Family Impact Seminars

Indiana

The Burden of the Unbanked in Indiana

Briefing Report

November 2008

The Burden of the Unbanked in Indiana

Indiana Family Impact Seminars

November 17, 2008

Sponsoring Organizations

Center for Families, Purdue University

Department of Family and Consumer Sciences, Ball State University

Family Service Council of Indiana

Indiana Association for the Education of Young Children

Indiana Association of Family and Consumer Sciences

The Institute for Family and Social Responsibility, Indiana University

Indiana Association for Marriage and Family Therapy

Indiana Extension Homemakers Association®

Purdue Extension, Consumer and Family Sciences

Indiana Youth Institute

For a description of the organizations see pages 8 & 9.

Purpose, Presenters and Publications

Family Impact Seminars have been well received by federal policymakers in Washington, DC, and Indiana is one of several states to sponsor such seminars for state policymakers. Family Impact Seminars provide state-of-the-art research on current family issues for state legislators and their aides, Governor's Office staff, state agency representatives, educators, and service providers. One of the best ways to help individuals is by strengthening their families. Therefore, the Family Impact Seminars speakers analyze the consequences an issue, policy or program may have for families.

The seminars provide objective, nonpartisan information on current issues and do not lobby for particular policies. Seminar participants discuss policy options and identify common ground where it exists.

The Burden of the Unbanked in Indiana is the eleventh in a continuing series designed to bring a family focus to policymaking. The topic was chosen by the very legislators these seminars are intended to inform. This year's topic focuses on a policy approach based on two views—*Pathways to Financial Access: Helping Families Connect with Banking Services and Building Financial Stability: Policies to Help Families Access Reasonably Priced Financial Services.* This eleventh seminar features the following speakers:

This briefing report and past reports can be found at Purdue's Center for Families website:
http://www.cfs.purdue.edu/cff/policymakers/policymakers_publications.html

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We hope that this information is useful to you in your deliberations, and we look forward to continuing to provide educational seminars and briefing reports in the future.

Introduction to the Un- and Underbanked

Over two million families in the United States are 'unbanked,' meaning that they do not have checking or savings accounts (1). Thirty-eight million households are 'underbanked,' meaning that they have made a non-bank financial transaction in the past 30 days (5).

Unbanked individuals are disproportionately urban, minority, poorly educated, unemployed, renters, or the parents of young children (2,4)

A recent study of un- and under-banked individuals revealed:

- 63% owned homes, 47% were employed full-time (most of those not currently employed were retired or homemakers). (5)
- Although 35% (the largest group) preferred to use banks or credit unions, the second-most preferred facility for financial transactions was a supermarket or grocery store (24%). (5)
- 28% had borrowed money in the past 12 months. The top 3 reasons for borrowing money were to pay utility bills, to pay living expenses, and to purchase a car (5).
- 25% qualified for a prime credit score, 33% were considered subprime, and 42% could not be scored because they had no credit history (5).

Why are people un- or under-banked?

- Because they don't understand the high cost of using alternative financial services, such as payday lenders (2)
- Because they lack sufficient funds for minimum deposits (1)
- Because they lack the identification or language skills needed to open a bank account (1)
- Because they lack stable employment and opportunities to use payroll deduction direct deposit (2)
- Because banks do not tailor their services to low-income clients (2)
- Because they distrust or do not feel welcomed by financial institutions (2)

Why is this a problem?

- Because alternative financial services often charge exorbitant amounts, making it even more difficult to save financial assets. For example, payday lenders may charge as much as 17% for a two-week loan and rent-to-own stores may charge 3 times retail cost of the product (2). Even purchasing money orders can cost several hundred dollars over the course of a year. (4).
- Un- and underbanked families face extra barriers in acquiring financial assets and thus are at elevated risk of eviction, foreclosure, and need for public assistance.

