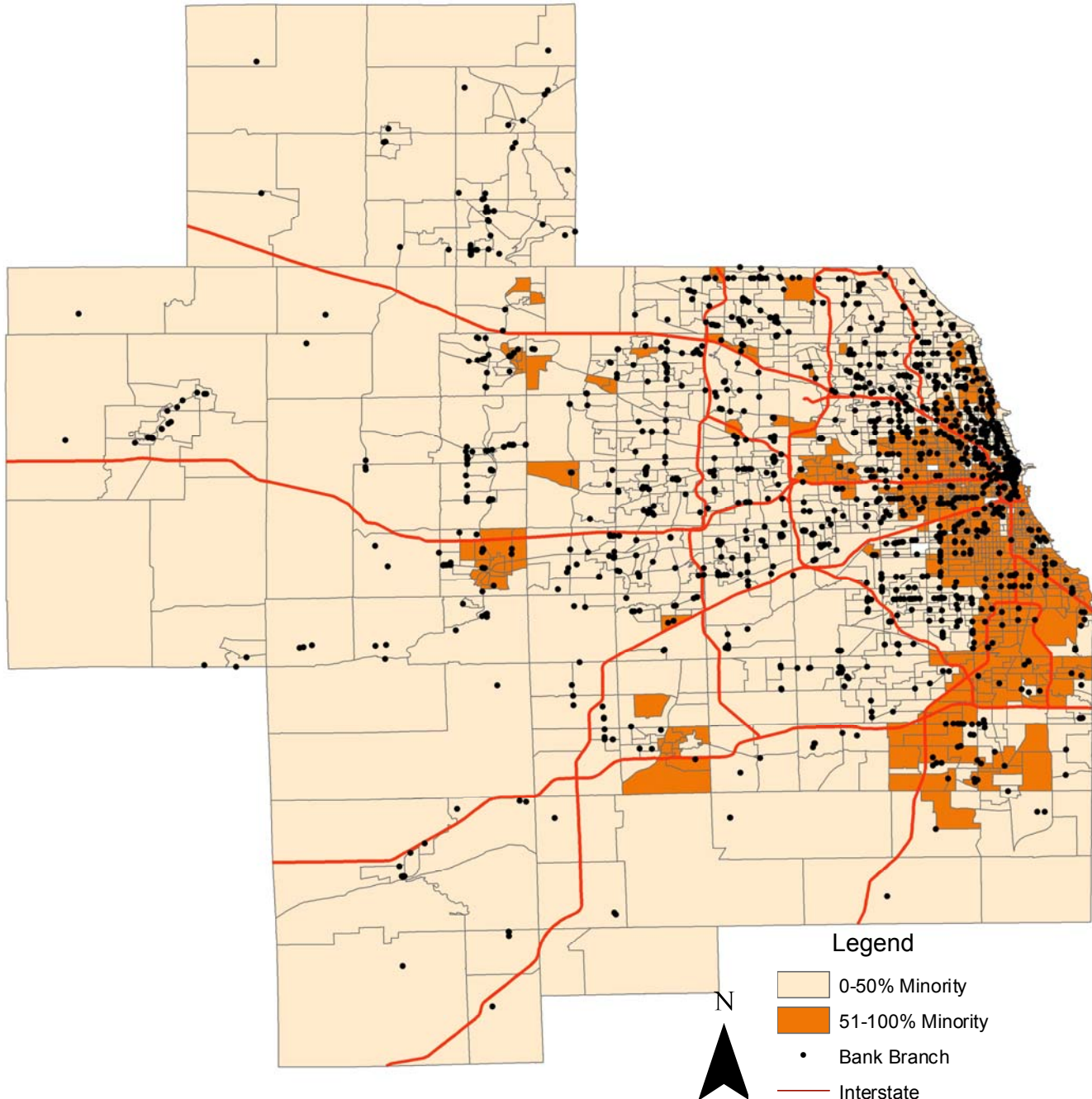
- Low- and Moderate-Income Tract
- Middle- and Upper-Income Tract
- Bank Branch
- Interstate

3. Chicago MSA				
Income Level of Census Tract	Bank Branches		Branches Per 10,000 Population	Persons Per Branch
	Count	Percent		
Low and Moderate Income	401	26.89%	1.28	7,825
Middle and Upper Income	1,090	73.11%	2.43	4,120
Total	1,491		1.95	5,116

Bank Branch Location by Minority Level of Census Tract

Chicago MSA, 2005

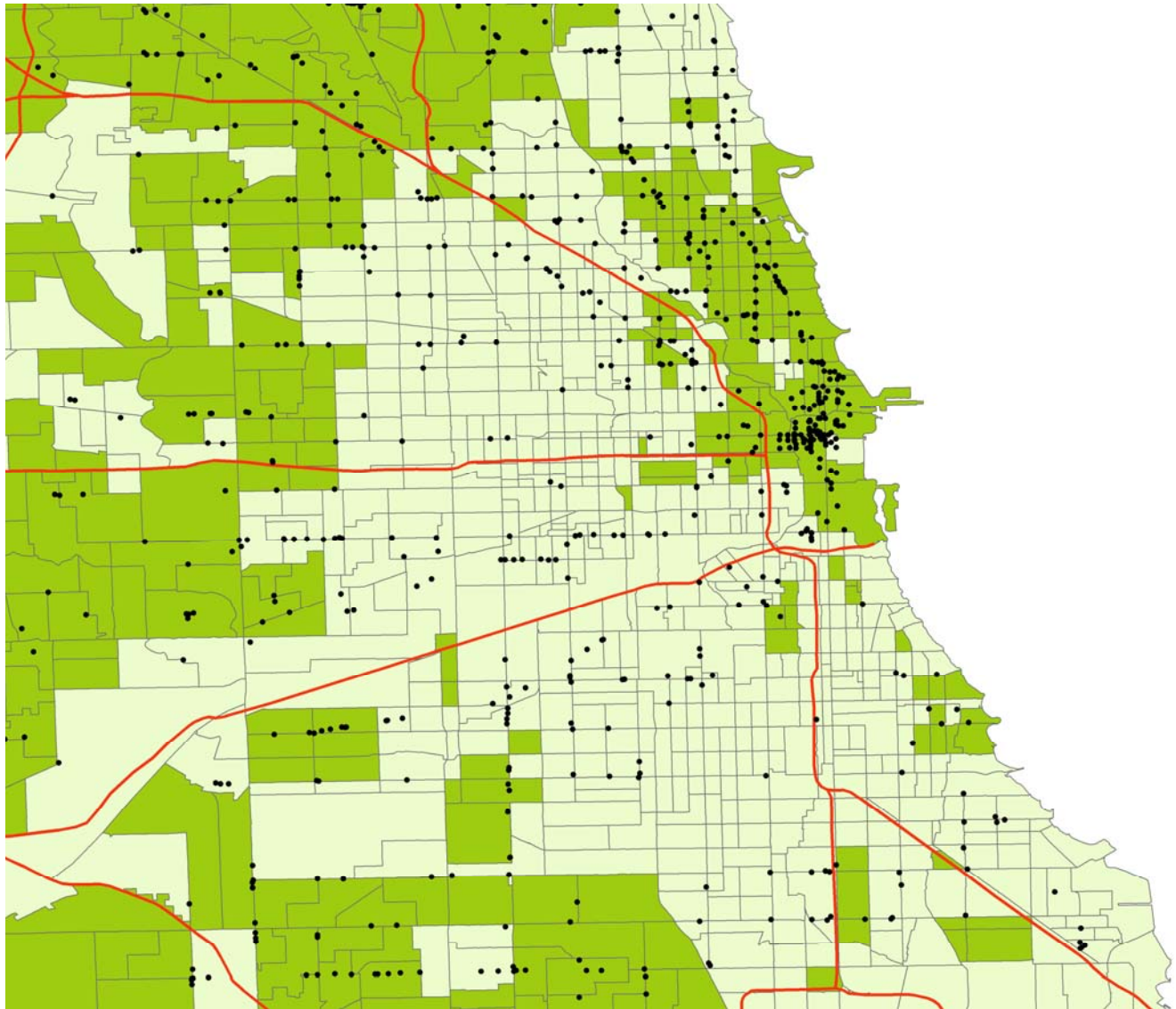
NCRC



3. Chicago MSA				
Minority Level of Census Tract	Bank Branches		Branches Per 10,000 Population	Persons Per Branch
	Count	Percent		
0-50% Minority	1,150	77.13%	2.41	4,150
51-100% Minority	341	22.87%	1.19	8,376
Total	1,491		1.95	5,116





