LOOKING BACK, LOOKING AHEAD

Expanding Financial Inclusion to the Poor

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EXECUTIVE SUMMARY

• Making progress on financial inclusion will require advances that help empower consumers to engage in better financial behaviors, that harness technological innovation to serve low- and moderate-income households, and that are grounded with strong consumer protections.

• Financial education should use technology and behavioral strategies to help households obtain better outcomes for both short-term product choices and longer-term financial planning.

• Technological and product innovation should focus on making payments faster and cheaper; empowering consumers to manage their finances, avoid unexpected fees (such as overdraft) and build emergency savings; and providing access to sustainable credit.

• The CFPB has the potential, given its market-wide coverage, and building on insights from behavioral economics, to improve access and protection. Key next steps for the CFPB include action on payday and other short-term lending, overdraft, payment cards and arbitration clauses.

• While many of the necessary steps to advance financial inclusion need to be taken by the private sector, key policy initiatives, outlined at the end of this concept paper, can facilitate financial education and product innovation, and are essential to provide the necessary consumer protection.

• Financial education, product innovation and consumer protection ought to be based on core values: honesty, transparency, fairness, simplicity, inclusion, empowerment, and trust.

INTRODUCTION

The financial crisis of 2008 crushed families, businesses, and the real economy, and laid bare core failings of the financial system. For the one in seven Americans who lives in poverty, or the millions of Americans who live in fear of falling out of the middle class, these times have been particularly devastating. These families were the least prepared to handle the shock of the deep recession. They had little or no savings to fall back on and stood one medical emergency or one major unexpected car malfunction away from a personal economic crisis. They had no financial slack. (See Barr 2012). Generally speaking, households use the financial system to generate slack, by holding savings, accessing credit, or buying insurance. “No Slack” often means that even small problems can undermine a family's financial stability. When the crisis hit in 2008, families found themselves overleveraged and under-resourced. Federal government policies helped to cushion the impact, but these households still faced huge setbacks (Barr and Schaffa 2016). What these families were and are now seeking is some measure of financial stability.
Going forward, American families will undoubtedly need to try to save a larger share of income and to borrow more responsibly. These changes are necessary and healthy, but households should not be left on their own to navigate a financial system that has become increasingly detached from their everyday needs. We need to build a financial system that is safer, fairer, and better harnessed to the needs of the real economy. We need a financial system that adheres to core values: honesty, transparency, simplicity, fairness, inclusion, and empowerment. By doing so, the financial system can rightly gain the trust of consumers.

We need a financial system that helps us to overcome inequality, not one that further entrenches it. Yet as currently structured, the financial system contributes to inequality and retards equitable growth, rather than facilitating it, in five key ways: First, in the lead up to the financial crisis, firms benefited from excessive risk-taking, while in the wake of the crisis society at large paid for that excess and those least able to afford it suffered the worst. Second, research suggests that weak consumer protections and exploitative financial products contributed to widespread abuses, stripping low-income and minority households of wealth and undermining their ability to use the financial system responsibly in the future. Inequality and poverty contributes to the vulnerability of low-income and minority populations to such abuses. These households face “scarcity” that diminishes their capacity to deal with financial problems (Mullainathan and Shafir 2013) and they lack the financial slack necessary to deal with temporary shocks to their income and expenses (Barr 2012). Third, the structure of financial products and services often reduces the opportunities for low-income households to save, which dramatically limits their opportunities to invest in human and financial capital that would improve their long-run prospects and contribute to domestic savings. Fourth, minority and female entrepreneurs, who start out with lower income and wealth, have more difficulties accessing finance to sustain and grow their business. Lastly, concentrated power in the financial sector, combined with other factors, may entrench finance-favored tax and regulatory policies and reduce the ability of democratic processes effectively to address necessary reforms. Tackling all these problems is beyond the scope of the concept paper—we focus here on the challenge of improving financial services for the poor.

Significant progress has been made over the past decade to benefit the poor and others, via widespread adoption of technology, facilitated by large investments from the financial sector. Costs have been reduced, convenience increased, and more real-time information about accounts is available to account owners than ever before; however, we have only begun improving access and capability for low- and moderate-income Americans. The changes come with risks, such as greater exposure to fraud and identify theft. Technology can be used for good or ill. There is also a real risk of barring those who cannot access technology from the mainstream financial sector. Throughout this paper, innovations, both those which have been adopted and those which are suggested as alternatives or new directions, are highlighted.
A THREE-LEGGED STOOL

We can help families seeking financial stability in three primary ways: enhancing individuals’ core competencies in financial capability; promoting access to innovative financial products and services that meet consumer needs; and establishing and enforcing strong protections for consumers. Basic financial literacy is likely a necessary foundation for informed consumer decision-making, but to be effective, financial literacy must be combined with improved access to suitable financial products and strong consumer protections—to achieve financial capability. (CFSI). Efforts in all three areas must be driven by evidence on how consumers and firms behave in the real world. In each area, we could make significant strides by using behavioral insights, combined with a deeper understanding of market context.

INSIGHTS FROM BEHAVIORAL ECONOMICS

Policymakers typically approach human behavior through the perspective of the "rational-agent" model, which relies on normative, a priori analysis. The model assumes that people make insightful, well-planned, highly controlled, and perfectly calculating decisions guided by considerations of personal utility. An alternative view, developed mostly through empirical behavioral research, describes behavior as an amalgam of human perceptions, impulses, judgments, and decision processes. Actual human behavior is often unforeseen and misunderstood by classical policy thinking. A more nuanced behavioral perspective can yield deeper understanding and improved regulatory insight.

In contrast with the rational-agent theory, behavioral research has shown that individuals depart from this decision-making model in important ways. The availability and dissemination of data do not always lead to effective communication and knowledge; understanding and intention do not necessarily lead to the desired action; and purportedly inconsequential contextual nuances, whether intentional or not, can shape behavior and alter choices, often in ways that people themselves agree diminish their well-being in unintended way. Individuals often exhibit temporal biases and mis-forecast their own behavior.

Human behavior is heavily context dependent. Context is made all the more important because individuals' predictions about their behavior in the future are often made in contexts different from those in which they later find themselves. Three decades of behavioral research have led to the realization that people's preferences are typically constructed, not merely revealed, during the decision-making process. More choices do not necessarily make things better, as rational choice theory would suggest, but can excessively complicate a decision.