References

(1) Anderson-Porisch, S., (2006). Being unbanked – What is it? What are the implications? University of Minnesota. http://www.extension.umn.edu/distribution/familydevelopment/components/8434-Unbanked.pdf

(2) Friedman, P. (2005). Banking the unbanked: Helping low-income families build financial assets. New York: Economic Success Clearinghouse. http://76.12.61.196/publications/FESunbanked.pdf

(3) Berke, S., Lopez-Fernancini, A., Herrmann, J. J. (2008). Highlights from the 3rd annual underbanked financial services forum: New approaches, new understanding, new relationships. Chicago: Center for Financial Services Innovation. http://www.cfsinnovation.com/research-paper-detail.php?article_id=330446

(4) Desmond, T. & Sprenger, C. (2007). Estimating the cost of being unbanked. Communities and Banking. Pp. 24-26. ://www.extension.umn.edu/distribution/familydevelopment/components/8434-Unbanked.pdf

(5) The CFSI Underbanked Consumer Study. Underbanked Consumer Overview and Market Segments Fact Sheet. (2008). http://www.cfsinnovation.com/research-paper-detail.php?article_id=330366

A Checklist for Assessing the Impact of Policies and Programs on Families

The first step in developing family-friendly policies is to ask the right questions:

- ❖ What can government and community institutions do to enhance the family's capacity to help itself and others?
- ❖ What effect does (or will) this policy (or proposed program) have for families? Will it help or hurt, strengthen or weaken family life?

These questions sound simple, but they can be difficult to answer.
The Family Criteria (Ad Hoc) Task Force of the Consortium of Family Organizations (COFO) developed a checklist to assess the intended and unintended consequences of policies and programs on family stability, family relationships, and family responsibilities. The checklist includes six basic principles. These principles serve as the criteria for evaluating policies and programs for sensitivity to and support of families. Each principle is accompanied by a series of family impact questions.
The principles are not rank ordered and sometimes they conflict with each other, requiring trade-offs. Cost effectiveness also must be considered. Some questions are value-neutral and others incorporate specific values. People may not always agree on these values, so sometimes the questions will require rephrasing. This tool, however, reflects a broad nonpartisan consensus, and it can be useful to people across the political spectrum.

For the questions that apply to your policy or program, record the impact on family well-being.

Principle 1. Family support and responsibilities.

Policies and programs should aim to support and supplement family functioning and provide substitute services only as a last resort.

Does the proposal or program:

- ❖ support and supplement parents' and other family members' ability to carry out their responsibilities?
- ❖ provide incentives for other persons to take over family functioning when doing so may not be necessary?
- ❖ set unrealistic expectations for families to assume financial and/or caregiving responsibilities for dependent, seriously ill, or disabled family members?
- ❖ enforce absent parents' obligations to provide financial support for their children?

Principle 2. Family membership and stability.

Whenever possible, policies and programs should encourage and reinforce marital, parental, and family commitment and stability, especially when children are involved. Intervention in family membership and living arrangements is usually justified only to protect family members from serious harm or at the request of the family itself.

Does the policy or program:

- provide incentives or disincentives to marry, separate, or divorce?
- provide incentives or disincentives to give birth to, foster, or adopt children?
- strengthen marital commitment or parental obligations?
- use appropriate criteria to justify removal of a child or adult from the family?
- allocate resources to help keep the marriage or family together when this is the appropriate goal?
- recognize that major changes in family relationships such as divorce or adoption are processes that extend over time and require continuing support and attention?

Principle 3. Family involvement and interdependence.

Policies and programs must recognize the interdependence of family relationships, the strength and persistence of family ties and obligations, and the wealth of resources that families can mobilize to help their members.

To what extent does the policy or program:

- recognize the reciprocal influence of family needs on individual needs, and the influence of individual needs on family needs?
- recognize the complexity and responsibilities involved in caring for family members with special needs (e.g., physically or mentally disabled, or chronically ill)?
- involve immediate and extended family members in working toward a solution?
- acknowledge the power and persistence of family ties, even when they are problematic or destructive?
- build on informal social support networks (such as community/neighborhood organizations, religious communities) that are essential to families' lives?
- respect family decisions about the division of labor?
- address issues of power inequity in families?
- ensure perspectives of all family members are represented?
- assess and balance the competing needs, rights, and interests of various family members?
- protect the rights and safety of families while respecting parents' rights and family integrity?

Principle 4. Family partnership and empowerment.