Bank Branch Location by Income Level of Census Tract Selected Portion of Chicago MSA, 2005

NCRC



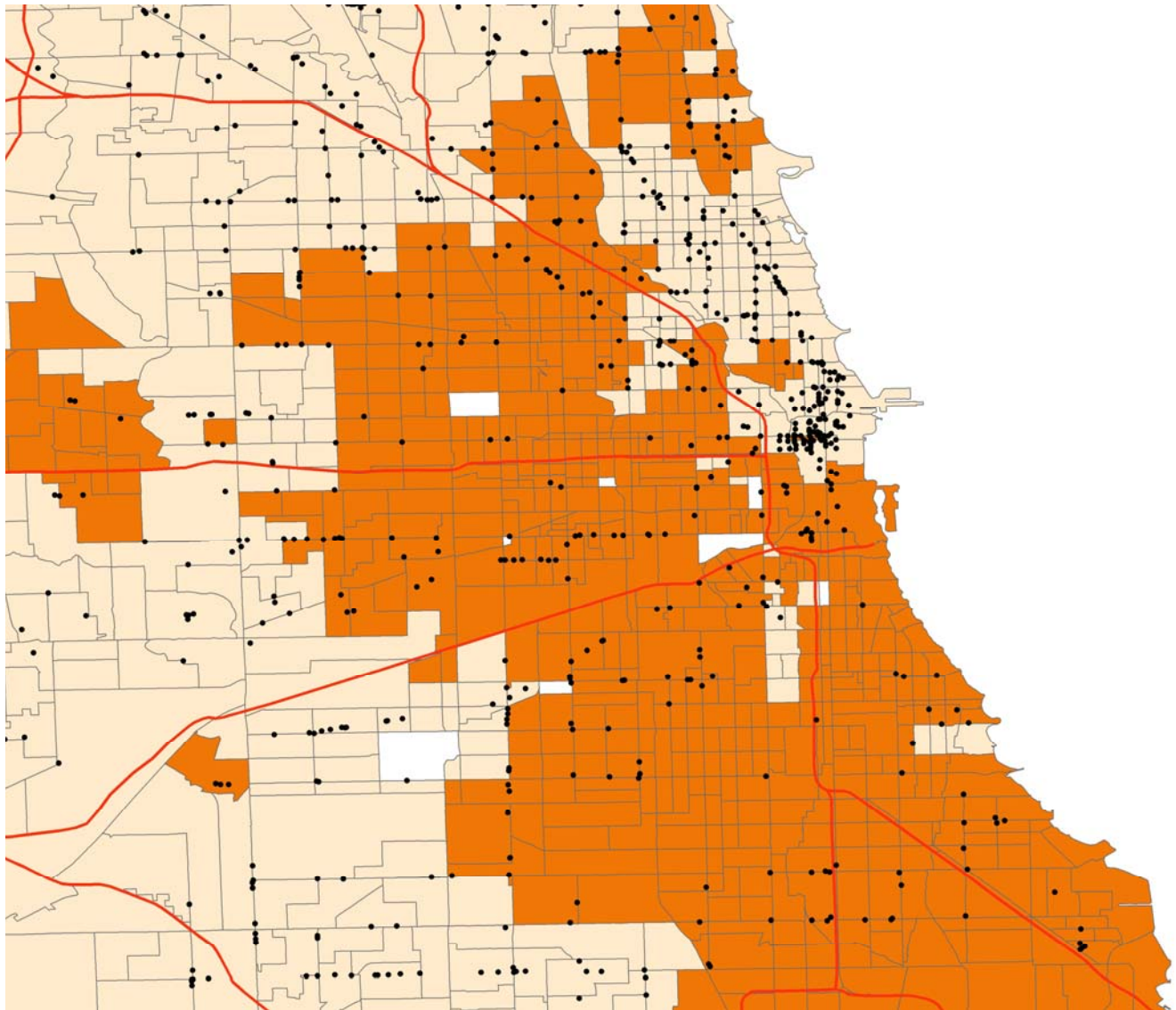
Legend



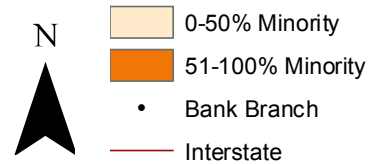
-  Low- and Moderate-Income Tract
-  Middle- and Upper-Income Tract
-  Bank Branch
-  Interstate

Bank Branch Location by Minority Level of Census Tract Selected Portion of Chicago MSA, 2005