The substantial influence of context on behavior implies that institutions will come to play a central role in shaping how people think and what they do. "Institutions" refers to formal laws and rules, firms and other organizations, structures and governments, and widespread market practices. Among other things, institutions shape defaults, the “favored” starting point. It is now well established that defaults can have a profound influence on the outcomes of individual choices. Data available on decisions ranging from retirement savings to organ donation illustrate the substantial increase in market share when a particular choice is made the default option.
FINANCIAL CAPABILITY

Financial education needs to be more firmly rooted in the ways in which individuals actually make financial decisions in particular contexts in the real world. There are three promising approaches in this regard.

First, financial education providers can set core financial competencies and rigorously evaluate different approaches to conveying these competencies. (See, e.g., Treasury 2010, CFSI Compass Guides).

Second, rather than attempting to "teach" those competencies divorced from institutional context, financial education providers, financial institutions, and the public sector can seek ways to improve consumer understanding in the context of particular financial choices the individual is faced with at particular moments in time--the choice to save for retirement at the moment of hiring, for example, or the choice to save at the moment of filing for a tax refund. Financial coaching combined with assistance in effectuating particular transactions might significantly improve outcomes over class classroom-style financial education. (For one approach, see the Box below on the Financial Health Check by Ideas42).

Third, policymakers should view disclosures as a useful moment to increase financial understanding rather than a moment to increase the amount of financial information provided. One promising approach is to develop and test dynamic truth-in-lending disclosures that empower consumers to understand the consequences of various choices before the consumer makes them. What would happen if I take a longer-term loan? Pay off early? Reduce my other debts, etc.? In a world of mobile and on-line apps, there is little reason to stick to a form of static disclosure designed around paper. CFSI's "Compass Guide to Small Dollar Credit" suggests that lenders should clearly illustrate to borrowers in real time how much the loan will cost and how long it will take to pay off given actual or anticipated payment behavior. For example, much a lender may include a section in periodic statements and/or online dashboards that shows borrowers how much more quickly they will be able to pay off the loan if they increase payments by a given amount over their actual repayment behavior, building on the way the CARD Act requires disclosures regarding the consequences of payoff choices on credit card statements.

The Financial Health Check: One Possible Way to Improve Financial Coaching with Behavioral Insights.

Ongoing attempts to get people to save have resulted in the widespread use of 'financial literacy' and coaching programs as a means to increase financial capability. However, evaluations of these information-based training programs have shown mixed results when it comes to actually increasing savings rates. That shouldn't come as a surprise – insights from behavioral science show that providing more information doesn't always translate to taking action. Sometimes we simply forget to act, other times we don't act because it seems like a hassle.

![Chart showing savings at end of study period](chart.png)
With this in mind, ideas42 partnered with the Financial Literacy Center and the Social Security Administration to design and pilot-test a comprehensive, in-person “financial health check” (FHC) program as an alternative to traditional classroom-style training.

The Financial Health Check session followed existing best practices in financial training, but added several important behaviorally designed elements to close the intention-action gap. Just as in a traditional financial coaching session, participants sat down with the coach to go over their monthly budget, balance sheet, and credit report, but in the FHC, this part was completed quickly with approximate figures. Next, rather than give clients a bevy of financial information and a list of steps to be completed after the coaching session, ideas42 encouraged recipients to take positive actions — such as signing up for automatic transfers, bill pay, and text message reminders, or leaving a credit card at the bank – while still in the coaching session. The coach also had clients verbalize their goals for saving and debt management and recorded them in a worksheet. Schoar and Tantia found that FHC recipients with no savings had 21% more savings at the end of the study period than the control group.

FINANCIAL INNOVATION TO SERVE LMI HOUSEHOLDS

One of the critical ways we can help promote economic security is by making consumer financial markets work better for American families. Low- and moderate-income (LMI) individuals often lack access to basic financial services that could help them cope better with the lack of financial slack in their lives. Access to affordable financial services is important to the lives of low and moderate-income families, who must deal with sometimes abrupt fluctuations in income and expenses that occur because of job changes, instability in hours worked, medical illnesses and emergencies, divorce or other changes in family composition, and many other factors. Using data gathered by the U.S. Financial Diaries project, Hannagan and Morduch (2015) report large within year income volatility for LMI households. Dynan et al. (2007) report that household income volatility has increased significantly since 1970 and Guvenen et al. (2015) find that the degree of income uncertainty over a person’s life cycle is much greater than previously thought. Facing serious economic and structural constraints, households turn to a variety of formal and informal institutions to meet their financial services needs—to receive their income and pay bills, to borrow, and to save. But the way our financial system is structured often makes transacting, saving, and borrowing more expensive and less useful for the families who need it the most, and puts many essential insurance products out of reach for such families.

Unfortunately, the availability of financial products for saving, borrowing and other services to LMI households is limited and expensive. High cost financial services can actually reduce the slack available to households. For example, many low-wage individuals pay high fees for check-cashing services to obtain their income. Check cashing fees can add up - as much as $40,000 over a worker’s lifetime. (Wu et al.). Moreover, inadequate access to financial services—such as direct deposit to bank account—can contribute to taxpayers’ use of check cashers and refund anticipation loans that diminish the value of the earned income tax credit and other benefits. Constraints on access to mainstream financial services can also increase borrowing costs.

Low-income households facing fluctuating income and expenses may resort to high cost borrowing because they lack lower-cost ways to generate financial slack. Access to credit is
important for short-term needs but also for achieving educational goals and sustainable home ownership. We need to focus on improving access to financial products and services that might better enable low-income households to manage their finances and reduce high transaction costs.

A quarter of low-income households, and 13 percent of moderate-income households, making up a total of 7.7 percent of all U.S. households are "unbanked," that is, they have neither a checking nor a savings account. (FDIC 2009). Bank account ownership is not a permanent state, but rather largely a reflection of the household's current economic conditions, as many unbanked households have been banked in the past and intend to become banked in the future. Job loss is a major factor that moves households out of the financial mainstream. Bank-account ownership and usage is highly related to income. (FDIC 2013). Even controlling for income and other factors, however, African American households are less likely to hold a bank account than white households. (Barr 2012). A high proportion of disabled people lack bank accounts, with 18.4% of households headed by a disabled person qualifying as unbanked, far higher than the average. (FDIC 2013). Low- and moderate-income households have a variety of financial needs including saving, borrowing, and paying bills and receiving money.

**No Slack: The Financial Lives of Low-Income Americans** (Barr 2012), is based on a survey of more than 1,000 LMI families in the Detroit area. The study uses a random, stratified sample to explore the full range of financial services used by LMI households, together with systematic measures of households' preference parameters, demographic characteristics, and households' balance sheets. The survey included LMI individuals' attitudes toward and experiences with formal and informal financial institutions.