Policies and programs must encourage individuals and their close family members to collaborate as partners with program professionals in delivery of services to an individual. In addition, parent and family representatives are an essential resource in policy development, program planning, and evaluation.

In what specific ways does the policy or program:

- ❖ provide full information and a range of choices to families?
- ❖ respect family autonomy and allow families to make their own decisions? On what principles are family autonomy breached and program staff allowed to intervene and make decisions?
- ❖ encourage professionals to work in collaboration with the families of their clients, patients, or students?
- ❖ take into account the family's need to coordinate the multiple services they may require and integrate well with other programs and services that the families use?
- ❖ make services easily accessible to families in terms of location, operating hours, and easy-to-use application and intake forms?
- ❖ prevent participating families from being devalued, stigmatized, or subjected to humiliating circumstances?
- ❖ involve parents and family representatives in policy and program development, implementation, and evaluation?

Principle 5. Family diversity.

Families come in many forms and configurations, and policies and programs must take into account their varying effects on different types of families. Policies and programs must acknowledge and value the diversity of family life and not discriminate against or penalize families solely for reasons of structure, roles, cultural values, or life stage.

How does the policy or program:

- ❖ affect various types of families?
- ❖ acknowledge intergenerational relationships and responsibilities among family members?
- ❖ provide good justification for targeting only certain family types, for example, only employed parents or single parents? Does it discriminate against or penalize other types of families for insufficient reason?
- ❖ identify and respect the different values, attitudes, and behavior of families from various racial, ethnic, religious, cultural, and geographic backgrounds that are relevant to program effectiveness?

Principle 6. Support of vulnerable families.

Families in greatest economic and social need, as well as those determined to be most vulnerable to breakdown, should be included in government policies and programs.

Does the policy or program:

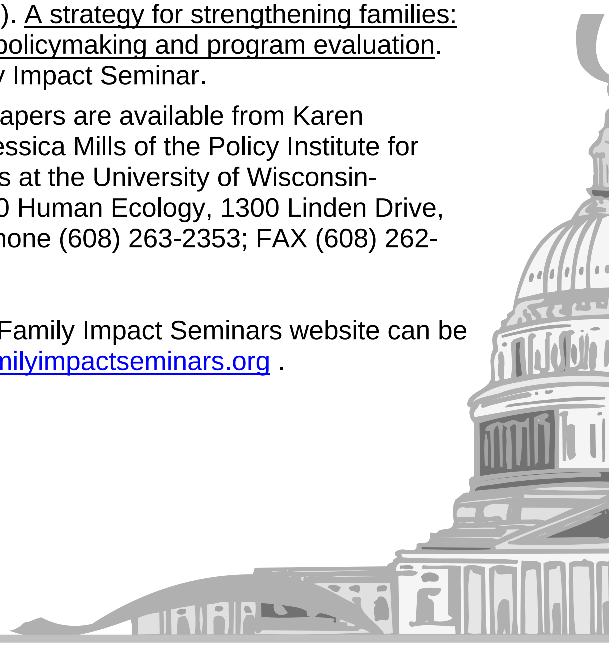
- ❖ identify and publicly support services for families in the most extreme economic or social need?
- ❖ give support to families who are most vulnerable to breakdown and have the fewest resources?
- ❖ target efforts and resources toward preventing family problems before they become serious crises or chronic situations?

Adapted from Ooms, T. (1995). Taking families seriously as an essential policy tool. Paper prepared for an expert meeting on Family Impact in Leuven, Belgium.

The first version of this checklist was published by Ooms, T., & Preister, S. (Eds., 1988). A strategy for strengthening families: Using family criteria in policymaking and program evaluation. Washington DC: Family Impact Seminar.

The checklist and the papers are available from Karen Bogenschneider and Jessica Mills of the Policy Institute for Family Impact Seminars at the University of Wisconsin-Madison/Extension, 120 Human Ecology, 1300 Linden Drive, Madison, WI, 53706; phone (608) 263-2353; FAX (608) 262-5335.

The Policy Institute for Family Impact Seminars website can be found at: http://www.familyimpactseminars.org .