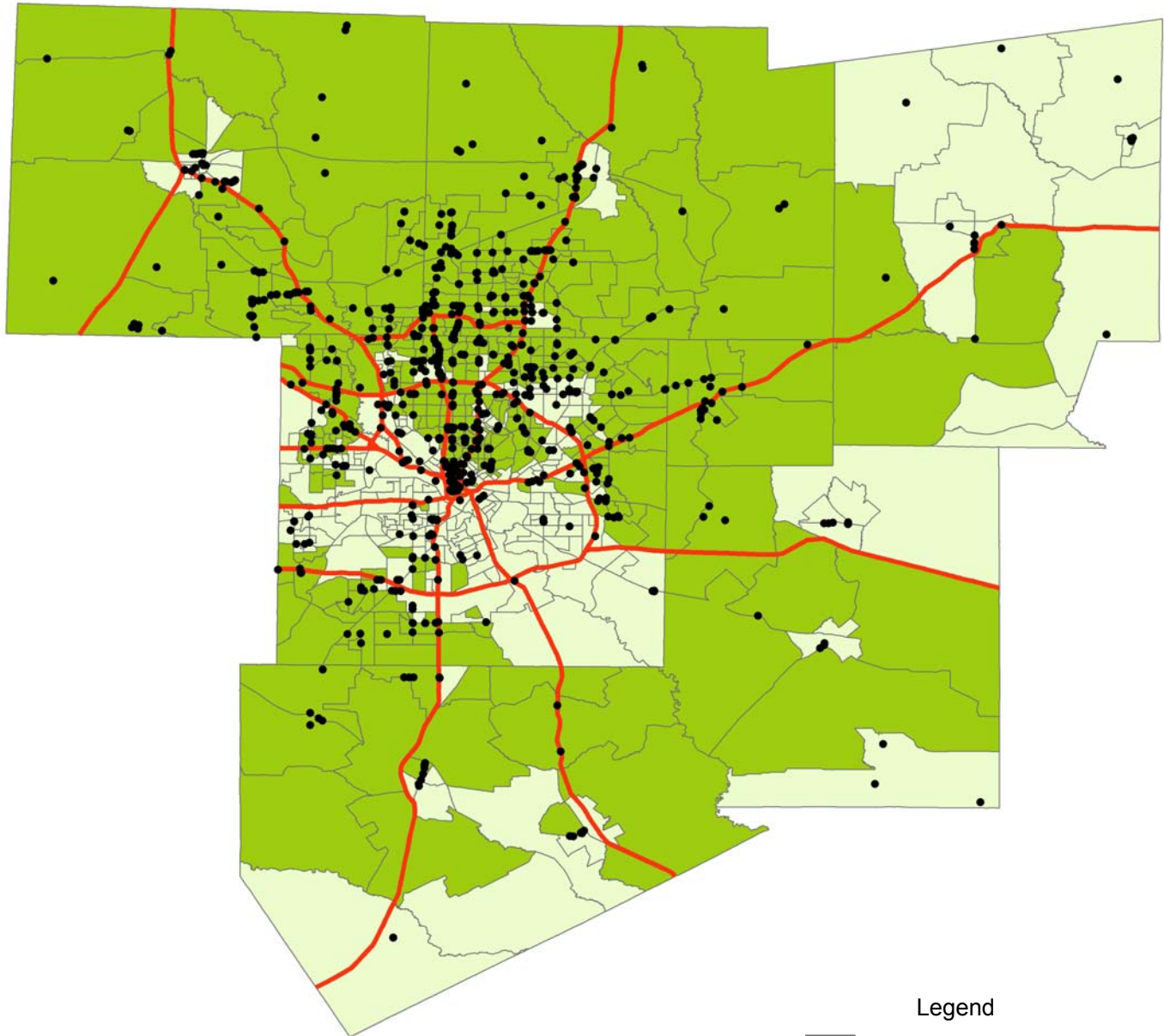
NCRC



Legend



Bank Branch Location by Income Level of Census Tract Dallas MSA, 2005



Legend



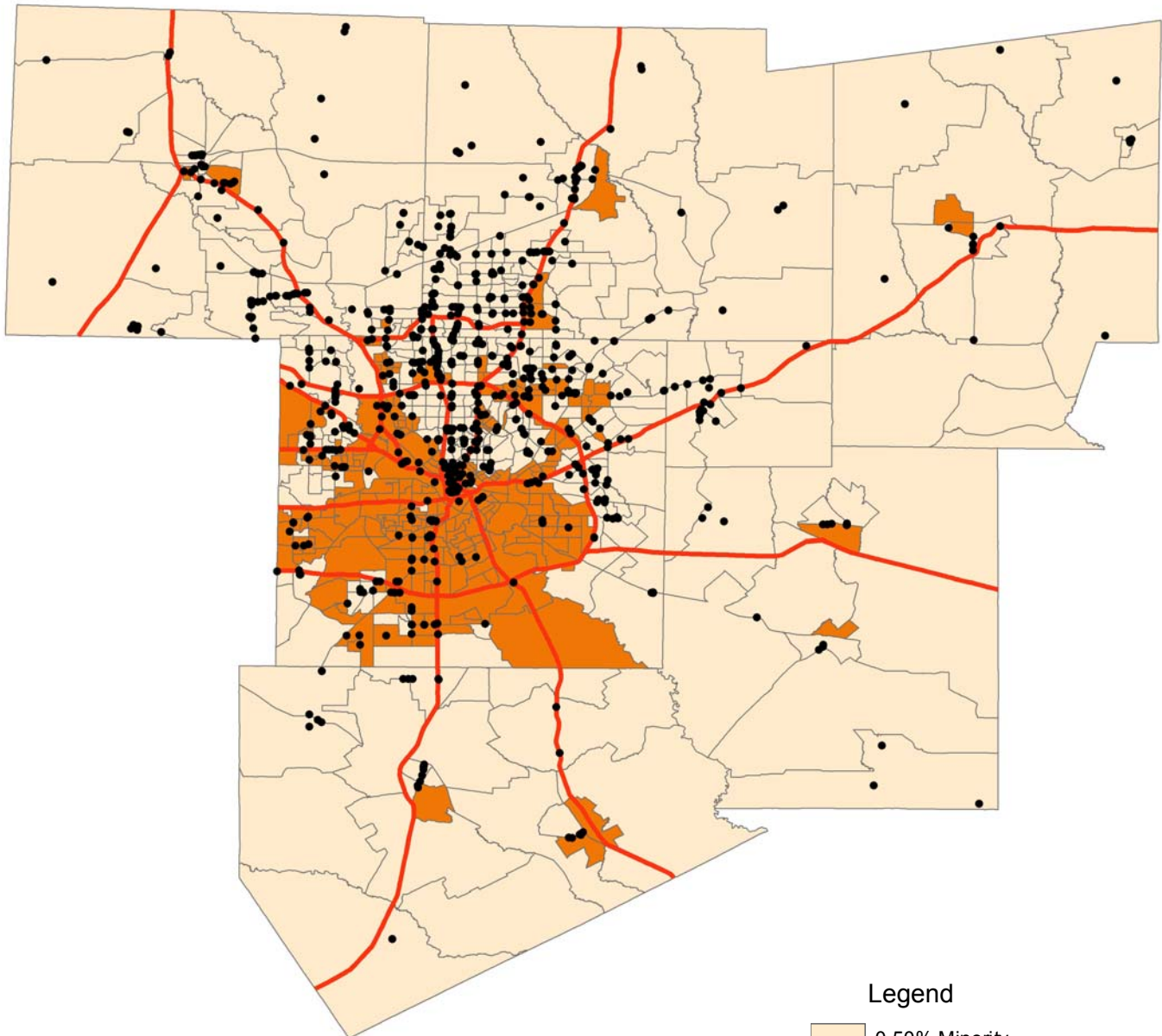
- Low- and Moderate-Income Tract
- Middle- and Upper-Income Tract
- Bank Branch
- Interstate

5. Dallas MSA				
Income Level of Census Tract	Bank Branches		Branches Per 10,000 Population	Persons Per Branch
	Count	Percent		
Low and Moderate Income	244	27.57%	1.77	5,635
Middle and Upper Income	641	72.43%	3.10	3,231
Total	885		2.57	3,894

Bank Branch Location by Minority Level of Census Tract

Dallas MSA, 2005

NCRC



Legend

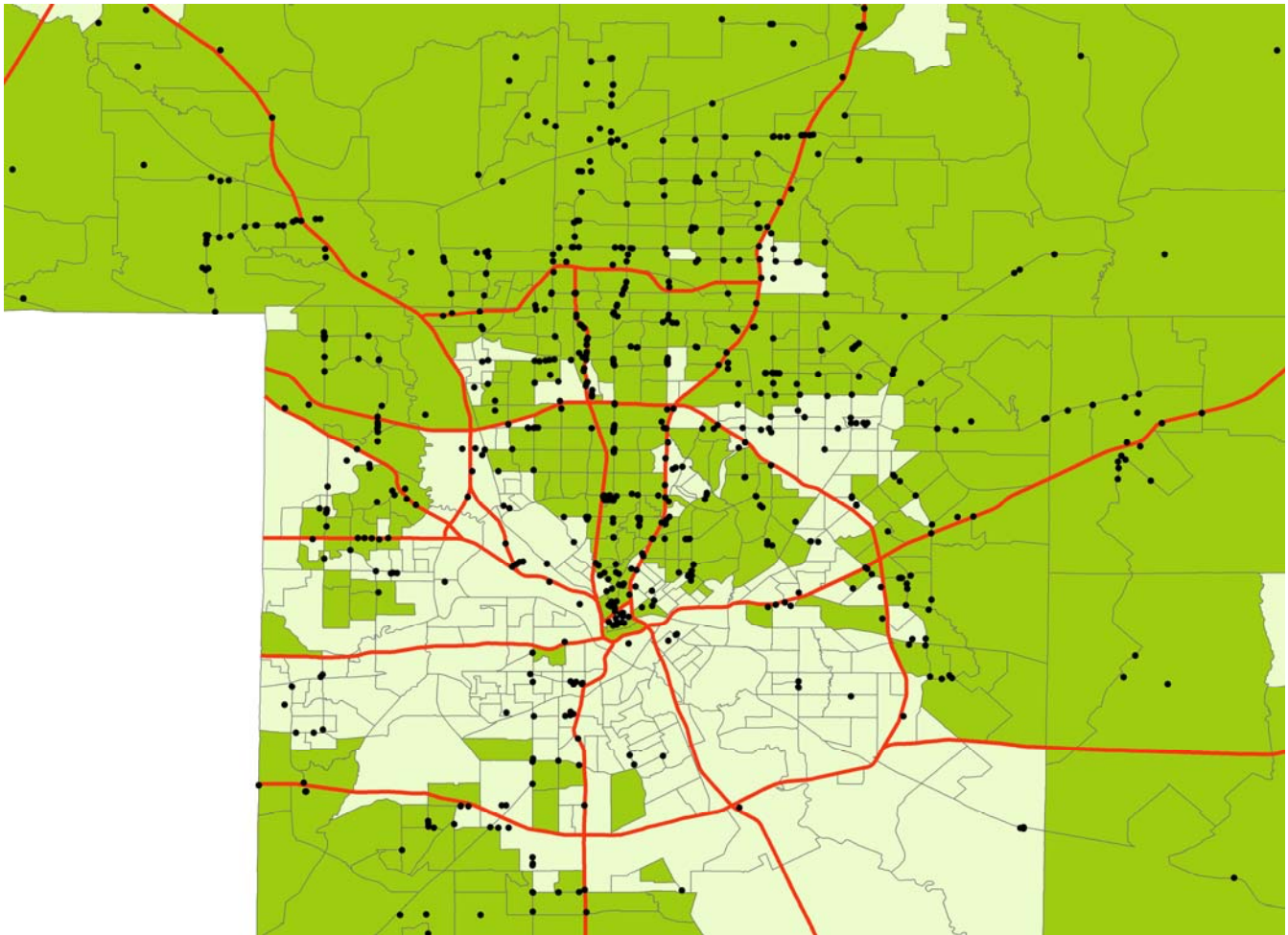
- 0-50% Minority
- 51-100% Minority
- Bank Branch
- Interstate