Key findings from the study include:

- Many unbanked respondents say that lower fees, less confusing fees, or more convenient banking hours and locations would make them more likely to open a bank account.
- LMI households use a range of formal and informal mechanisms to meet their financial service needs. A large percentage (65%) of bank account holders also use alternative financial products such as money orders.
- Although annual outlays on AFS are low for most households, LMI families incur high nonpecuniary costs (waiting in line to pay bills, burdening family and friends with borrowing needs) and extremely high costs are concentrated among a relatively small number of families.
- A well-designed payment card would have a high take-up rate among LMI consumers.
- Black homeowners pay higher interest rates than similar nonblack homeowners and are more likely to have prepayment penalties or balloon payments attached to their mortgages than nonblack counterparts.
- LMI households use the tax-filing system as an opportunity to save.
SAVING

Despite their low incomes, research suggests that savings opportunities are important to LMI individuals. For example, many low and moderate-income households exhibit a preference for over-withholding on their income taxes. Many LMI individuals would benefit from having the refund distributed evenly throughout the year, especially since so many of these individuals report difficulty paying monthly bills; however, when individuals were asked whether they wanted to over-withhold their income in a hypothetical scenario in which they must choose the time profile of how to receive their income and pay their taxes, 69 percent of surveyed LMI tax filers expressed a desire to over-withhold. (Barr 2012). The forced saving created by the tax system appeals to low and moderate-income filers because of concerns about their ability to save. These tax filers seek a pre-commitment device against the tendency to over-consume, as well as an easier way to save since people tend to procrastinate. LMI households value this pre-commitment mechanism, which suggests that illiquid savings plans tied to tax refunds may provide an opportunity for LMI individuals to build assets. A preference for over-withholding indicates that LMI tax filers are willing to pay to save. Given an average refund of $1700, a LMI tax filer is willing to forego $45 in interest to save in a temporary illiquid asset and to restrict the availability of consumption opportunities. (Barr 2012). Aside from valuing present consumption more than consumption in the near future, there may be unobservable reasons why LMI individuals face pressures to consume more today, such as lending to friends and family. (See Ashby & Burgoyne, 2009). In any event, LMI individuals are willing to put away their money where neither they nor those around them can readily access it.

Despite the desire for some form of illiquid saving, LMI households also need to and do save for precautionary purposes—that is, for emergencies. Savings policy for LMI households should encompass not only the need for longer-term savings for home ownership, business development or retirement, but also the need for shorter-term savings for emergencies or the purchase of durables. Households want to save to feel secure, to prepare for a medical emergency, or to offset unanticipated job loss. Nearly three-quarters of respondents in the DAFHS survey saved for consumption in the near future--in order to make purchases that year or the next, for special events, home improvements, and furniture and appliances. (Barr 2012). When thinking of savings and the financial needs of lower-income households, policymakers should consider their need for short-run economic flexibility, which savings and bank access could provide. Much of the foundational policy discussions about saving among the poor have focused on long-term investment gains, such as home ownership or future educational needs. While saving for long-term human or capital asset accumulation is important, the value of savings to smooth consumption is also important. Emergency savings are critical for LMI households.

Although more than twenty percent of Americans with a bank account do not have a corresponding savings account, people want to save. (FDIC Survey 2013). The FDIC's focus group of low and moderate-income individuals found that those surveyed had a strong desire for long term financial planning. (Id.) Many LMI households already save, but they vary in the regularity and amount of their savings. They use savings accounts, retirement vehicles, and hold jewelry, electronics, appliances and cash. It is hard for these households to save because most of their money goes to basic necessities such as food, rent and housing. In the Detroit
study, 85% of banked LMI households agree that holding a bank account helps them save, with over two-thirds of unbanked households agreeing that an account would help them save. (Barr 2012). Given the breadth of saving approaches taken by LMI households, savings policy needs to develop a range of alternative savings products to meet the needs of LMI households, including direct deposit initiatives, automatic saving plans, and tax-refund saving programs.

**Innovations in Savings**

*Source: CFSI*

**Prize-Linked Savings.** SaveUp, an online and mobile tool, draws upon the concept of prize-linked savings to motivate individuals to save or pay down debt in exchange for the chance to receive rewards or prizes. Users can win prizes that range from $2 million jackpots to scholarships, vacations, debt payoffs, and smaller gift cards and coupons. Fifteen states allow banks and credit unions to offer savings promotion raffles and 13 states have prize-linked savings legislation pending.

**Saving at Tax-Time.** For low-income Americans, tax time can offer a critical opportunity to save in the form of tax refunds. American Express and Jackson Hewitt recently announced a partnership to encourage individuals to save at tax-time. Individuals who choose to receive their refund on an American Express Serve Card can receive their refunds up to two days faster than the standard electronic deposit. The Serve Card offers money management tools to help users manage their money and build savings, including tools to track and categorize spending, create monthly budgets, and set aside money for future purchases.

**Group Savings.** Group-based savings or “savings circles” provide participants with social commitment mechanisms that can help contribute to greater accountability and discipline. Mission Asset Fund as pioneered this approach in the United States by offering individuals who participate in a group rotating access to no-interest loans. In addition to resulting in “forced savings,” the product helps consumers build credit and transition to the financial mainstream.

**CREDIT**

Empirical studies show that U.S. households are liquidity constrained. The U.S. Financial Diaries project finds evidence of household illiquidity (Morduch 2013). Sullivan (2008) uses panel data to study how unsecured debt and consumption respond to unexpected and transitory unemployment spells and finds that the lowest asset households cannot smooth transitory income shocks through access to unsecured debt. Sahm, Shapiro and Slemrod (2009) show that U.S. consumers are liquidity constrained by observing that consumers spend a large portion of their payments from the Economic Stimulus Act of 2008. Other studies such as Lyons (2003) and Blundell and Pistaferri (2003) utilize various methodologies to show that consumers are liquidity constrained. For low- and moderate-income households, credit may be difficult to obtain on reasonable terms. A recent CFPB study found that 26 million households were “credit invisible” lacking any credit record at all, and another 19 million had unscorable records (CFPB 2015).

Households with no slack often turn to short-term credit to make ends meet. Many LMI households use short-term credit products provided by firms that operate outside the mainstream banking sector, such as payday and car title loans, as well as credit cards, secured
credit cards, cash advance options, and overdraft services provided by banks. Since most of these families’ money goes to necessities, they may need to borrow for unexpected expenses like a major illness or to compensate for fluctuating income. Credit access provides an important means for smoothing consumption for low-income households facing emergencies or income volatility and with little savings. Many of these products, however, are associated with high and unexpected fees. In addition, a number of such products are structured in a way that makes it easy for households to systematically over-borrow. For example, payday borrowers often underestimate the need to roll over their payday loan at the time it is due, and credit-card holders often underestimate the balances they will carry from month to month. Overdraft hit consumers with $32 billion in fees (Moews 2015), and the effects of fees are concentrated: 75 percent of such fees are paid by only eight percent of consumers (CFPB 2014).