Sponsoring Organizations and Descriptions

The Center for Families at Purdue University focuses on improving the quality of life for families and strengthening the capacity of families to provide nurturing environments for their members. To accomplish this, the center works with four important groups whose efforts directly impact quality of life for families: educators, human service providers, employers, and policymakers. With informed sensitivity to family issues, these groups have the power to improve the quality of life for families in Indiana and beyond.

The Department of Family Relations at Ball State University includes a variety of majors from interior design and residential property management to nutrition and marriage and family relations. We offer courses in family relations, infant/toddler, child development, marriage, life-work management, family stress and family policy. Students are also required to take interdisciplinary coursework. In addition, students are required to complete a 400 hour internship at a family or child related facility which also includes government internships. Our curriculum has been designed to fulfill the academic requirements to become a Certified Family Life Educator (CFLE). CFLEs have received academic training in ten substantive areas related to the family, one of which is family policy, and are certified by the National Council of Family Relations, a professional organization.

The purpose of the Family Service Council of Indiana is to represent families and respond to their needs by strengthening member agencies and creating alliances to promote excellence in advocacy and service for families throughout Indiana. With 12 member agencies, the Family Service Council serves the citizens of nearly 60 Hoosier counties. FSCI member agencies offer a wide variety of programs, including counseling, sexual abuse assessment, homemaker services, children's programs, services for victims of domestic violence, as well as many other diverse programs for over 90,000 individuals, approximately 80 percent of whom are low income. These services are offered regardless of race, creed, or color on a sliding fee scale supported by local United Ways and governmental grants. Statewide, FSCI members employ approximately 1,000 people with various professional degrees and specific skills to assist clients in resolving their life issues. The total operating budgets for these member agencies range from $220,000 to $3.5 million.

The mission of the Indiana Association for the Education of Young Children (IAEYC) is to promote and support quality care and education for all young children birth through age eight in Indiana. IAEYC is the state's largest and most influential organization of early childhood care and education professionals and parents promoting and supporting quality care and education for all young children. Over the course of the last five years, the Association moved from operating on a $60,000 budget with one part-time, paid staff working out of her home to an Association with 21 full-time and two part-time staff, over 1,900 members represented through fifteen local chapters, and a budget of over 3.1 million dollars. The annual Indiana Early Childhood Conference regularly sees an attendance of more than 3,500 participants.

The members of the Indiana Association of Family and Consumer Sciences focus on an integrative approach to the relationships among individuals, families and communities as well as the environments in which they function. The association supports the profession as it provides leadership in: improving individual, family and community well being; impacting the development, delivery and evaluation of consumer goods and services; influencing the creation of public policy; and shaping social change. The Indiana Association is part of the American Association of Family and Consumer Sciences.

The Institute for Family and Social Responsibility is a joint venture of the Schools of Social Work and Public and Environmental Affairs designed to bring the resources of Indiana University researchers to the assistance of public policy makers on issues impacting Hoosier families. The Institute's mission is to bring together the resources of citizens, governments, communities and Indiana University to better the lives of children and families. Ongoing research projects have examined the impacts of welfare reforms, the efficiency of the township system of government, the adequacy of child support guidelines, community responses to the Temporary Assistance to Needy Families legislation, performance contracting for intensive family preservation services, and AIDS education for incarcerated youth. The Institute serves as the National Child Support Enforcement Research Clearinghouse.

The Indiana Association of Marriage and Family Therapy is part of the American Association of Marriage and Family Therapy. Since the founding of AAMFT in 1942, they have been involved with the problems, needs and changing patterns of couples and family relationships. The association leads the way to increasing understanding, research and education in the field of marriage and family therapy, and ensuring that the public's needs are met by trained practitioners. The AAMFT provides individuals with the tools and resources they need to succeed as marriage and family therapists.