5. Dallas MSA				
Income Level of Census Tract	Bank Branches		Branches Per 10,000 Population	Persons Per Branch
	Count	Percent		
0-50% Minority	694	78.42%	3.20	3,123
51-100% Minority	191	21.58%	1.49	6,692
Total	885		2.57	3,894





Bank Branch Location by Income Level of Census Tract Selected Portion of Dallas MSA, 2005

NCRC



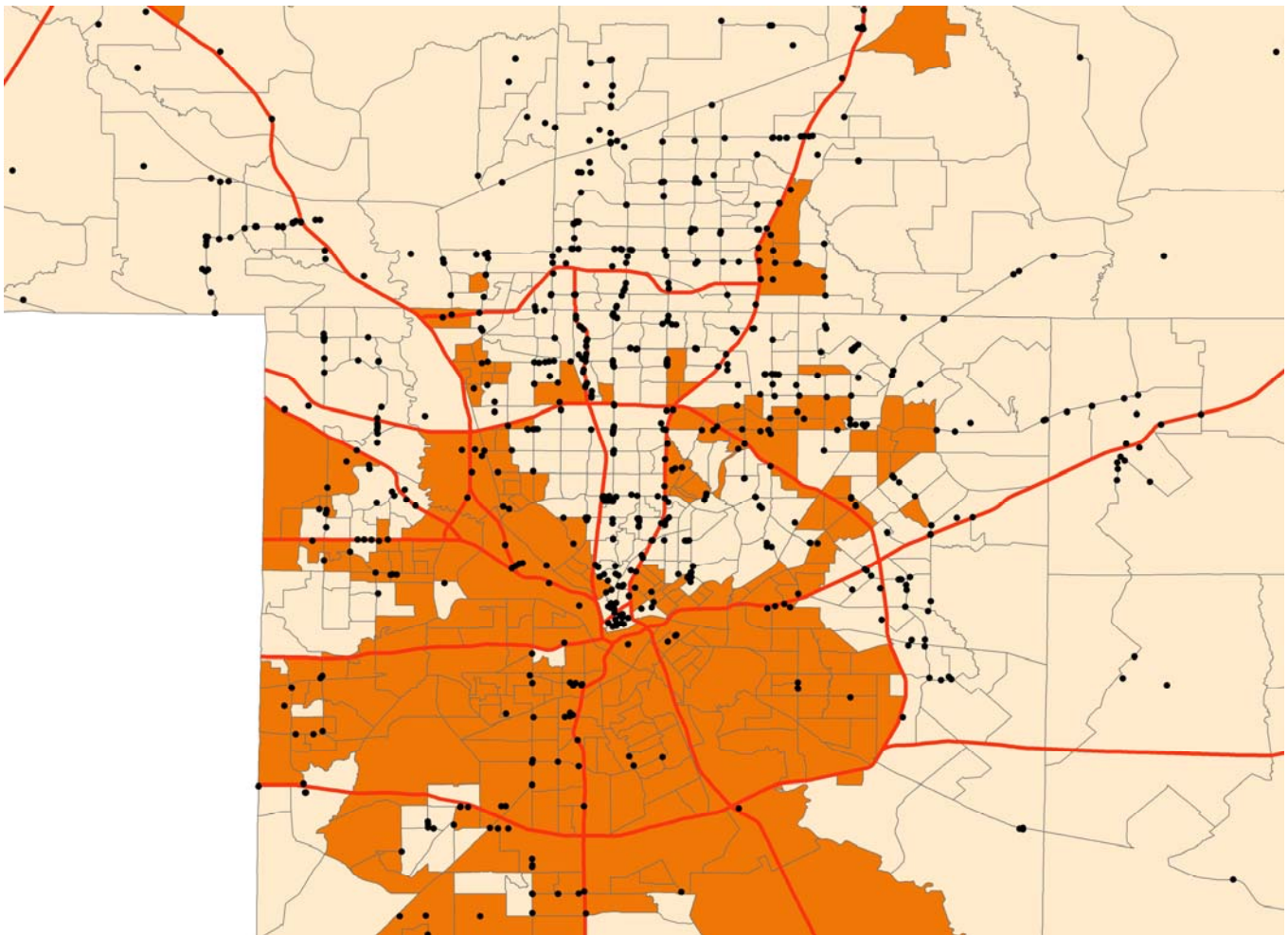
Legend



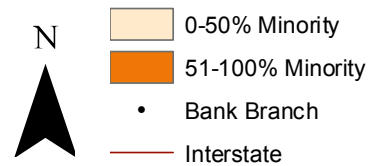
-  Low- and Moderate-Income Tract
-  Middle- and Upper-Income Tract
-  Bank Branch
-  Interstate

Bank Branch Location by Minority Level of Census Tract Selected Portion of Dallas MSA, 2005