The range of bank and alternative financial services used by low and moderate-income families suggests that formal financial institutions are not fully meeting their needs. Even banked low- and moderate-income families regularly rely on expensive alternative financial services (AFS) and twenty percent of all American households use AFS in a given year. (FDIC 2013). Rather than using each alternative service as substitutes, low-income borrowers use payday loans, pawnshops, refund anticipation loans, rent-to-own contracts and other formal and informal credit services as complementary products. These services are often interrelated (for example, those who use other types of credit are more likely to rely on payday loans).

The creation of market-wide coverage under the CFPB provides the opportunity to substantially improve the regulatory environment for short-term credit. Given that LMI households use different short-term credit products, they may encounter a wide array of pricing disclosures in different forms or not at all. The complexity of eligibility requirements across the loan types may also confuse households to the point that they use the “wrong” type of short-term credit for their needs. Policymakers ought to focus reforms across the whole range of credit products. For example, improved disclosure regulation applied across mainstream and alternative credit options, could facilitate comparison shopping. Moving away from hidden fees and into transparent pricing, as under the CARD Act of 2009, can help households make better choices.

**Innovations in Credit**

*Source: CFSI*

Millions of Americans lack access to high-quality, affordable credit. Many of the small-dollar loans available to consumers are high-cost, low-quality products that lead borrowers into a cycle of repeat usage and mounting debt. While there are challenges to offering high-quality and affordable small-dollar credit, innovators have adopted solutions to address the needs of low-income borrowers.

**Alternative Underwriting.** Kinecta Federal Credit Union has partnered with LexisNexis RiskSolutions to provide alternative underwriting solutions for its payday consolidation loan. LexisNexis’s RiskView score – which draws upon alternative data such as property data, public records, and address stability – has allowed Kinecta to better serve borrowers not considered creditworthy under traditional measures at a lower risk to the institution.
**Product Design.** Regions Bank offers a low-cost, low-balance, savings-secured installment loan designed to help borrowers build or repair credit. The loan is structured to support on-time repayment by offering borrowers amortizing payments, low loan minimums, and the option to set up automatic withdrawals. Regions has charged-off less than 1% of these loans.

**Quick Access to Cash.** Vancity Credit Union offers a payday loan alternative that provides borrowers with quick and affordable access to funds. As the name suggests, the Fair & Fast Loan is designed to close quickly. Borrowers can receive funds within one hour of applying for the loan. This feature has allowed the credit union to compete with payday lenders. Vancity is exploring ways to make the process even quicker to give borrowers additional financial relief.

**Customizable Borrowing Experience.** Enova International recently introduced a payment slider tool on one of its small-dollar credit products that allows customers to choose the size of their payments and the length of their loan term. Early results show that this featuring is contributing to the strong performance of the loan by increasing take-up rates and reducing default rates.

**PAYMENTS SERVICES**

New payments technologies have the potential to reduce the cost and increase the efficiency and speed of our system for sending money. We have an outdated system in the United States, and to some extent, globally, for sending money. We spend lots of money sending money. We could invest the money we spend in transfer fees much more productively in the economy. Wringing some of the inefficiency out of this process so that we can send money more cheaply and more quickly is really quite a low-hanging fruit for technology and policy in the LMI financial market. Sending money more quickly and cheaply can reduce the costs of sending remittances overseas, for example. For many workers in the United States who want to send money home to their families, it is extremely expensive to do so. Technology can dramatically reduce the transaction costs and improve security of sending money overseas.

A second potential implication of instantaneous trusted transactions is reducing the incidence of overdraft for consumers. Consumers spend $32.5 billion a year in overdraft fees. (Moebis 2015). With instantaneous trusted transactions we can eliminate that kind of risk and cost to consumers.

A third implication of lower-cost payments is privacy. We give away our privacy to large companies in exchange for being able to use the internet. If we can reduce the costs of transactions sufficiently we might be able to give consumers the choice of keeping their own privacy, having ownership of their own information, and paying small fractions of a penny for transactions. It's not really possible in the current payment system, but if we squeeze down that cost efficiently we might gain more ownership of our financial lives and of our own privacy.

We can help bank the unbanked with lower cost services. We can help improve financial management so that people can better match their income and expenses, so that when they get paid their money is immediately available for them to use. We can help reduce the cost and improve the security of remittances so people can send money home for much cheaper to their families.
Mobile banking can be part of the solution to make transactions cheaper and faster. About a third of unbanked households have access to smartphones, and smart phone usage of the underbanked outpaces that of the general population (FDIC 2013). Mobile banking can help households better manage their finances, for example, with real-time balance alerts, or nudges about saving and spending.

One fruitful approach is to give individuals more ownership of our own financial identity and more ability to choose who we share that identity with and for what purpose. An aspect of that approach can be a universal portable bank account number. There has been significant progress in the UK on this, although there is much more to do there. No such progress has been made in universal portable bank account numbers in the United States. We could make enormous difference for the lives of people if we empowered individuals to own their banking information and to move it between banks that suit their needs.

Some research posits a tight correlation between where people choose to do banking and the location of a bank near their home. (FDIC 2013). Households living in wealthier communities tend to travel shorter distances to bank branches and have more branches available from which to choose. Low- and moderate-income neighborhoods tend to have fewer bank branches and more alternative financial service providers such as check cashers, payday lenders, pawnshops, and grocery or liquor stores providing transactional financial services and short term lending. (Caskey 1994). Our statistical analysis in the Detroit study showed that proximity to a bank branch alone has little relationship with the probability of having a bank account. Instead, proximity to AFS providers drove bank account (and AFS) usage. Households in close proximity to an AFS provider are less likely to hold a bank account. These results imply that policies that solely expand geographic access to bank branches without changing the services being offered are unlikely to attract LMI households to the banking sector. (Barr 2012).

Rather, policies to encourage bank-account ownership should also focus on expanding the range of products offered by depository institutions. For example, high and contingent fees, such as overdraft charges and insufficient funds fees, are a real barrier to bank account ownership, as are high monthly minimum balances. Moreover, ChexSystems, a program banks use to screen potential accounts, is an important barrier to mainstream banking for many LMI households. Households that have had trouble in the past, with overdrafts, late payments and the like, may automatically be denied for a new account based on the results of the ChexSystems screening.