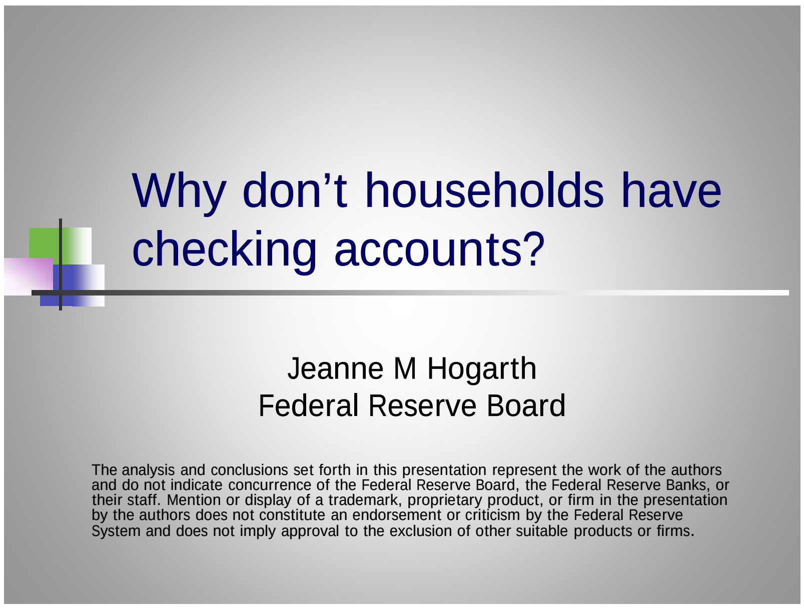
It is the mission of the Indiana Extension Homemakers Association® to strengthen families through continuing education, leadership development, and volunteer community support. We share information on new knowledge and research with our members and communities, promote programs on developing skills and family issues, and we support projects which help children and families in today's world.

Purdue Extension Consumer and Family Sciences provides informal educational programs that increase knowledge, influence attitudes, teach skills, and inspire aspirations. Through the adoption and application of these practices, the quality of individual, family, and community life is improved. Consumer and Family Sciences Extension is a part of the mission of the College of Consumer and Family Sciences at Purdue University and the Purdue Extension Service

Indiana Youth Institute promotes the healthy development of children and youth by serving the institutions and people of Indiana who work on their behalf. It is a leading source of useful information and practical tools for nonprofit youth workers. Secondary audiences include educators, policymakers, think tanks, government program officials, and others who can impact the lives of Hoosier children. In addition, it is an advocate for healthy youth development on the local, state, and national level.

Pathways to Financial Access: Helping Families Connect with Banking Services

Jeanne Hogarth
Program Manager for Consumer Education & Research
Federal Reserve Board



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Who doesn't have an account?

- ~10% of households
  - ~233,600 Indiana households
  - ~591,000 Indianans
- Higher proportions of
  - Lower income
  - Minorities & immigrants
  - Single females
- ½ previously had accounts
  - Generally "invited" to leave as a bank customer

4

Why don't people have accounts?

- Account features (49%)
  - Minimum balance
  - Service charges/fees
  - Don't write enough checks to make it worthwhile
- Human capital (9%)
  - Can't manage
  - Credit problems
- Lack motivation (23%)
  - Don't have enough money
  - Don't need/want one
  - Haven't gotten around to it
- Institutional constraints (19%)
  - Don't like dealing with banks
  - No convenient location (1%)

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Even if you have an account . . .

- Some consumers still use non-bank financial service providers
  - The under-banked
- 1 out of 5 do not use
  - ATMs or debit cards
  - Phone banking or online banking
  - Automatic bill payment

6

What are consumers' attitudes?

- Why have an account?
  - Pay bills
- Where do you prefer to go for financial transactions?
  - Banks & credit unions (43%)
  - Supermarkets/grocery stores (24%)
- Where do you actually go?
  - Supermarket/grocery (46%)
  - Bank or credit union (41%)

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Where do they go for financial services?

- Alternative financial sector
  - Check cashers
  - Payday lenders
  - Pawn & title pawn
- Regulations?
  - State level protections

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What does all this mean?

