

Name: Access to Financial Services

Short Description: Difference between the number of mainstream financial services and alternative financial services.

Data Source:

- **Name:** New America, Mapping Financial Opportunity (MFO) Project¹
- **Link to Source:** <https://www.newamerica.org/in-depth/mapping-financial-opportunity/>

Year(s): 2019, 2021

Source Geographic Level: County

Stratification: Not applicable to financial services.

Selection Rationale: Access to financial services represents an important social determinant of health that contributes to mental wellness. Without bank or credit union branches in communities, households have limited access to products such as savings accounts and loans that could be used to achieve financial stability. Furthermore, households in communities with a greater number of alternative financial services (such as payday lending) compared to traditional financial services tend to exhibit worse financial health and may have a more difficult time using safe and affordable financial services.^{2,3} Poverty is a major driver of mental health issues, and access to a bank account has been found to be positively associated with improved mental health.⁴

Strengths and Limitations

- **Strengths:**
 - *[Importance]* Access to traditional financial services can increase confidence in a person's financial health and ability to be resilient in the face of financial

¹ Data originates from the 2014 Federal Deposit Insurance Corporation summary of deposits and the 2014 National Credit Union Administration call reports (traditional financial institutions), as well as InfoGroup USA (alternative financial institutions). More information on how the data were aggregated by MFO can be found here: <https://www.newamerica.org/in-depth/mapping-financial-opportunity/methodology/>

² Friedline, T., Despard, M., & West, S. (2017a). *Navigating Day-to-Day Finances*. New America. https://d1y8sb8igg2f8e.cloudfront.net/documents/Navigating_Day-to-Day_Finances_croNh6w.pdf

³ New America. (n.d.-a). *Mapping Financial Opportunity: What is the Ratio of Alternative to Mainstream Financial Services?* New America. Retrieved September 29, 2021, from <https://www.newamerica.org/in-depth/mapping-financial-opportunity/what-ratio-alternative-mainstream-financial-services/>

⁴ Aguila, E., Angrisani, M., & Blanco, L. R. (2016). Ownership of a bank account and health of older Hispanics. *Economics Letters*, 144, 41–44. <https://doi.org/10.1016/j.econlet.2016.04.013>

insecurity.⁵ The location of financial institutions matters as well, as likelihood of having a bank account increases with closer proximity of a traditional financial institution.⁶ While mobile and online banking can improve access to financial services, research shows that a significant portion of low-income and minority-led households still use brick-and-mortar locations as their primary method for transactions.⁷ These institutions offer access to important resources like savings accounts (to pay for unexpected expenses or invest in the future) and affordable mortgages and small business loans.

- [Equity] This measure captures disparities experienced between population groups. Communities with greater poverty or a higher proportion of racial and ethnic minority groups are more likely to have a higher ratio of alternative financial services to traditional services.⁸
- [Relevance and Usability] Data are expressed as a simple difference between the number of mainstream financial services and the number of alternative financial services, which is easily comparable across areas.

- **Limitations:**

- [Equity] Living near a bank and other mainstream financial institutions does not guarantee access to the services they provide or ensure a high quality of services, especially for historically marginalized populations. There is a often disparity between quality of service that racial and ethnic minority groups receive from mainstream financial services compared White populations. Banks located in communities with proportionally higher numbers of Black individuals sometimes charge more to open a basic entry-level bank account.⁹
- [Feasibility] It is unclear how frequently New America intends to update the MFO database with new data.¹⁰ Over time, this may skew the relevance of these data.
- [Scientific Soundness] This measure is calculated at the county level, so each Zip Code Tabulation Area (ZCTA) in a given county will have the same value. As a result, ZCTA-level values may be less accurate because it is not possible to differentiate which ZCTAs have higher or lower values within a county.

⁵ Friedline, T., Despard, M., & West, S. (2017b). *Resilient in the Midst of Financial Change*. New America. https://d1y8sb8igg2f8e.cloudfront.net/documents/Resilient_in_the_Midst_of_Financial_Change_MGr2rjS.pdf

⁶ Allen, F., Demircug-Kunt, A., Klapper, L., & Martinez Peria, M. S. (2016). The foundations of financial inclusion: Understanding ownership and use of formal accounts. *Journal of Financial Intermediation*, 27, 1–30. <https://doi.org/10.1016/j.jfi.2015.12.003>

⁷ New America. (n.d.-b). *Mapping Financial Opportunity: Introduction*. New America. Retrieved September 29, 2021, from <https://www.newamerica.org/in-depth/mapping-financial-opportunity/introduction/>

⁸ Despard, M., & Friedline, T. (2017). *Do Metropolitan Areas have Equal Access to Banking?* New America. https://d1y8sb8igg2f8e.cloudfront.net/documents/Do_Metropolitan_Areas_have_Equal_Access_to_Banking_OP6gKY1.pdf

⁹ Faber, J., & Friedline, T. (2018, June 21). *The Racialized Costs of Banking*. New America. <https://www.newamerica.org/family-centered-social-policy/reports/racialized-costs-banking/>

¹⁰ Data were last updated by New America in 2019, according to: <https://www.newamerica.org/in-depth/mapping-financial-opportunity/what-ratio-alternative-mainstream-financial-services/>

Calculation:

$$\text{Access to Financial Services} = \# \text{ Mainstream Financial Institutions} - \# \text{ Alternative Financial Services}$$

Alternative Financial Services (AFS) include payday, installment, and other alternative loans, auto and other title loans, pawn brokers and rent-to-own locations, tax filing services, check cashing, and money orders,” as classified by the North American Industry Classification System.¹¹

Mainstream Financial Services include banks and credit unions.

For counties where there are no mainstream or alternative financial services, the county is assigned the lowest possible score to reflect that that no access is worse than access to alternative financial services alone.

¹¹ We note that financial inclusion efforts such as government and non-profit financial opportunity centers that work to bridge the gap in communities without traditional access are not considered to be alternate financial services. See <https://www.newamerica.org/in-depth/mapping-financial-opportunity/where-other-financial-inclusion-efforts-located/>