NCRC

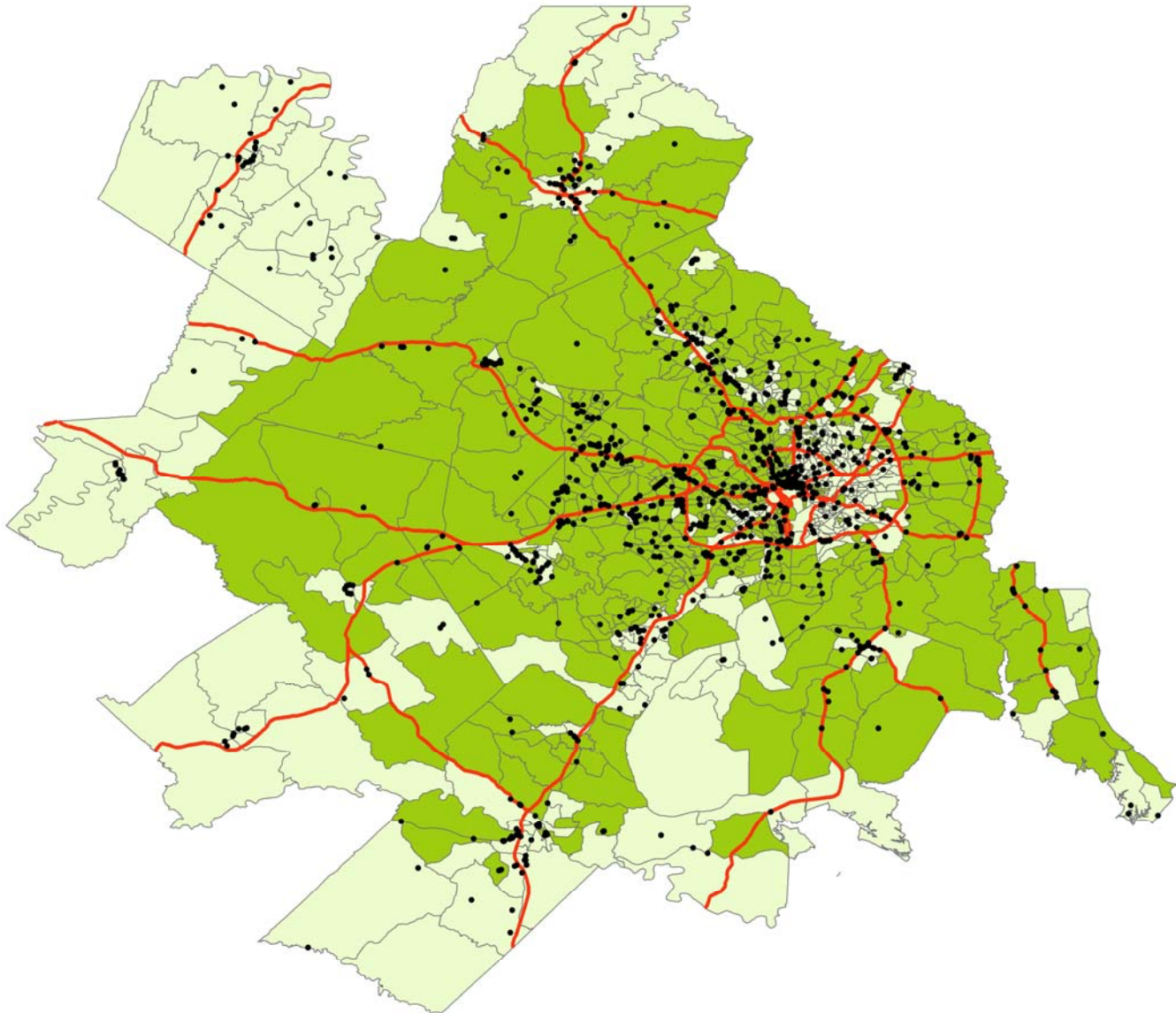


Legend








Bank Branch Location by Income Level of Census Tract Washington DC MSA, 2005

NCRC



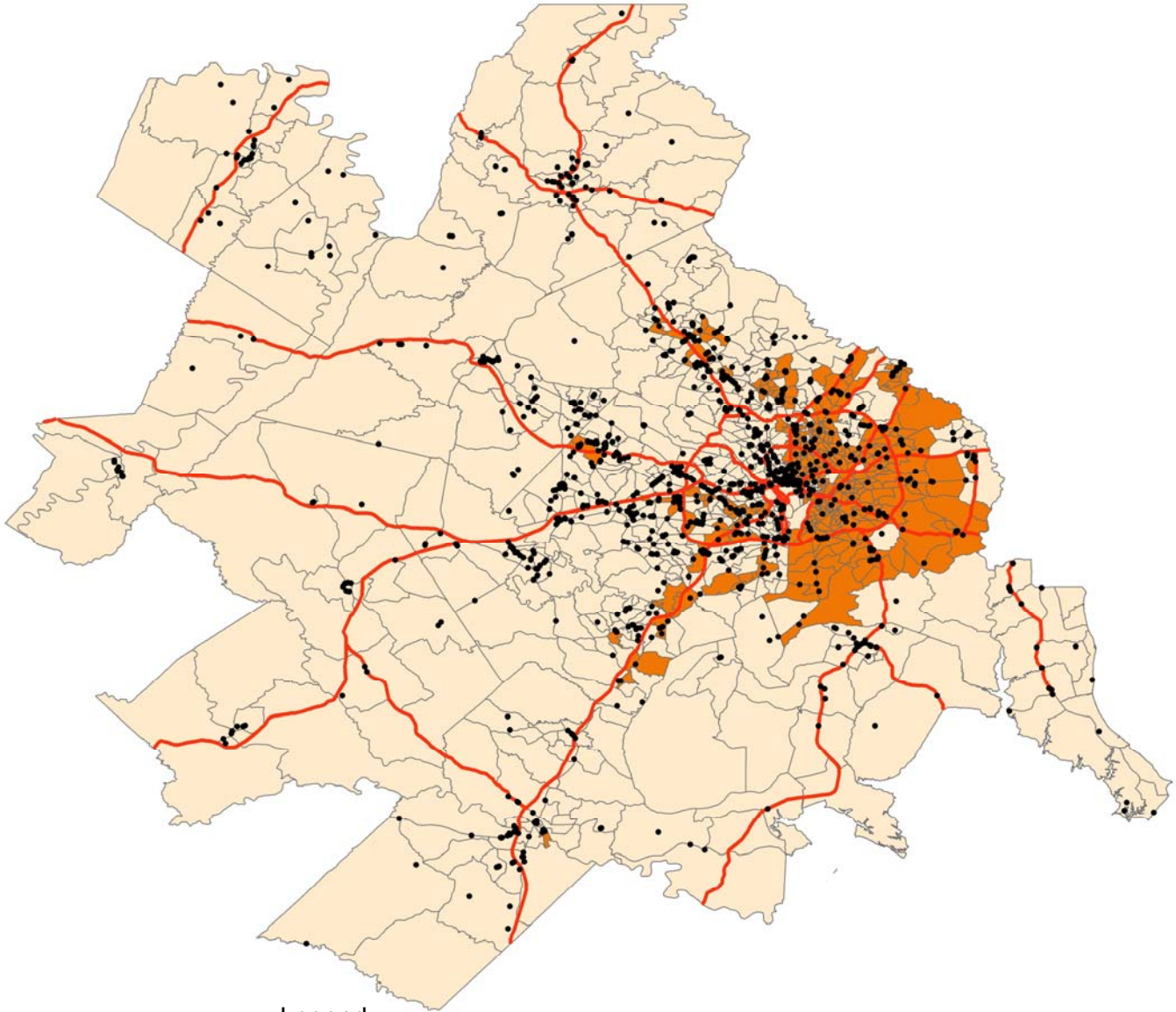
Legend

- N
- 
-  Low- and Moderate-Income Tract
-  Middle- and Upper-Income Tract
-  Bank Branch
-  Interstate

7. Washington DC MSA				
Income Level of Census Tract	Bank Branches		Branches Per 10,000 Population	Persons Per Branch
	Count	Percent		
Low and Moderate Income	577	38.42%	2.81	3,558
Middle and Upper Income	925	61.58%	3.22	3,103
Total	1,502		3.05	3,278