- Product design
  - All-electronic transaction accounts with no overdraft options
- Education
  - Account management
  - How banks operate
- Access to basic banking accounts

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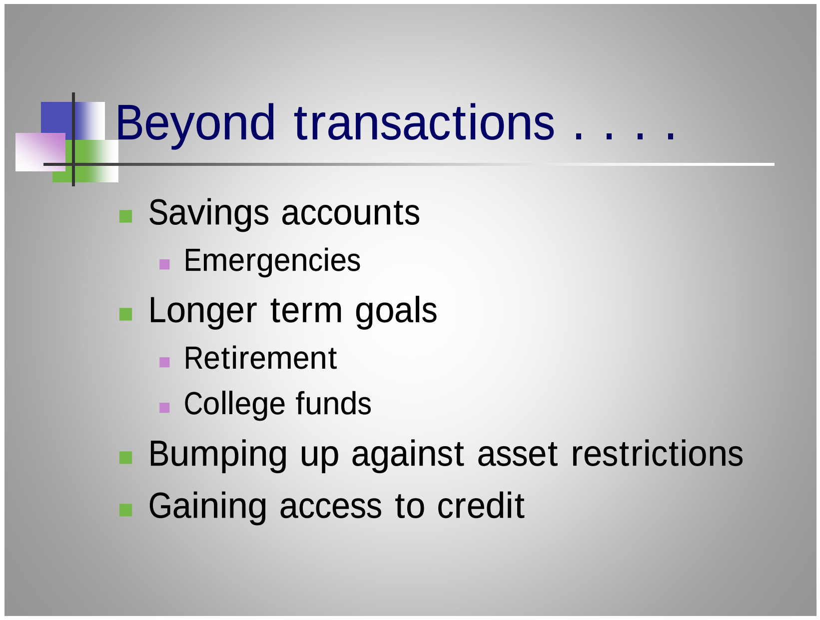
Beyond transactions . . . .
Savings accounts
Emergencies
Longer term goals
Retirement
College funds
Bumping up against asset restrictions
Gaining access to credit

Building Financial Stability:
Policies to Help Families Access Reasonably Priced Financial Services

Melissa Koide
Deputy Director, Asset Building Program
New America Foundation

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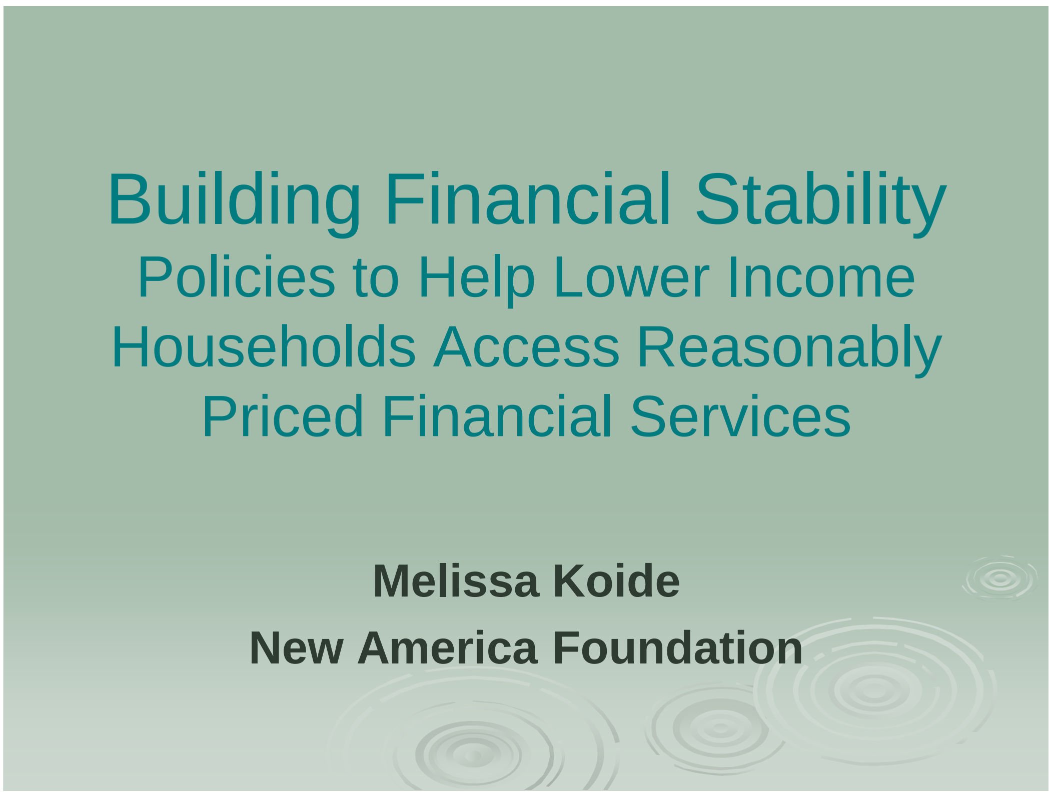

