BANKING, CHANGE, AND POWER

50 YEARS OF US FINANCIAL SERVICES, WHAT HAS SHAPED THE INDUSTRY, AND HOW TO CAPTURE EQUITY

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This report was part of a larger effort with the Rockefeller Foundation to apply equity metrics to emerging markets, a follow on project from a report by two of us: Inclusive Economy Indicators: Framework & Indicator Recommendations (Benner and Pastor 2016). While the direction of that body of work changed, we found that the information in this report was still useful to community partners. As a result, in the summer of 2021, we are releasing it as a back-dated working paper.

Introduction

The U.S. retail financial services market is no stranger to innovation, for better or for worse. Wondering what innovations in this market look like? Consider adjustable-rate mortgages, the Community Reinvestment Act, payday loans, mobile banking technology, and the like. New services result from the shifting power between financial services providers, government regulators, and consumers—power dynamics help to explain how and where to intervene in the market. It also suggests that lower-income communities of color have to have a strategy for building power in order have a seat at the table that is equal to that which is held by the banking industry and government. Indeed, it is only when there has been power behind community-based innovations that these innovations have become widespread and have shifted the market.

The U.S. retail financial services sector includes a wide-range of services, including micro-credit, loan products with low annual percentage rates and extended payback periods, low- or no-down payment mortgages, community land trusts, even check cashing and pay-day lending services. Our focus is on a sub-sector of the broader financial services sector, namely retail services primarily for individuals and households, encompassing traditional banking (e.g. checking, savings, mortgages, etc.) and alternative financial services (e.g., cash checkers, payday loans, etc.). The record on equity, though, is somewhat uneven. Some innovative financial products were clearly part of predatory lending schemes, but other similar products are, arguably, services needed in poorly served communities, and the higher fees can be seen as an outcome associated with reasonable costs of doing business in risky markets. The use of other products (e.g. adjustable rate mortgages with low initial rates) might be reasonable products for low-income consumers in some contexts, but also puts them at greater risk and thus vulnerable to economic downturns. But how did we get to these and other financial services products?

A few major pushes have come on the side of equitable inclusion over the past few decades. In the 1970s, a groundswell of organizing community support resulted in, among other policy changes, the Home Mortgage Disclosure Act (1975) which helped make data on mortgage lending more transparent and the Community Reinvestment Act (1977) which was designed to reduce discriminatory credit practices against low-income and minority neighborhoods. Both shifted the power dynamic between banks and consumers – and resulted in greater loan availability for Black and Brown prospective homebuyers. The 1994 Riegle Community Development and Regulatory Improvement Act created the Community Development Financial Institutions (CDFI) Fund of the U.S. Treasury which has led to the proliferation of CDFIs. Despite bi-partisan support, the CDFI Fund has experienced ebbs and flows in support depending on the Presidential Administration, an important power player. CDFIs provide an array of retail financial products in lower-income, underserved areas. A final example, the CARD Act of 2009, which has cracked down on predatory credit card services, is leading to new practices in the credit card industry.

On the side of exclusion, decades of deregulation has resulted in innovations that have preyed on or excluded Black, Brown, and lower-income consumers and weakened the entire economy. The 1990s were particularly punitive and culminated in the passage of the Gramm-Leach-Bliley Act of 1999 – the "Financial Modernization Act"— a landmark event that codified the roll-back of Great Depression Era protections. Cash checkers, pawn shops, payday lending and – perhaps most famously – subprime home mortgage lending became normal retail financial services. These innovations have had a cancerous effect on the broader economy. While the mortgage meltdown is probably the most infamous impact, there are also more subtle consequences of exclusionary practices such as families not being able to succeed in adjacent markets, like education, health, home purchases, and small business formation.

Power shapes the financial services industry. The key to understanding this industry is therefore to ask who is holding power and how is it being wielded? Retail financial services are the fruit of that power, and lately that bittersweet fruit has been more bitter than sweet. However, there is reason to believe that we might turn a corner: the extreme inequalities in our financial services market matched with a changing regulatory environment and new technology is resulting in potentially promising innovations. However, it will take forces for equity to ensure that these innovations are inclusive and that they will be taken to scale–which means building, accessing, and using power. The bank lobby is incredibly powerful and it will take a groundswell to match that lobby's might (Broaddus, Jr. 1985; Dreier 2003a).