**PRODUCT INNOVATION**

Banks should expand their offerings of low-cost, electronically based accounts. These can be structured as individually owned, debit card-accessed deposit accounts without check-writing privileges or the ability to overdraw, or can be offered as prepaid debit cards on a pooled basis with pass-through federal deposit insurance and no overdraft. For some time, scholars, practitioners and regulators have been working to promote such accounts. (See, e.g., Barr 2012; FDIC Safe Accounts Pilot, Bank On).
To meet LMI credit needs, banks offering an account which meets the Bank On standards could offer a six-month, self-amortizing consumer installment loan up to $500 with direct debit from the account; such a loan would be relatively low risk and paid automatically, could be offered with little labor-intensive interaction with the customer and could be offered at reasonable interest rates. (For example, KeyBank launched the KeyBasic credit program in 2011, a low-balance credit line with a simple fee structure. KeyBank uses an internal "client experience score" rather than a credit score or ChexSystems to determine which accounts to open.) The credit option could also include a savings component, in which monthly payment would include the borrower's contribution to a savings account.

When discrete-choice modeling is applied to survey results of low and moderate-income households, specific design features of desirable potential financial service products are revealed. After monthly cost, the nonmonetary features of a payment card, such as the availability of federal protection and the type of card are factors LMI households weigh heavily when selecting a card. (Barr 2012). The FDIC focus group results confirm find that LMI individuals are highly concerned with privacy and security. (FDIC 2013).

A well-designed payment card that addresses these needs will have a high take-up rate in the LMI demographic. General purpose reloadable prepaid cards can be an attractive alternative to traditional bank accounts for underbanked households. Thirty-seven percent of unbanked Americans are already using such cards. (Id.) They offer quick, convenient access to funds but are not viewed by consumers to be as secure as other banking methods. (Id.) In fact, some such cards do not have federal deposit insurance and operational issues with one prepaid card have raised significant concerns about operational and other risks with prepaid cards. Since LMI households put a high value on federal protection, federal consumer protection regulation could play an important role in increasing take-up rate for these sorts of cards. CFSI has released Compass guidelines for prepaid cards.

CFSI (of which the Ford Foundation is a founding partner), has attained $30 million in funding from JP Morgan Chase to establish the Financial Solutions Lab, a five-year initiative to identify, test and expand the availability of innovations that help Americans increase savings, improve credit, and build assets. The Lab provides incentives for entrepreneurs, businesses, and nonprofits to enhance financial products and services that address these challenges and improve consumers' financial health. For examples of other promising innovations, see info boxes throughout this text and Appendix 2.

The Compass Principles

1. Embrace Inclusion: Reasonably Expand Access
2. Build Trust: Develop Mutually Beneficial Products that Deliver Clear and Consistent Value
3. Promote Success: Drive Positive Consumer Behavior through Smart Design and Communication
4. Create Opportunity: Provide Options for Upward Mobility
MOBILE BANKING

Mobile banking is an area of great opportunity for innovation. Mobile banking may be conducted through an app or a mobile web browser. In addition to basic features like checking a balance, these services can make payments, send alerts, etc. The set-up process is easy and can often be done from the phone. Consumers feel greater control over their finances when they can see transactions in real time on their mobile device, but excessive holding times undermine the convenience of mobile banking. The immediacy of peer-to-peer electronic transfer appeals to LMI individuals. (FDIC 2013).

![Diagram showing control, convenience, and affordability for banks to better meet consumer needs through MFS.](image)

**Summary of Mobile Financial Services**

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<thead>
<tr>
<th>Mobile Financial Service</th>
<th>Benefits</th>
<th>Consumer Needs Addressed</th>
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<tbody>
<tr>
<td>Checking Balance and Transaction History</td>
<td>• Access to account information anytime and anywhere &lt;br&gt; • Saves time/trips to providers &lt;br&gt; • Helps budget &lt;br&gt; • Helps inform on the spot spending decisions</td>
<td>• Control &lt;br&gt; • Convenience &lt;br&gt; • Long-Term Financial Management</td>
</tr>
<tr>
<td>Alerts</td>
<td>• Access to account information &lt;br&gt; • Helps consumers avoid fees &lt;br&gt; • Helps monitor accounts for fraud</td>
<td>• Control &lt;br&gt; • Convenience &lt;br&gt; • Affordability &lt;br&gt; • Security</td>
</tr>
<tr>
<td>Bill Pay</td>
<td>• Ensure timely payment &lt;br&gt; • Can save money over other methods &lt;br&gt; • Saves time/trips to providers &lt;br&gt; • Ability to pay bills anytime and anywhere</td>
<td>• Control &lt;br&gt; • Convenience &lt;br&gt; • Affordability</td>
</tr>
<tr>
<td>Peer-to-Peer Transfers</td>
<td>• Settle personal debts immediately &lt;br&gt; • Faster than other methods &lt;br&gt; • Saves time/trips to providers</td>
<td>• Control &lt;br&gt; • Convenience</td>
</tr>
<tr>
<td>Remote Deposit Capture</td>
<td>• Helps deposit money faster &lt;br&gt; • Saves time/trips to providers</td>
<td>• Control &lt;br&gt; • Convenience &lt;br&gt; • Access to Money</td>
</tr>
</tbody>
</table>
ROLE OF EMPLOYERS

Employers of low-wage workers also shape the financial choices these workers make. Employers can encourage the use of direct deposit, and they can work with local banks and other providers to ensure that their workers have access to financial products. Bank On coalitions have shown promising collaboration with employers. Employer-based savings plans, with automatic savings provisions, can encourage saving, not simply for retirement but also for shorter-term or emergency needs.

Innovations in Prepaid Technology

*Source: CFSI*

Well-designed prepaid cards can allow consumers to build financial health by helping them spend wisely, save, and plan for the future. In recent years, the quality of many prepaid cards has improved. Expanded options to load and spend funds have turned some prepaid cards into more versatile financial tools. More transparent fee disclosures are empowering customers to make better financial decisions. Some companies are allowing cardholders to customize their prepaid accounts or offering features that can help customers build and maintain their financial health.

*Easier Loading and Unloading.* Green Dot's Reload @ the Register allows cardholders to seamlessly load funds at retail locations without using online redemption codes. More than 200 companies have since adopted this service and it is available at several major grocery and pharmacy chains nationwide.

*More Transparent Fees.* On its website, the UPside Card groups fees into categories such as “Add Money” or “Get Cash.” For each fee, the company lists how often a user would incur that fee, given typical usage patterns (e.g., “ATM Withdrawal Fee – 2 per month”). Uniform presentation allows for easier comparison between the Upside Card’s different plans.