Why Financial Services Access Matters

- Ability to keep income
- Access to lower cost financial services, cheaper credit
- Ability to build savings
  - to avoid expensive credit
  - For mid-life (education) and long-term assets (retirement)
- Learning wise financial practices
- Bringing cash transactions into the mainstream economy
- Increased financial stability for the family and community

2

The Current State of Financial Services

- Lack of reasonably priced financial products that meet lower-income households' transaction needs, while also enabling them to build savings
  - By depositories
  - By nonbank firms
- Limited state and federal policies and programs to facilitate and encourage access to bank accounts (transaction and savings products)

3

Policy Options at the State Level

- Banking initiatives
  - Bank On Indiana
  - Banking Development Districts
- Unique “moments” to connect to accounts
  - Birth
  - Tax Time
  - Public Assistance
- Nonprofit banking initiatives
- Engagement and regulation of nonbank financial services
- Financial education

4

Banking Initiatives: Bank On… Indiana

- Collaboration between government and financial institutions to provide and market starter bank accounts
- Engage municipal leaders to lead local coalitions to raise awareness of the accounts
- Community organizations – local United Ways, Goodwill, Community Action Agencies – educate and facilitate access to participating banks
- Important Steps
  - Establish accounts with no overdraft fees or monthly charges and consider prohibiting overdrafts, period
  - Forgo ChexSystems/credit checks
  - Accept ITIN numbers to reach immigrant populations
  - Track account usage data
  - Facilitate direct deposit

5

Banking Initiatives: Banking Districts

- State established banking development districts
- State funds deposited into banks that expand services and locate in designated districts

- Municipalities' incentives:
  - access to below-market public funds
  - property tax breaks
  - other local tax incentives

6

Unique Moment: Birth
Children's Savings Accounts

- Create children's savings accounts for education, homeownership, and retirement
  - Enroll children at birth
  - Seed the accounts
  - Match for income, savings goal, certain activities
  - Enhances financial education

- Platform options
  - 529s (Education)
  - Vouchers
  - Thrift Savings Plan model

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8

Unique Moments: Tax Time

- Annual time when billions of dollars flow to low and middle-income tax filers
  - $80 billion annually in tax refunds to tax filers with AGIs of $30K or less
- Annual occurrence when middle and lower-income households receive a significant lump sum payment
- Tax filers use tax time and the refund to do financial planning for the rest of the year

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Unique Moment: Tax Time

- Indiana Tax filers: Who are They?
  - 2.8 million individual tax returns filed
  - 1.4 million households earn $30,000 AGI or less
  - 437,364 tax filers claiming the EITC
  - $800 million in Federal EITC dollars claimed

TY 2005
The Brookings Institution

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Unique Moment: Tax Time

- Use of state EITC to spur opening of bank accounts
  - Tax filers could be defaulted into a savings or transaction account
  - Enable the account to receive deposits throughout the year
  - Facilitate direct deposit into the account
  - Provide security, convenience, and the capability to manage and track spending
- Enable tax filers to split refund and encourage use of the federal split
- Provide a state tax credit bonus for tax filers who save in certain savings products (529s, U.S. Savings Bonds, 1 year CDs, etc.)
- Enable the purchase of U.S. Savings Bonds on the state income tax form

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Unique Moment: Tax Time

- Educate lower-income tax filers about the federal and state EITC
  - Mandate that employers inform employees
  - “It’s Your Money: Claim It”
- Support for VITA sites and efforts to promote account opening and savings at tax time

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Unique Moment: Benefits Cards

- Debit cards connected to a bank account into which benefits funds are deposited (TANF, Food Stamps, Unemployment Insurance)
- Serves as a transaction tool
- Upgrade
  - To receive other payments - wages/salary, other benefits
  - Add a savings component
  - Distribute direct deposit forms
  - Help banks satisfy Know Your Customer requirements