Within this context we offer indicators for financial inclusion. We were able to aggregate indicators from across several indicator projects for financial equity. However, it should be noted that these indicators are making measurements of an imperfect financial services market without critique. For example, having a transaction account at a traditional bank—perhaps the most common indicator of financial equity—might actually be riskier for a low-income person than using a cash checker, within our current market dynamic (Servon 2017). We offer other caveats and those indicators that help shed light on the U.S. retail financial services market, although not every indicator we found. We also offer some original indicators that were not included in the existing indicator projects—particularly around democracy, civic engagement, and regulatory systems.

This is a sector fraught with complications but also one intimately woven across other sectors and markets in the U.S. The ability to save is connected with sending a child to school or accessing a home loan. The integrity of the mortgage market directly affects how soundness retirement investments. As such the equity of the financial services market will impact the equity of the broader U.S. economy. We start this exploration with some baseline data. Without further ado, the research.

What Does the Quantitative Data Show?

To provide some anchor points for the story we will lay out, the following are a few key data points to indicate the state of the U.S. retail financial services market through quantitative data. This data is pulled from FSG's "*MSI Case Studies: U.S. Financial Services Market*" (2016). Figure 1 shows that over time, more households now have bank accounts, more low-income households now have mortgages or home-equity loans, and more banks are now lending in distressed neighborhoods. By these measures, there have been at least some modest improvements, though it is important to keep in mind that some of these indicators may mask predatory products, like sub-prime mortgages.

Figure 1: Changes in the U.S. retail financial services market

	1980	2016
Households in the bottom income quintile with bank accounts	Less than 56%	79%
Households in the bottom income quintile with a mortgage or home-equity loan	8%	13%
Mainstream bank lending to distressed neighborhoods	Avoided; perceived as high-risk	Nearly fivefold increase in loans between 1996 and 2015

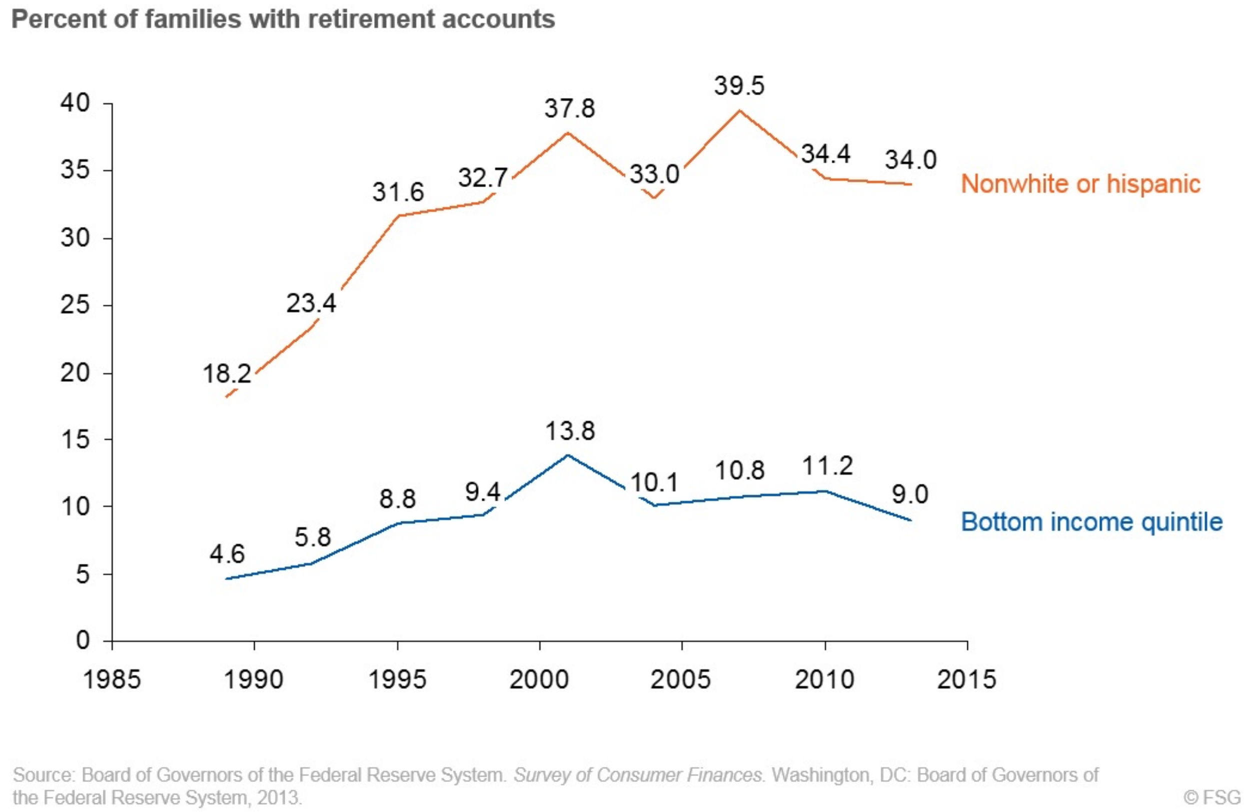
Source: FSG (2016:slide 3, 60)