Bank Branch Location by Minority Level of Census Tract Washington DC MSA, 2005

NCRC



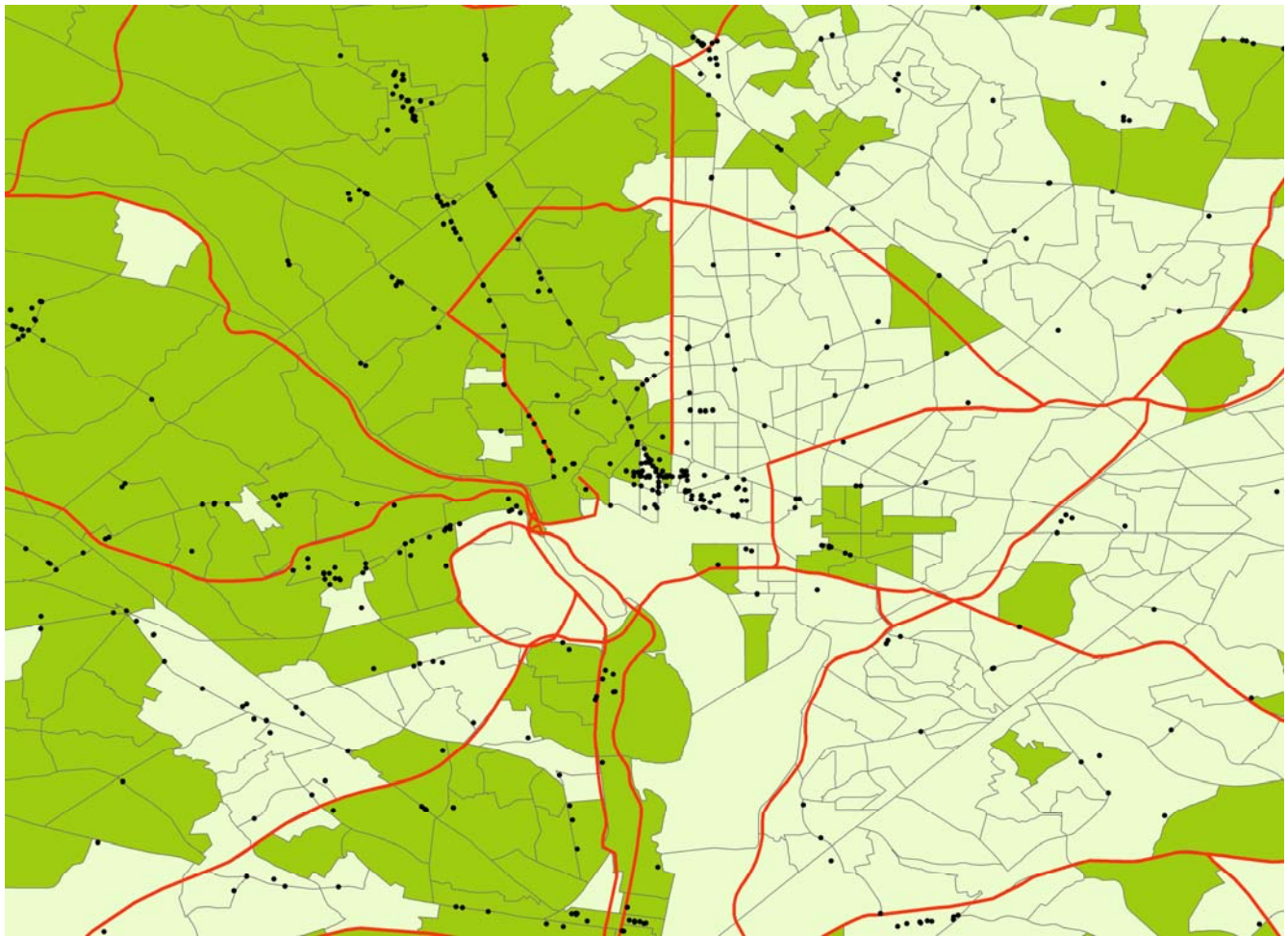
Legend

- N
- ▲
- 0-50% Minority
- 51-100% Minority
- Bank Branch
- Interstate

7. Washington DC MSA				
Minority Level of Census Tract	Bank Branches		Branches Per	Persons Per Branch
	Count	Percent	10,000 Population	
0-50% Minority	1,127	75.03%	3.51	2,849
51-100% Minority	375	24.97%	2.19	4,566
Total	1,502		3.05	3,278





Bank Branch Location by Income Level of Census Tract Selected Portion of Washington DC MSA, 2005

NCRC

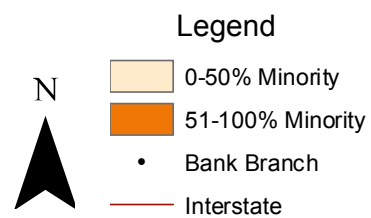
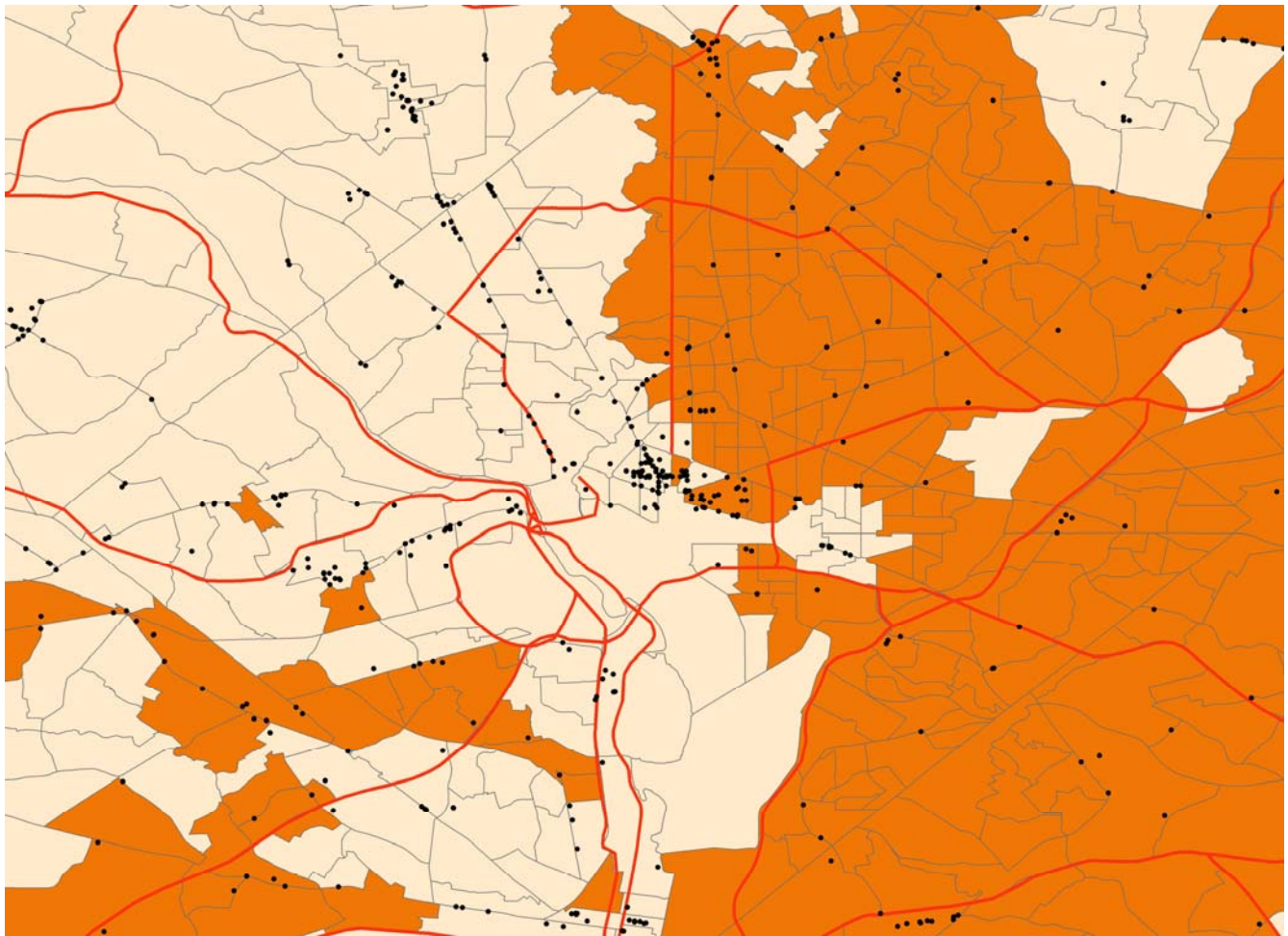