13

Unique Moment: Assets Test for Benefits

- Temporary Assistance for Needy Families (TANF)
  - Improve or eliminate the Assets Test
  - Raise Limit, Exclude all Vehicles, Exclude Specific Assets
- Medicaid/SCHIP
  - Eliminate cap for parents of children who qualify for assistance

Support for Nonprofits

- Volunteer Income Tax Assistance programs
- Financial education programs
- IDA programs
- Nonprofits connecting households to fairly priced financial services

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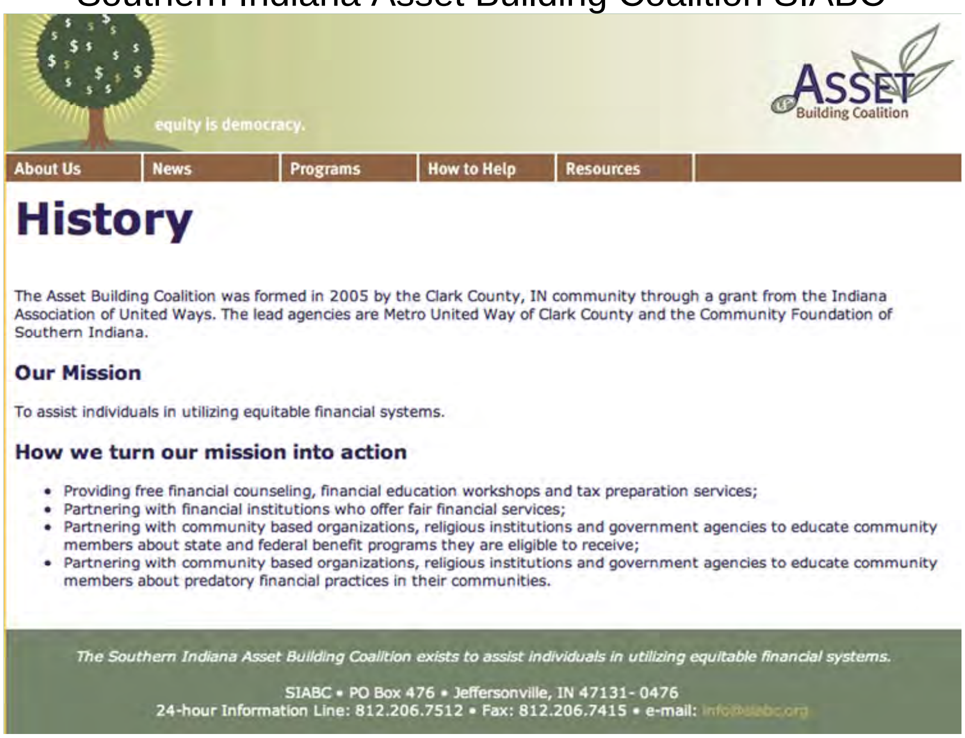
Southern Indiana Asset Building Coalition SIABC



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Financial Education

- State office of financial education
- Clearinghouse of Fin Ed Curricula/Information
- State Seal of Approval
- Promote incorporation of financial education into K-12 curriculum
- Financial Services Corps
- Encourage employer-based Fin Ed

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Regulate Nonbank Financial Services

- Encourage partnerships with check cashers and banks and credit unions
- Restrict abusive payday lending practices (cap interest rate at 36%)
- Curb abusive tax preparation practices (require strict licensing, disclosure, interest caps)

New America in California

2007-2008 Legislative Session:

- Senate Bill 752 Creating a California Kids Account for Every Child
- Assembly Bill 167 The CalWORKs Savings Act
- Assembly Bill 1502 Establishing Banking Development Districts
- Assembly Bill 1693 The Refund to Savings Act
- Assembly Bill 2123 The California Financial Literacy Initiative
- Assembly Bill 2368 The CalWORKs Mobility Initiative
- Assembly Bill 2940: California Employee Savings Program (CalESP)
- Assembly Joint Resolution 59: California Subprime Mortgage Foreclosure Resolution

2005-2006 Legislative Session:

- AB 2466 Reforming the CalWORKS Asset Limit (Signed into Law)
- AB 2439 Split Refunds/Savings Bill (Signed into Law)

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