Race and ethnicity matter when it comes to financial inclusion. Non-Hispanic whites are more likely to have checking accounts, retirement accounts, and other financial assets (31 percent) compared to African Americans and Latinos. In fact, while 80 percent of Non-Hispanic whites have checking accounts, that number is 60 percent for Latinos and only 55 percent for African Americans. The numbers for holding a retirement account show a similar trend, with Non-Hispanic Whites far ahead at 58 percent, Latinos at 28 percent, and African Americans at 32 percent. Finally, while 31 percent of Non-Hispanic Whites hold financial assets in the others category, this number is only 9 percent and 6 percent for African Americans and Latinos respectively (Tippett et al. 2014). This is part of a broader legacy of exclusion: Benjamin and colleagues (2004) outline how African Americans, in particular, were historically excluded from traditional financial services.

The Great Recession also plays a prominent role in the story of financial inclusion. For example, Figure 2 shows that while the share of families with retirement accounts increased in the 1990s and early 2000s, this share dipped and then leveled off following the Great Recession. This growth was experienced by people of color, overall, as well as those in the bottom income quintile. What about mortgages? In the early 1990s, just under 40 percent of families had a mortgage or home-equity loan. That share rose to a height of 46.3 percent before plummeting to just over 40 percent after the sub-prime mortgage crisis (FSG 2016:slide 19)[1]. This retrenchment of progress nuances the picture sketched in Figure 1.

[1] FSG data results on: Board of Governors of the Federal Reserve System. *Survey of Consumer Finances.* Washington, DC: Board of Governors of the Federal Reserve System, 2013.

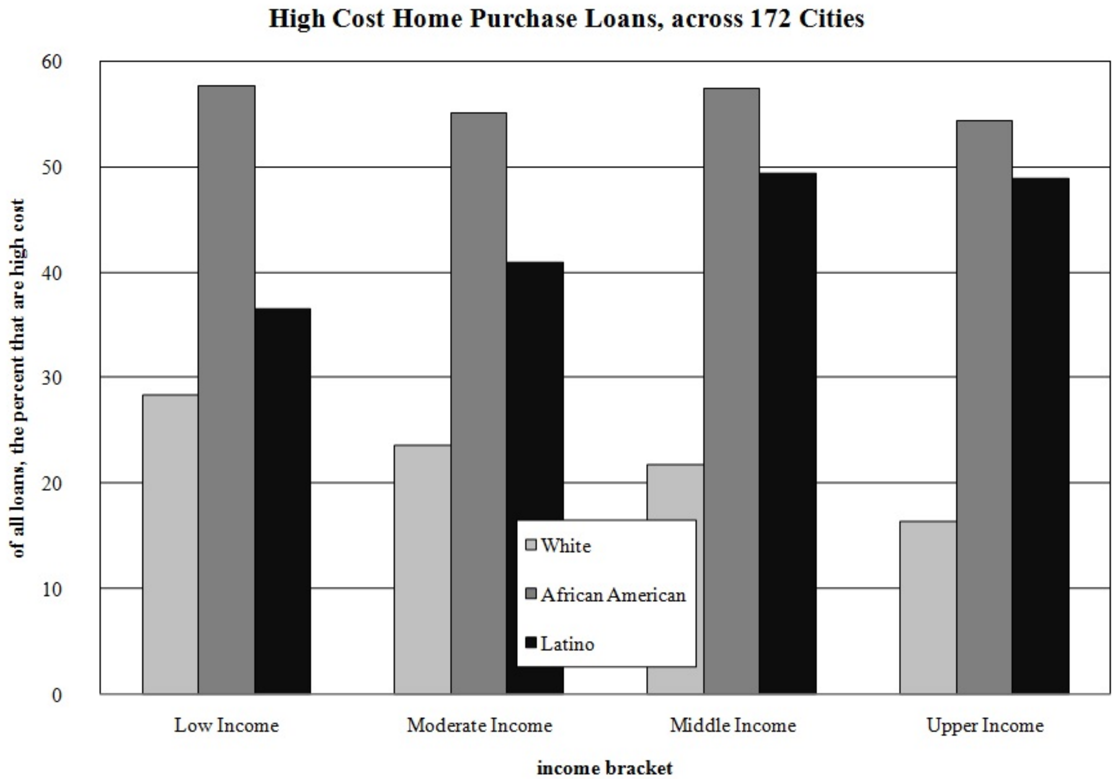
Figure 2: Retirement accounts, 1985-2015



