Chapter 10: Access and Inclusion

Tremendous growth in access and inclusion over past century and recent decades

Definition: Access to mainstream products in competitive markets that can enable consumers to make investments and smooth expenses effectively

I. Historical: Attitudes toward "good" credit and "bad" credit and profligate allegedly borrowers

Paternalistic attitudes toward low-income, women, others

Non-profit model unsuccessful

Can eliminate supply but not demand—loan shark problem, forced people underground

Uniform Small Loan Law

Caplovitz, "the poor pay more"—shoddy goods at inflated prices; peddlers and immigrants

Banks generally did not serve low-income and others

Personal finance companies and retailers

NCCF on access and inclusion: primary focus on usury controls

II. Data on growth of access: SCF **(need research help on this)**

-increase access to credit cards, mortgages, car loans

-access to investments—growth of defined contribution in place of defined benefit

-unbanked/access today: FDIC, etc.

III. Why Inclusion has grown: private actors

-Retailers, banks, providers respond to consumer demand

-Credit reporting:

IV. Inclusion—government policy

A. General policies

-credit unions

-tax-preferences (savings, college savings)

-Increasing access is not an end in itself: Housing bubble and creditworthy households

B. Fair lending

V. Government regulation and barriers to inclusion

A. Historical Restrictions

-usury ceilings: led to monopoly, less competition (compete on evasion margin), rationing, and loan sharks

-Uniform Small Loan Law: 5th edition added certificate of convenience and necessity requirement: further suppressed competition and entrenched monopoly power

-Limits on bank lending

-Limit on bank branching

B. Regulatory barriers to inclusion today

-Deregulation following 1970s
-2008 and subsequent
-CARD Act
-Dodd-Frank
-Durbin Amendment

VI. The Future of Access and Inclusion
-Mostly covered in innovation chapter
-Bank accounts particularly important
-Be careful of unintended consequences: Financial Crisis
-Postal banking

Increasing financial access and inclusion is a moral imperative, not merely a useful economic policy that will promote household financial security and macroeconomic prosperity. All Americans should have access to an array of product choices offered in competitive and transparent markets with prices and terms set through the voluntary exchange of willing providers and willing demanders. Low-income and young consumers, citizens and immigrants, men and women—all Americans have an inalienable right to be treated with dignity and respect, to be protected from invidious discrimination, and to be trusted to make the choices that they consider to be best for them under the circumstances they face.

In many instances the circumstances that low-income, young, minority, and immigrant households face are very different from those of established, middle-aged households. As demonstrated in Chapter 5, many low-income, young, minority, and immigrant households are "rationed," in that that they have a greater demand for consumer credit than is available for supply at the time. This leads many of those households to rely on alternative lending products such as personal finance companies, pawnbrokers, overdraft protection, payday loans, and rent-to-own. Many of those consumers age out of those alternative products as they mature financially and move through their financial life-cycle. Some consumers do not ever age out of alternative financial products. Some consumers use alternative financial products by necessity, because they are unable to gain access to preferred alternatives because they lack established credit or are rationed (such as being "maxxed out" on their credit cards). Others do so by choice, as they have had a bad experience with banks in their past or are discouraged by the complexity of bank accounts or credit cards and most alternative financial products are simpler and more convenient to manage on an ongoing basis. Still others may face legal constraints on their ability to open a bank account or find it difficult to use, such as illegal aliens, who must navigate sometimes complex anti-money laundering regulations to transfer money to their families back home. Those who find themselves excluded from the financial system are heterogeneous in nature.

Money is a form of frozen energy that can be thawed out and turned to productive power to buy goods and services that improve one's life, health, and well-being. Consumer access to bank accounts, savings accounts, mortgages, student loans, auto loans, credit cards, retirement accounts, and other financial products are vehicles to pursue the material necessities and comforts of the American dream. As discussed in Chapter 3, the opportunity for consumers to shift the timing of consumption and to acquire capital goods can be hugely valuable. Those who are excluded from the financial system are unable to gain these benefits; indeed, they are unable to gain the first toehold on the economic ladder that will pull them into the middle class.

Regrettably, history demonstrates that many of the obstacles to financial inclusion are government regulations, often regulations purportedly intended to benefit low-income consumers. The history of usury regulations, restrictions on competition, and other barriers to competition and consumer choice has been touched on in several other chapters in this Report. Although many of these policies have, on net, been harmful to consumers in general, many of them have fallen hardest on the most vulnerable consumers who are already on the margins of the financial system. Taking choices away from those who already have the fewest choices is not a strategy that is likely to improve the well-being of those individuals.

Access and inclusion was one of the four great themes of the NCCF Report, along with competition, consumer protection, and promoting informed consumer choice. In the period since that time, the financial system made great strides in expanding access to individuals and groups who traditionally were unable to gain access. In predominant part this growth in access arose from reforming or eliminating many of the historical regulatory barriers that stood in the way of financial institutions providing access to financial products. Once those barriers were eliminated or attenuated, market forces naturally drove a process of seeking out new customers, many of whom were traditionally underserved. Technological innovations, most notably the evolution of credit reporting, helped financial services providers to identify new groups of consumers who were underserved by the traditional process of banking and lending. Finally, federal legislation, regulation, and enforcement in the area of fair lending has been designed to root out remaining areas of discrimination.

This chapter surveys these forces. We start by reviewing the history of financial inclusion in the United States. This discussion builds on Chapter 5's discussion of small-dollar loans and credit rationing. For much of western civilization, elites were skeptics of the value of financial inclusion for all but elites. Working-class individuals were seen as profligate, impulsive, and easily tempted into living beyond their means. Crude and unfounded stereotypes based on class, race, and sex were invoked to support paternalistic protections on categories of consumers. Eliminating these barriers and the stereotypes that rationalized them was a primary focus of the NCCF Report. Although economically-informed consumer advocates and scholars had long recognized the value of access to financial products, efforts to reform laws and regulations have met with opposition from many legislators and paternalistic advocacy groups.

The chapter then surveys the growth in financial inclusion beginning in the post-War era and accelerating in the 1970s. Technological developments and elimination of barriers to competition and consumer choice have enabled a recognition of the value of providing access to wage earners and the symbiotic relationship between access to financial products and growing financial success of those customers.

Finally, the chapter turns to examine the current state of affairs, focusing particularly on the impact of the Dodd-Frank financial reform legislation and other legislative and regulatory actions taken in the era since the 2008 financial crisis. Regrettably, many of these regulations have had the unintended but not unforeseeable consequences of reducing financial access, especially for low-income, younger, and minority households. Volume II of the Taskforce Report will revisit many of these issues through Recommendations designed to increase financial access.