Legend

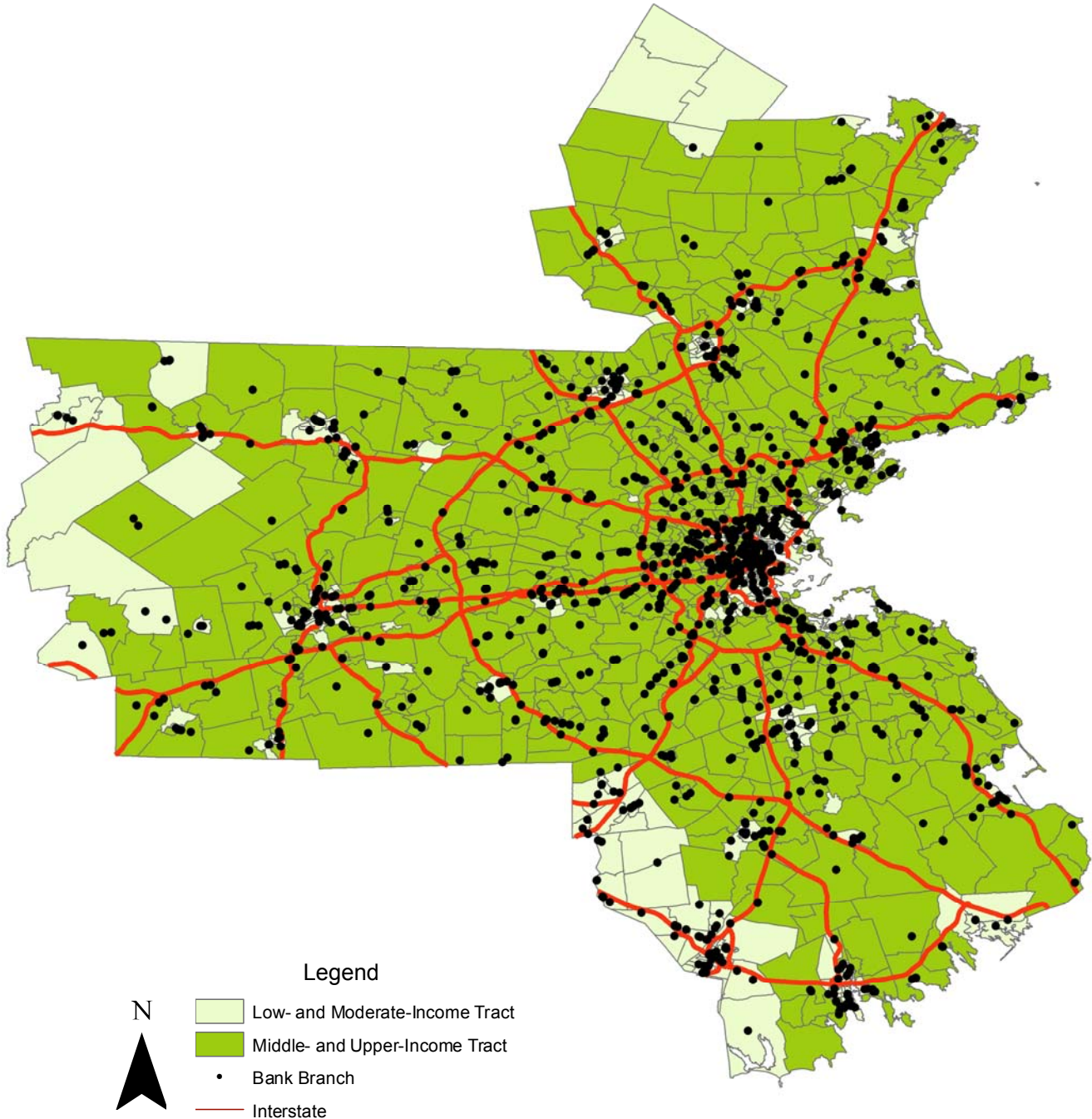


-  Low- and Moderate-Income Tract
-  Middle- and Upper-Income Tract
-  Bank Branch
-  Interstate

Bank Branch Location by Minority Level of Census Tract *NCRC* Selected Portion of Washington MSA, 2005



Bank Branch Location by Income Level of Census Tract Boston MSA, 2005

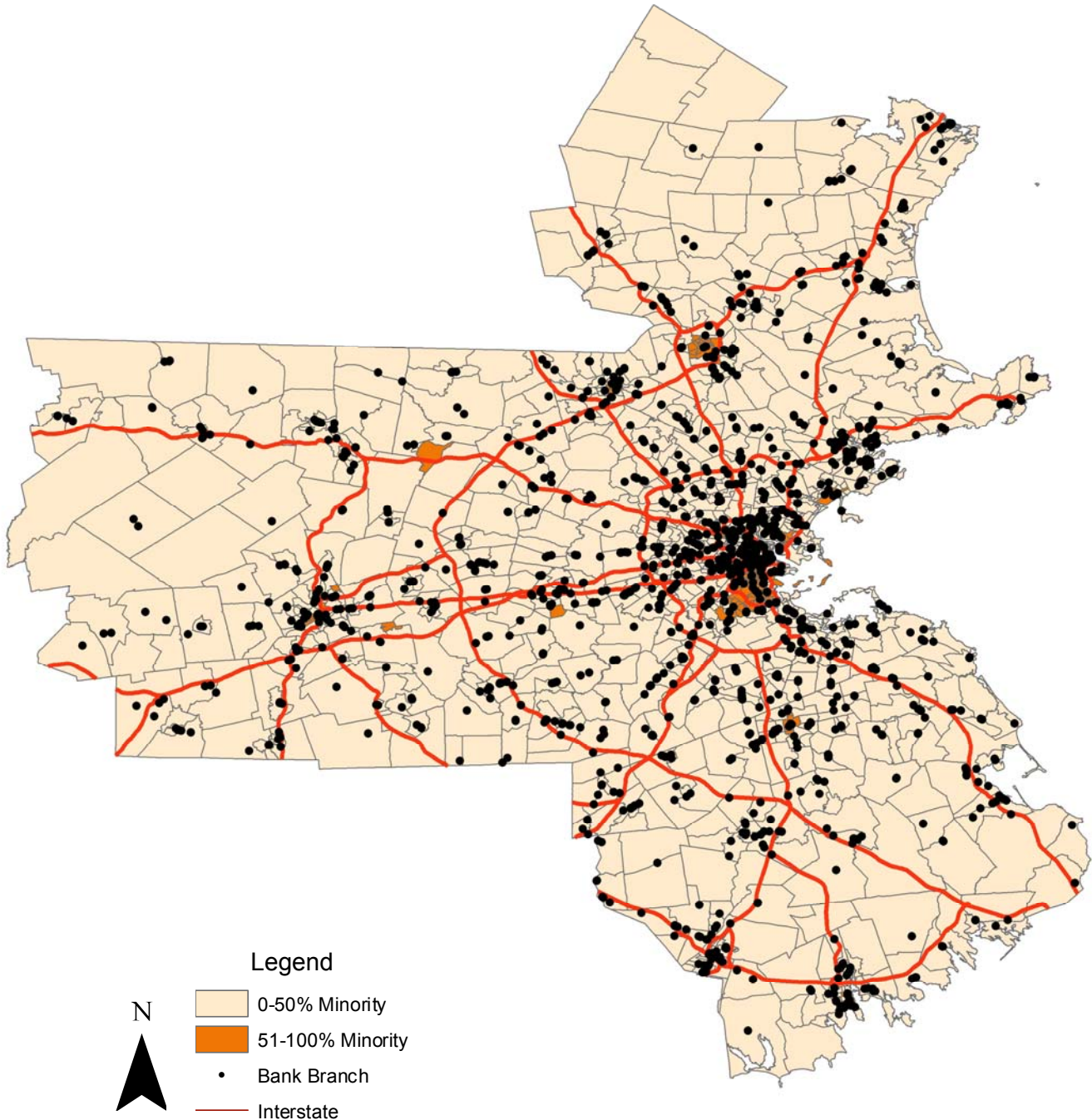


10. Boston MSA				
Income Level of Census Tract	Bank Branches		Branches Per 10,000 Population	Persons Per Branch
	Count	Percent		
Low and Moderate Income	465	27.81%	3.31	3,025
Middle and Upper Income	1,207	72.19%	3.10	3,221
Total	1,672		3.16	3,166