*Increased Personalization.* Chase allows Liquid Card users to receive email or text alerts when their account balances fall below a certain threshold that they select. Cardholders can also receive alerts for transactions, ATM withdrawals, and deposits above a designated amount. This allows cardholders to track their card usage in a way that is more helpful to them.

*Enhanced Functionality.* NetSpend offers cardholders a budgeting tool with multiple spending categories. Cardholders can set up regular text or email alerts to notify them of the amount remaining in each budget or when they are approaching their budget limit. NetSpend offers cardholders a savings account with a 5.00% Annual Percentage Yield (APY) to encourage cardholders to accumulate an emergency savings buffer in their account.

ROLES FOR GOVERNMENT IN PRODUCT INNOVATION

While product innovation is primarily the province of the private sector, government policies at the federal, state and local levels can make a difference. For example, the federal government has the opportunity to expand access to financial services in a variety of ways. The federal government directly or indirectly supports payments for Social Security, tax refunds, military personnel, veterans benefits, TANF, U/I and other mixed federal/state programs.
The Treasury Department is taking an innovative approach to direct federal benefits payments that relates to these insights. The department is responsible for making ongoing payments to 70 million individuals for direct federal benefits, including Social Security, Supplemental Security Income, and Veterans, Railroad Retirement, and Office of Personnel Management benefits. Fifteen percent of these individuals still receive their benefits by paper check. Individuals who have accounts can use direct deposit. Individuals who are unbanked, or who prefer not to use direct deposit, receive payments on the Direct Express card. Direct Express is a debit-card account platform offered by a bank according to requirements established by Treasury. More than 1.4 million federal benefits recipients have opted into receiving benefits on Direct Express, which was launched in 2008. Customers report 95 percent satisfaction with the card's features. Direct Express is an example of how government can help make serving low- and moderate-income customers more sustainable for providers. In this case the government is bundling many customers' accounts together, allowing for a more favorable scale of operations for the provider. The states have key programs, too. Treasury established rules that better protect federal benefits payments from bank account garnishment and enhanced requirements on the types of payment cards that are eligible to receive benefits payments, including prohibiting benefits from being deposited into accounts set up for payday-loan-type arrangements.

The Treasury Department is simultaneously undertaking other efforts to improve the electronic delivery of federal benefits payments. For example, for the 2011 tax season Treasury piloted an initiative to improve tax administration by offering selected low- and moderate-income households an opportunity to receive their tax refund on a debit card. There is an enormous opportunity to improve financial outcomes for low-income households by setting up an automatic way for these households to receive their tax refunds through direct deposit to a bank account or prepaid card. In the coming years, Treasury should focus on bringing these tax refund accounts to scale at the national level. Another major element of these efforts is Bank On USA.

With respect to tax refunds, based on LMI households' preferences for over-withholding, tax refunds are a promising place to facilitate entry into the financial mainstream. The Internal Revenue Service could be authorized to establish an automatic way for unbanked households to receive their tax refunds, which would be faster and more profitable for those households. These accounts would decrease the use of refund loans, increase opportunities for saving, and lower administrative costs in the tax system. Under the plan, unbanked low-income individuals who file their tax returns would have their tax refunds directly deposited onto a prepaid debit card. Households could use the account long past tax time to receive income, save, pay bills, etc. By using an opt-out strategy (making this program the default) and reaching households at tax time, this approach could efficiently reach millions of LMI households and bring them in to the banking system.
States can adopt access to financial services as core element of state benefit programs and welfare-to-work strategies. For example, states now use debit card-based products for many state benefits, but these cards often do not permit direct deposit of other sources of income, and they cannot be used for other purposes or kept when benefits expire. In addition, the household does not develop any transactional or credit history for using the card and can not use the card for everyday financial needs. States could use their electronic benefit transfer programs for cash welfare, unemployment, and other state-administered benefits to improve the types of financial offerings for these households. Using more-flexible low cost debit cards to distribute these benefits will help families gain financial stability and may help to bring disabled persons who typically receive some federal or state benefits, into the financial mainstream.

Another approach to facilitating product innovation is through government subsidies. The administrative cost of collecting small value deposits are high in relation to banks' potential earnings on the relatively small amounts saved, which banks often offset with high fees and minimum balance requirements. Interestingly, however, the Citi Access accounts located in low and moderate-income communities do not hold a lower average balance than those in other areas. One goal of policy ought to be increasing the scale and offsetting costs for the private sector in expanding the functionality of bank accounts for low-income households. Local Bank On initiatives can focus on improving the range of account offerings to low-income households rather than just signing them up for existing accounts. Fifty cities have lined up to embrace the Bank On account standards this year, as has Wells Fargo, with Chase, Citi, and Bank of America already offering accounts meeting the standards.

In the case where the optimal payment card for LMI households' financial needs is not profitable to the private sector but there are social benefits of expanding financial services to LMI households, subsidies to private institutions or a publicly funded payment card may be appropriate. One form of these subsidies might be for the government to provide a one-time subsidy to financial institutions for opening the account linked to a payment card, as previous research suggests that once an account is open, banks are able to profit from it monthly. Bank On offers a capacity grant to help local and community banks meet its standards, for example.

Postal banking is another area of opportunity. While there are significant issues with getting the Postal Service involved broadly in banking services, one strategy that may be promising is to have the Postal Service provide physical space in its branches for private sector providers of payments services. Given the broad physical footprint of postal branches, this strategy may expand the ability of the private sector to reach low-income households at lower cost.

**CONSUMER PROTECTION**

While education to improve financial capability and innovative products to expand access are critical, so too is consumer protection. In an environment of weak and ineffective regulations, the tendency of some consumer financial markets to end up in a "race to the bottom"--as we saw in the housing market--is not likely to be overcome solely by consumer education and access. Behaviorally informed regulation can help make progress in improving the
environment for financial access. While it is critical to focus on how human beings actually make decisions and behave, a behavioral policy perspective that focuses only on the individual is incomplete. Policy must also account for market context and the incentive and behaviors of firms (Barr Mullainathan and Shafir 2008). It is helpful to divide consumer financial markets into two categories: those in which firms are neutral toward or have incentives for overcoming consumer fallibility; and those in which firms have incentives to exacerbate consumer biases. For example, providers of bank accounts have incentives to help individuals overcome the behavioral barriers to savings. Lenders, on the other hand, may have incentives to exploit biases that lead consumers to overborrow. And providers of all kinds have incentives to charge fees that are less salient for consumers or that take advantage of consumers’ errors in predicting their own future product usage—such as late fees, overlimit fees, and overdraft fees.