Source: FSG (2016:slide 40)

Of course, over this same time period, the subprime mortgage market was ballooning due to financial innovations that included some in an adverse way. By 2006, about two-thirds of subprime borrowers could have qualified for conventional mortgages based on their credit scores (Servon and Davies 2017). This had its sharpest impact on people of color: According to national research by ACORN, African Americans and Latinos were more than 2.7 and 2.3 times more likely, respectively, to have a high-cost loan than whites (2007:2). "What is even more interesting: when that data is disaggregated into income bands, the discrepancy in loan issuance by race is greatest in the wealthiest bracket" (Pastor, Ortiz, and Carter 2013:320), as seen in Figure 3 below, which is based on 2006 HMDA data.

Figure 3: Mortgage Loans by Race/Ethnicity



Source: Pastor, Ortiz, and Carter (2013:320)

As a result, in the wake of the financial meltdown, communities of color and lower-income people have taken the longest to recover. For example, comparing white and black families, "during the 2009–2011 period, ... the typical white family's losses slowed to zero, while the typical black family lost an additional 13 percent of its wealth" (Burd-Sharps and Rasch 2015:2). The story of racial inequality in general and in the financial services market in particular is not a new one, but what we hope this research highlights is how the structure of the financial services market itself needs rethinking in order to create a more inclusive economy.

Framing for Inclusive Economies

Projects, Policy, Power

An effective lens for understanding innovations in the U.S. retail financial services market is the *project, policies, and power* triplet (Pastor, Benner, and Matsuoka 2009). *Projects* are individual innovations, like a community development financial institution. For example, South Shore Bank in Chicago was a bank with a mission to ensure affordable mortgages and business loans in its local, lower-income neighborhood. Other projects might include new forms of mobile banking or subprime lending schemes. *Policies* make projects widespread. The 1994 Riegle Act created the CDFI Fund of the U.S. Treasury which supports CDFIs. Other policies affecting the U.S. financial services market include the Community Reinvestment Act of 1977 and the 1986 Tax Reform Act.

Power is required to move policies into place. The academic literature on U.S. financial services is filled with projects (e.g., Christopher 2015) and policies (e.g., Broaddus, Jr. 1985; Sherman 2009 on deregulation) to change the financial system but rarely do those literatures articulate how power is built and accessed to move these policies into place. For example, presidential candidate Bill Clinton championed Community Development Financial Institutions (CDFIs) based on his experience with South Shore Bank - an experience which led to the Riegle Act passing in 1994. When President Bush came into office, however, “federal support for the CDFI Fund [began] diminishing rapidly” (Benjamin et al. 2004:192). President Clinton was the source of power that took CDFIs to scale, but because his power came from an elected office, that support did not endure.

Despite this example, power need not only come from an elected office. Banks and their lobbies are incredibly powerful and have removed regulations (*policy*) that have made the market less equitable—as we will show below. On the side of inclusion, community-based organizing builds community power for financial reform and equity (powell and Rogers 2013; Squires 2003b). The research here builds on over a decade of research in which we have sought to understand how to build power towards equity. Our research has shown that social movements are a pre-eminent way to build and sustain community-based power across issues and eras (Pastor et al. 2009; Pastor and Ortiz 2009). Unlike the bank lobbies that derive power from wealth, community-based organizing requires patience, skill, and an ecosystem of support (Pastor and Ortiz 2009). Leading voices in this field are calling for a more robust social movement for financial equity and health (Goehl 2017; Servon 2017).