Bank Branch Location by Minority Level of Census Tract

Boston MSA, 2005

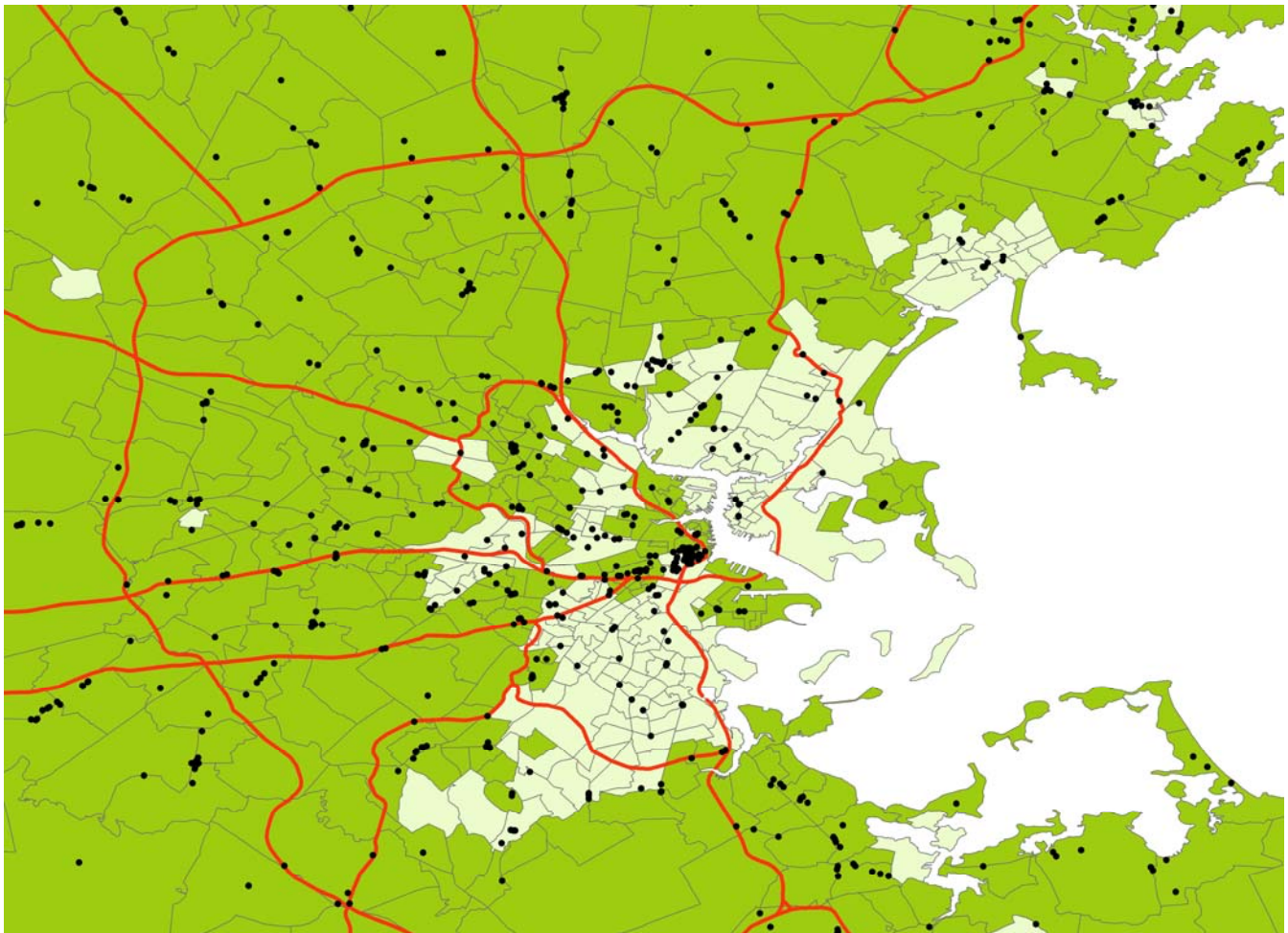
NCRC



10. Boston MSA				
Income Level of Census Tract	Bank Branches		Branches Per 10,000 Population	Persons Per Branch
	Count	Percent		
0-50% Minority	1,537	91.93%	3.21	3,111
51-100% Minority	135	8.07%	2.63	3,802
Total	1,672		3.16	3,166





Bank Branch Location by Income Level of Census Tract Selected Portion of Boston MSA, 2005

NCRC



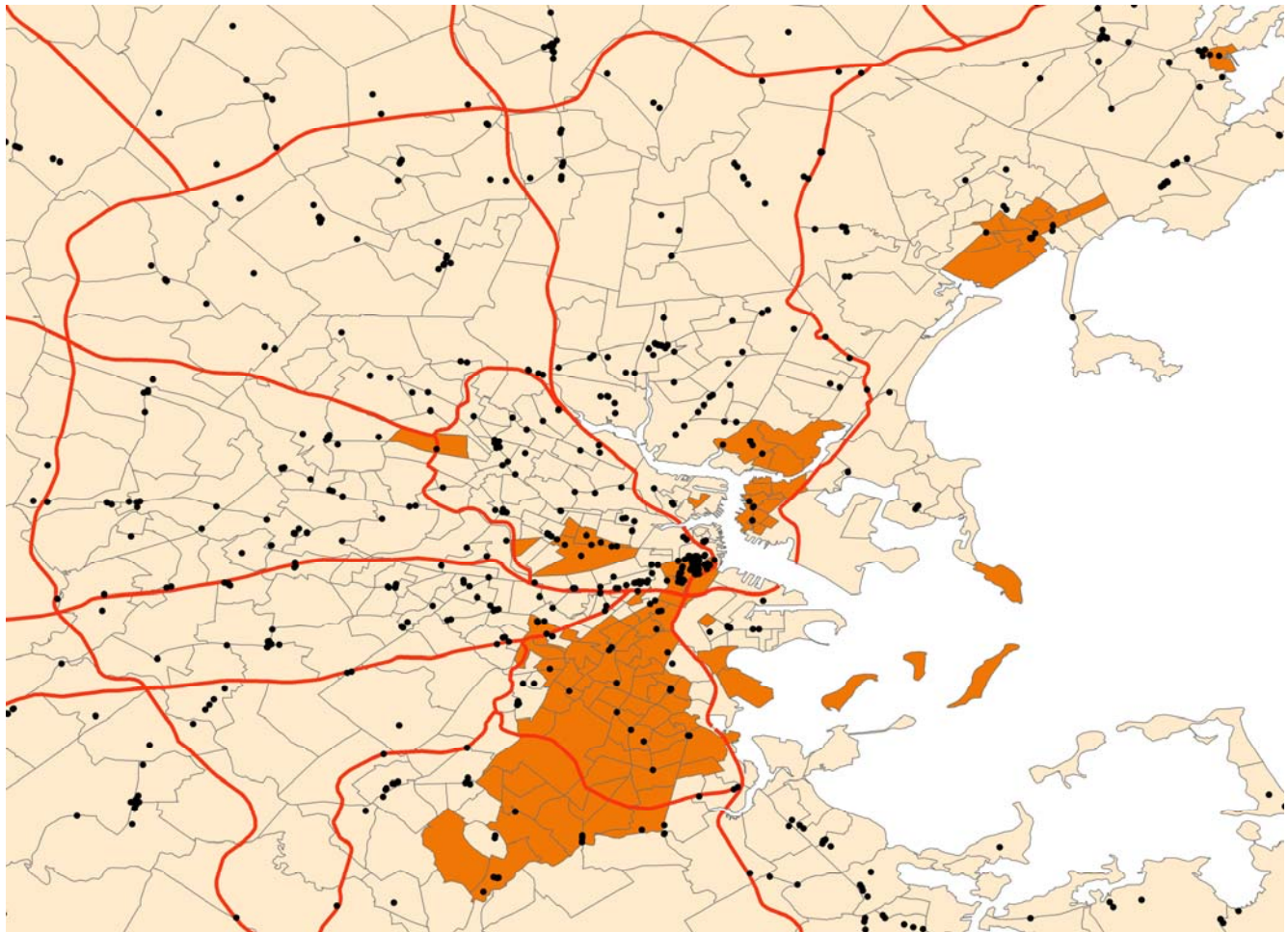
Legend



-  Low- and Moderate-Income Tract
-  Middle- and Upper-Income Tract
-  Bank Branch
-  Interstate

Bank Branch Location by Minority Level of Census Tract Selected Portion of Boston MSA, 2005

NCRC



Legend