The implications for policymaking in these two cases are different. Where firms are neutral to or have incentives to overcome consumer biases, changing the starting point or default may be highly effective on its own. The success in promoting retirement savings through the use of defaults is a well-known example. In this case, employers were at worst indifferent to and at best inclined to increase employee participation in defined-contribution plans. Where firms have incentives to exacerbate biases, changing the rules may not be enough. In these cases, firms will have incentives to work around the rules and render them less effective. For example, firms may comply with the letter of disclosure laws but act to undermine them by discouraging consumers from focusing on and understanding the content. Enactment of the CARD Act in 2009 and the of the Dodd-Frank Act in 2010 made significant advances in this regard, and it is worth reflecting on these as examples of the kind of progress that can be made with strong consumer protections.

The CARD Act, which President Obama championed and signed into law in May 2009, is an example of regulation written for a market and a product in which the provider has a strong incentive to encourage consumers to make bad choices—to rack up lots of late fees and make only the minimum payment every month. Nearly 80 percent of American families have a credit card, and over 40 percent of families carry a balance on their cards. Before passage of the Act, Americans were paying $15 billion, annually, in penalty fees. (CARD Act Report).

The CARD Act bans unfair rate increases, fee traps such as weekend due dates, shifting due dates and payment deadlines in the middle of the day, and it ends double-cycle billing. The CARD Act also used a de-biasing approach by requiring minimum-balance warnings that help to inform consumers of the consequences of paying only the minimum. Statements now must display how long it would take to pay off the balance if the consumer pays only the minimum balance each period and the amount the consumer would need to pay each period to pay off the balance in thirty-six months. Late fees are capped. Research has shown that the CARD Act is saving consumers nearly $12 billion every year without reducing access. (Agarwal et al. 2014).

The CARD Act changes to the credit-card market were followed the next year by the Dodd-Frank Act changes to the mortgage market. Consumer-protection failings in the mortgage markets quite contributed significantly to the abusive practices that fed the housing boom and bust. The act directly takes on these past failings. For example, it bans yield spread premiums to brokers for getting borrowers to take on higher-cost loans and the broker steering practices
that often accompanied high-cost lending; it requires creditors to assess and document the borrower’s ability to pay, rather than making no-doc loans to those who cannot afford them; it makes reforms to escrow practices so that it is harder for creditors to hide the all-in monthly costs of a loan, including taxes and insurance; and it requires key changes to make disclosures simpler—reducing the paperwork burden on creditors while giving households a fighting chance to understand the terms of their home-mortgage loans.

Before Dodd-Frank, our system was largely incapable of supporting a successful regulatory structure for consumer protection. Fragmentation of rule writing, supervision, and enforcement made it impossible to create a comprehensive and well-calibrated consumer regulatory regime. Jurisdiction and authority for consumer protection was spread over many federal regulators, which had higher priorities than protecting consumers. Banks could choose the least restrictive supervisor among several different banking agencies. Nonbank providers, from home mortgage originators to payday lenders, escaped any meaningful federal supervision completely.

Now, with the Dodd-Frank Act’s creation of the Consumer Financial Protection Bureau we can do more than play catch-up in regulating consumer financial markets. The bureau provides a historic opportunity to build a successfully regulatory structure for consumer protection, one that is designed to promote financial inclusion, preserve consumer choice, and provide for more efficient and innovative markets for consumer financial products—markets that operate on the competitive basis of price and quality rather than hidden fees. The Consumer Financial Protection Bureau provides necessary mission focus, marketwide coverage, and consolidated authority. It focuses not simply on more regulation but on smarter, more coherent, and more effective regulation: regulation that is designed and implemented with an understanding—and respect—of classical models but is not blind to the compelling insights into consumer decisions derived from behavioral economics; regulation that seeks to empower a consumer to find the most suitable financial products from among many seemingly indistinguishable choices, and that provides a level playing field for the financial sector. Opposition to consumer protection regulation rests on the premise that empowering consumers is antithetical to free markets. These voices presume that regulation and efficient and innovative markets are at odds. In fact, the opposite is true. Markets rely on good faith and on trust and on fair dealing. Markets require transparency that reflects economic reality rather than distortions caused by misleading sales pitches and hidden traps. And the discipline of the market requires clear rules.

FURTHER POLICY STEPS

A three-legged stool of financial capability, access to suitable products and strong consumer protection regulation will help households better manage their financial lives. Low- and moderate-income households families can ill-afford a financial system that imposes unnecessary costs, confusion and complications on their daily lives. We must take the steps necessary so that the financial system works better for everyone. While fundamentally, product innovation in serving LMI households is the province of the private sector, the government can play central roles in supporting private sector innovation, protecting consumers, and helping to empower them to make decisions that are better for themselves and their families.
Key policy initiatives that should be considered include:

| 1. Direct Express Payment Card | Treasury should continue to build on Direct Express by increasing its functionality and expanding it to other use cases. Improvements to functionality—including other direct deposits, enhanced savings features, and bill payment functions—would permit the card to meet a broader range of needs of LMI households. In addition, Treasury should expand the card to other federal and state programs, including unemployment insurance, TANF, military and veterans' payments, and other payments. Direct Express should also be deployed as the default option to send tax refunds to individuals without bank accounts. |
| 2. Universal, Portable Financial Identity | Consumers rarely switch bank accounts, which undermines competition, reduces innovation and increases costs. The US should foster a system where it is easier to switch bank accounts, by adopting a universal, portable financial identity for consumers. |
| 3. Faster Payments | The Federal Reserve, through its Fast Payments Task Force and regulatory oversight of the payments system, should focus on (a) speeding up ACH services with the goal of real time settlement; (b) ensuring that regulation does not lock in old technologies and entrenched interests; (c) promoting payments systems that will reduce costs and improve security and speed for transactions used by LMI households, including check cashing and remittances. |
| 4. Debit/Prepaid/Payroll and Overdraft Protections | The CFPB should develop a unified approach to disclosures and protections across the range of transaction products used by LMI households, including bank accounts, prepaid and payroll cards. |
| 5. Good Funds Availability | The Federal Reserve should continue to tighten regulations of good funds availability so that consumers’ deposits are generally immediately available. |
| 6. CDFIs, Bank On | Congress should increase funding for the CDFI Fund and for BankOn programs around the country to support local initiatives to expand access to financial services. |
| 7. Task Force on KYC, AML/TF | Treasury should run a task force to develop approaches that would lower regulatory burden for financial institutions and increase effectiveness of anti-terrorist financing and anti-money laundering rules, while increasing access for LMI households. |
| 8. Financial Management/ Emergency Savings | Policy makers should encourage innovations in financial management and emergency savings tools that enable households to cope better with income and expense volatility. |
| 9. Postal Banking | Congress should consider authorizing the Postal Service to provide physical space in its branches for private sector providers of payments services that meet safety and affordability standards. |
| 10. CRA Services Test | The Community Reinvestment Act services test should be updated to place more focus on innovation in financial products and services that meet the needs of LMI households. |
CONCLUSION AND NEXT STEPS

