


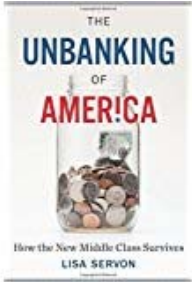
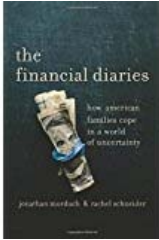
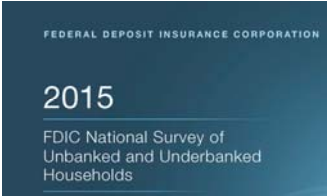


# CDFIs INVEST

## Dipping your toe in the Depository World

Adina Abramowitz, Howard Banker, Daniel Betancourt, Ignacio Esteban, Pearl Wicks/ September 28, 2017

## Sources of Information



**OFN**  
CONFERENCE

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## Household financial challenges are increasing

- Many people in the middle class are now insecure financially.
  - Nearly 50% of all Americans live paycheck to paycheck and could not come up with \$2,000 for a financial emergency
  - Income volatility has doubled in past 30 years. More part time work; "gig economy." More people with multiple jobs
  - Employers decreased benefits and kept salaries low
  - Costs are increasing, especially rent & childcare



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## How many are banked / underbanked?

- In 2015, 7.0% of households, or about 9 million households were "unbanked"
  - No one in the household has a checking or savings account
- Additional 19.9 % of households were underbanked, or about 24.5 million households
  - Someone in the household has an account at an insured institution, but also used AFS in the past 12 months: money orders, check cashing, international remittances, payday loans, refund anticipation loans, rent to own, pawn shop loans, or auto title loans.



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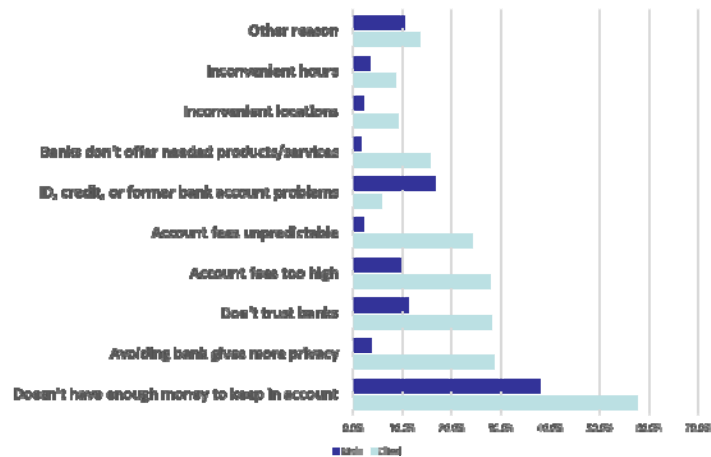
## Variations in banking status

Group	Unbanked	Underbanked
All	7.0%	19.9%
Black	18.2%	31.1%
Hispanic	16.2%	29.3%
25-34 years old	10.5%	24.5%
Disabled, 25 - 64	17.6%	28.4%



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## Reasons for not having a bank account



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## How do households conduct financial transactions?

- Unbanked:
  - Receive income: Paper check or money order most common, 42%. Of these, 45% use non-bank to cash check / money order.
  - Payments: 62% cash, 35.5% non-bank money orders, 18.2% used prepaid cards.
- Underbanked:
  - Use banks extensively to receive income and pay bills but also used cash and nonbank money orders to meet financial obligations.



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## How households borrow

- 68% of households use all/some bank credit
- 8.2% of households used nonbank credit
- 28% did not use any of the credit products in survey
- This does not include informal credit networks
- Lower income, less educated, People of Color, and working age disabled were more likely to use non-bank credit or not use credit.
- Use of nonbank credit strongly associated with being denied by a bank.



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## It makes sense that some customers use check cashers

- Some consumers prefer check cashers due to flat fees, transparency, and convenience.
  - No waiting for check to clear, and no unexpected overdraft fees
  - Can withdraw any amount – not only multiples of \$20
  - Signs indicate flat fees for each type of transaction
  - SSI checks arrive at check cashers 1-2 days early
- About 6% of all Americans have been “kicked out of banks” due to bounced checks or other irregularities in the past. Banks and Credit unions use ChexSystems database to keep track of these customers.



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## CDFI Depositories

- As of 7-31-2017, there are 316 Community Development Credit Unions (CDCUs), and 226 Community Development Banks, Holding Companies, or Thrifts
- Minority owned banks are automatically CDFIs.
- CDCUs are regulated by the National Credit Union Administration (NCUA) and have a trade association, the National Federation of CDCUs.
- Banks are regulated by one of the bank regulators and also have a trade association, Community Development Bankers Association
- CDFI Banks and CDCU deposits are insured.



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### Well known CDCUs



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### CDFI Banks



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## Size and scope of CDFI depositories

- From 1996 to 2015:
  - Assets in CDFI banks increased from \$926 million to \$35 billion, increasing their share of all bank assets from 0.02% to 0.22%.
  - Assets in CDFI credit unions grew from \$150 million to \$55 billion, increasing their share of all credit union assets from 0.1% to 4.6%.



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## Financial services for low-mod households

- Low cost / no cost transaction services
- Financial counseling & education
- Bilingual services
- Small dollar loans
- Check cashing, international remittances, money orders



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## How do CDFI banks and credit unions come into being?

- Startups
- Mergers & Acquisitions
- Organic



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