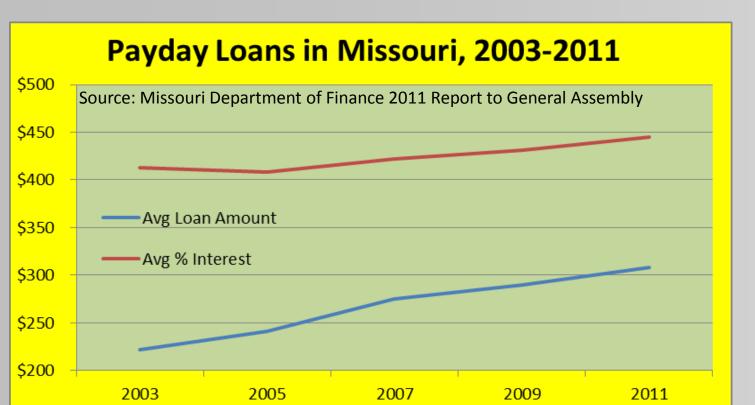


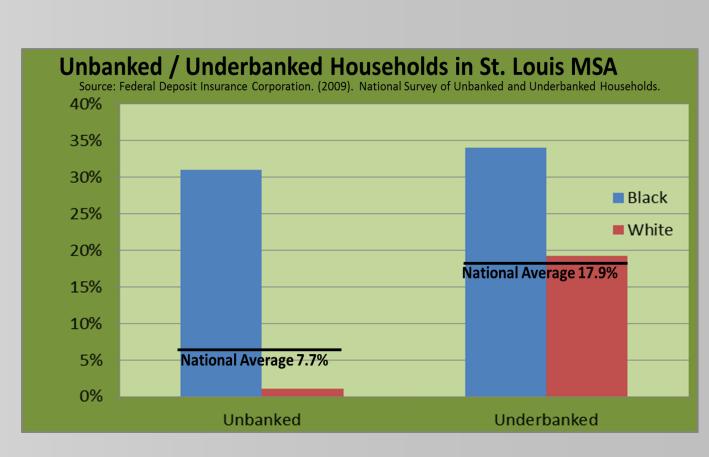
The Use of Financial Products and Services in Low Income African-American Communities





Timothy Hower, MS; Krista Chalise, MSW; Peter Hovmand; PhD; Social System Design Lab, Washington University in St. Louis Yvonne S. Sparks, MPA; Daniel Davis, MSW; Federal Reserve Bank of St. Louis

The FDIC's report on the nation's unbanked and under banked households exposed that African Americans in St. Louis are 4.4 times more likely to be unbanked than in the rest of the country. Nationally 60 million adults do not have a financial provider or rely on alternative financial providers. The cost of credit is higher in poor communities, which further exacerbates the gap between wealthy and poor. Developing a better understanding of the causal factors underlying household economic security is crucial to effectively help low



income and minority populations achieve long-term economic security. **Alternative Financing Trap** The cost of credit accumulates, making it difficult to make ends meet (R6), which leads individuals into a vicious cycle of renewing loans (R7) and seeking additional payday loans to pay off current Number of ones. (R8) branches Legistlators pushing for Customers of payday loans learn from experience regulation $\left(B1 \right)$ (B6), but are caught in a set of vicious cycles (R6, Profitability of Regulation of branches R7, R8) payday loans Citizen pressure R9 against regulation • Pressure on customers prevents reform (R9) Meeting Qualifications Revenue performance for payday Pressure to sign petitions Reputation of pawn and payday lenders Use of payday **Access to Credit Products** Revenue Products or items Fail outright ♣ B5 with institution Creating sticky Declining opportunity to relationships qualify for credit card or Put out for bad Ability to Not disclosing R5 loan from bank makes it Renew checks make ends existence of other loans increasingly difficult to payday loans Fees make ends meet (R5) B2 Disputes over **R**7 (R8) History of Need for cash leads to use Bank credit Emergency bounced products of payday loans, which **Understanding of** checks R6)

Need for

history

Banking Competition and Revenue

 Increased competition leads to more branches, less profitability of branches and more acquisition of banks that reduces competition (B1)

Number of

banks in

Acquisition of

banks

Family history

of banking

literacy

procedures, policies,

and fees

B3

 Meanwhile, acquisition of banks reduces loyalty to banks which reduces revenue and leads to even more acquisitions (R1)

Bank - Customer Relationships

- Banks' desire to create sticky relationships through more products and services leads to less understanding, more disputes, fewer customers and decreased revenue from bank credit products (B2 Red Arrows)
- Likewise, a decrease in customers also leads to a decrease in revenue from fees from bounced checks (B3)

Banking & Employment

Multiple payday

loans

Size payday

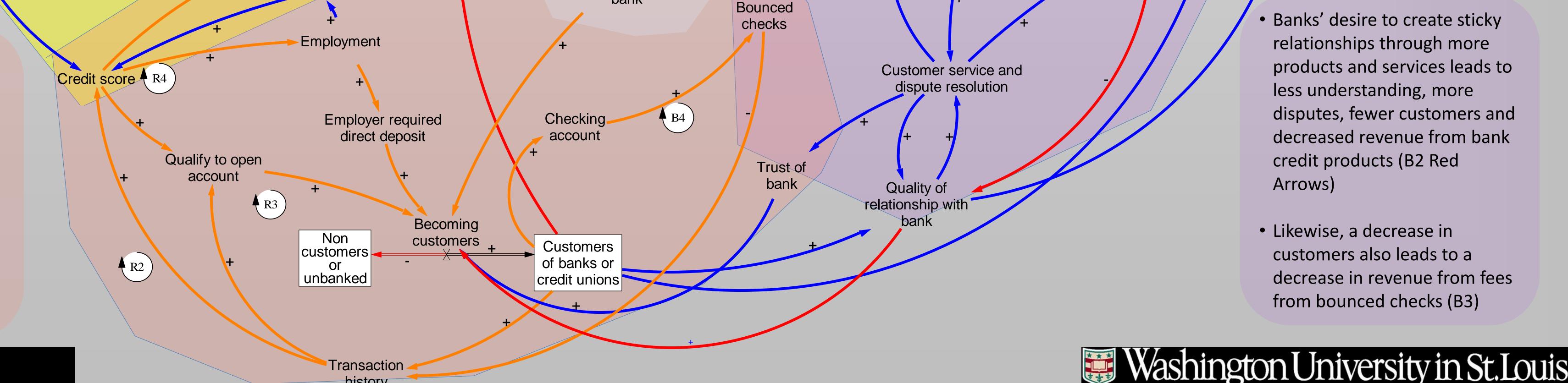
increases in the short term

the ability to make ends

meet (B5)

- Becoming a customer of bank or credit unit may improve transaction history, which leads to improved credit score and qualifications to open accounts (R2, R3)
- But as customers open accounts, there are more bounced checks, which hurts their transaction history and credit score (B4)
- Some customers may become unbanked, but employers increasingly require direct deposits and use credit scores in hiring decisions, creating a downward spiral (R4)

Social System Design Lab



Opportunity to

qualify for credit

card or loan from

bank