Finance is critical to overcoming inequality and advancing economic opportunity for low- and moderate-income and minority families, yet it too often reinforces or magnifies barriers for these households. We need to work together to build a financial system that is safer, fairer, and better harnessed to the needs of the real economy. Enhancing financial capability, using innovation to create new products and services that meet our core values, and developing strong consumer protections with a level playing field across the market can help lay a new foundation for a financial services system that better serves all households. This concept paper is designed to facilitate deeper conversations, invite hard questions, and spur further innovation to transform the financial services marketplace.
APPENDIX 1. BankOn.

The national “BankOn” movement has issued account standards designed to encourage banks to offer safe and affordable accounts. BankOn specifies pricing and functionality for core features, as well as recommended additional features. Initial partners with BankOn include Chase, Citi, Bank of America and Wells Fargo. For example, Citibank’s Access account, launched in 2014, meets Bank On standards. Fifty-five percent of the 70,000 active Access accounts belong to people who were previously unbanked, and 70% of account holders are low- to moderate-income earners.

<table>
<thead>
<tr>
<th>Core Features</th>
<th>BankOn National Account Standards (2015-2016)</th>
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<tbody>
<tr>
<td>Description</td>
<td>Strongly Recommended Features</td>
</tr>
<tr>
<td>Transaction Account at Banking Institution</td>
<td>New Account Screening (e.g., ChexSystems)</td>
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<tr>
<td>Point of Sale (POS) Capability</td>
<td>Alternative IDs (Municipal, Consular, etc.)</td>
</tr>
<tr>
<td>Minimum Opening Deposit</td>
<td>Remote Account Opening</td>
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<tr>
<td>Monthly Maintenance Fee</td>
<td>Linked Savings Accounts</td>
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<tr>
<td>Overdraft or Non-Sufficient Funds (NSF) Fees</td>
<td>Recommended Features</td>
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<tr>
<td>Dormancy or Inactivity Fees</td>
<td>Funds Availability</td>
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<tr>
<td>Customer Service</td>
<td>Money Orders</td>
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<td>Branch Access</td>
<td>Remittances (International Wire)</td>
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<tr>
<td>Telephone Banking</td>
<td>Credit-Building Product Offerings</td>
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<tr>
<td>Use of in-Network ATM</td>
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<tr>
<td>Use of Out-of-Network ATM</td>
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<tr>
<td>Deposit Capability</td>
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<tr>
<td>Electronic Bill Pay, Check Cashings for Checks Issued by that Bank, Online/Mobile Banking, Banking Alerts</td>
<td></td>
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<tr>
<td>Monthly Statements</td>
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<tr>
<td>Insured Deposits</td>
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- Only deny new customers for past incidences of actual fraud
- Accept alternative IDs
- Accounts can be opened remotely
- Free savings accounts and account transfers
- Available, free
- Immediate availability for known customers cashing government, payroll, or same-bank checks
- $1.65 or less
- Competitively priced ($5.00 – $20.00, depending upon country)
- Secured credit card or secured personal loan

www.cfedfund.org | 4
APPENDIX 2. CFSI Innovations.

Meet Nine Innovative Companies Solving Americans’ Cash Flow Challenges

The Financial Solutions Lab at CFSI with founding partner, JPMorgan Chase, announced the nine winners of its $3 million competition for technology innovators. These organizations represent the most promising group of financial technology social entrepreneurs tackling consumers’ cash flow management challenges in the United States today.

The Lab winners were selected from hundreds of Lab applicants from across the country. Each winner receives up to $250,000 in capital in a form suited to their needs, in addition to national partnership opportunities, industry expertise, mentorship, and cutting-edge consumer and design insights.

Meet the Winners

» **Ascend Consumer Finance**
  (San Francisco, CA) - Ascend reduces risk on current loans and rewards the borrower by lowering interest payments for positive financial behaviors, such as reducing debt, decreasing credit card spending and increasing savings. [www.ascendloom.com](http://www.ascendloom.com)

» **Digit** (San Francisco, CA) - Digit is an automated savings tool with a text-based user interface that uses an intelligent algorithm to identify small amounts of money that can be moved from checking into savings based on spending habits. [http://digit.co](http://digit.co)

» **Even** (Oakland, CA) - Even turns the inconsistent income of hourly and part-time workers into a steady salary by saving money from above average paychecks in a separate savings account, and boosting low paychecks automatically. [https://even.me](https://even.me)

» **LendStreet** (Sunnyvale, CA) - LendStreet is a marketplace-lending platform which helps borrowers reduce their debt and rebuild their credit, and allows investors to buy the loan at a discount. [www.lendstreet.com](http://www.lendstreet.com)

» **PayGoal by Neighborhood Trust**
  (New York, NY) - PayGoal is a workplace tool that enables financially underserved workers to improve the allocation of wages toward their principal financial goals using a simple, guided mobile experience that leverages behavioral insights. [join.paygoal.co](http://join.paygoal.co)

» **Prism** (Bellevue, WA) - Prism is a comprehensive bill payment and management app that helps people across the country better manage their personal finances by giving them a platform to review, manage and pay their bills for free – anytime, anywhere. [www.prismmoney.com](http://www.prismmoney.com)

» **Propel** (Brooklyn, NY) - Propel’s technology simplifies the food stamp application process by streamlining the initial enrollment form, eliminating the hassle of submitting paper documents, and providing a phone-friendly interface. [www.joinpropel.com](http://www.joinpropel.com)

» **Puddle** (San Francisco, CA) - Puddle is a platform for reputation-based borrowing currently available to anyone in the U.S. with a debit card. Users gain access to a shared pool of capital by contributing funds and building reputation with others they trust. [www.puddle.com](http://www.puddle.com)

» **SupportPay** (Santa Clara, CA) - SupportPay is an automated payment platform that enables parents to share child expenses and exchange child support directly with each other. [www.supportpay.com](http://www.supportpay.com)

Right:
Profiles of recent winners of CFSI’s Financial Solutions Lab Challenge. Each winner was awarded a $250,000 prize.
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