Adverse Incorporation

Another important analytical frame for this research is “adverse incorporation.” Adverse incorporation provides the foundation for a broader understanding of inclusion. Exclusion alone, or what the development literature calls “social exclusion,” does not adequately explain the complex conditions that contribute to chronic poverty – underlying social, racial and power dynamics operating at the intersection of capitalism and state formation (Hickey and du Toit 2007; du Toit 2004). While eliminating social exclusion is important, adverse incorporation acknowledges how oppression can happen in the midst of inclusion. It demands a broader definition of equity that “extends from eliminating discriminatory exclusion (a), to actively intervening in creating more equitable markets, services and spaces (b), as well as to guaranteeing human rights (c)” (McGranahan, Schensul, and Singh 2016:17).

du Toit (2004) offers a useful example from South Africa. He contends that despite emancipation, the paternalistic legacy of slavery and colonialism did not vanish from the agricultural sector in Ceres, South Africa. Instead, it became embedded in the sectors institutions and practices as black workers remained dependent on white landowners. As globalization ramped up, so did competition, risk, and barriers to entry into the market. Business owners adjusted by shifting to non-permanent workers and untethering housing and other benefits from work, leaving workers in the same vulnerable position, even as they were formally “included” in the market. Poverty and inequality proceeded with economic growth because the industry never adequately addressed the underlying racial and power inequities that were left over from the past. Here, it is not exclusion that creates inequity, but the ways in which workers are adversely incorporated.

Social exclusion and adverse inclusion are distinct but overlapping concepts (Hickey and du Toit 2007). They are important concepts for the U.S. financial services market because sometimes exclusion is at play (e.g., Can everyone access a bank account? A mortgage loan?) but sometimes adverse incorporation is at play (e.g., Are homebuyers being given the best loan or the loans with the most profits for the lender?). Adverse incorporation helpfully highlights the importance of relationships between those with and without power, exploitation and subordination, agency, and the political economy more than does the concept of social exclusion. Policy wise, this implicates "changes to [the] structure and working of [the] political economy and property regimes (e.g., global regulation of capital; asset redistribution)," that go beyond pure equal access (Hickey and du Toit 2007:6). As the following research will show, such a frame is useful in the U.S. financial services market.

The History and Context of the Retail Financial Services Market

The following are illustrations of the interplay between projects, policies, and power in the U.S. retail financial services market that highlight the dynamics around market innovation. We split our analysis into two buckets—inclusion and adverse incorporation/exclusion—and provide examples within each dynamic. These are only examples and do not include the entire breadth of innovation in the market over the past several decades.

Inclusion

<u>The Community Reinvestment Act</u>

The Community Reinvestment Act (CRA) of 1977 remains landmark legislation because of the way it came into being and the elegance of the legislation, itself. National People's Action (NPA) coordinated grassroots mobilizations of everyday residents who simply wanted access to loans to purchase a home. Through the process of organizing and meeting with banks, residents discovered the practice of "redlining"—literally drawing a red line around areas where banks refused to make loans. The protracted fight – which included research, policy, and training from the National Training and Information Center (NTIC)—resulted in high-quality legislation, community ownership of the CRA, and a fundamental shift in power towards everyday residents. (Goehl 2017; Squires 2003b)

The CRA does not give community organizations power, per se – rather it creates a leverage point for the community to impact banking practices. CRA legislation encouraged banks to lend in "the local communities in which they are chartered" lest community-based stakeholders slow up their applications "to open a new branch, merge or purchase another institution, increase their depository insurance, or to make almost any other significant change in their business practices" (Squires 2003a:10). By having a legal point of intervention, community-based organizations can exercise power and bring integrity to the law.

Community based efforts also contributed to the 1975 Home Mortgage Disclosure Act (HMDA) which collects lending data by census tract and helps to establish evidence for discriminatory practices. "The CRA and the HMDA are both the result and the vehicle of community-based efforts to combat redlining and other discriminatory bank lending practices"

(Schwartz 1998:270). More than $1 trillion in private investment has been poured into urban neighborhoods (Dreier 2003b:342) at the same time that African Americans and Latinos are posting higher homeownership rates, specifically since 1977 (JCHS 2002). Between 1996 and 2015, mainstream banks have increased their community development loans by nearly fivefold (FSG 2016:slide 60).

Mobilization around the CRA remains the pre-eminent case study in this sector. It is an example of how community mobilization can result in a shift in power, excellent legislation, and community buy-in (Goehl 2017; Squires 2003b). The groundswell of community support—the power that pushed the CRA into being—has been integral to the ongoing success and implementation of the CRA.

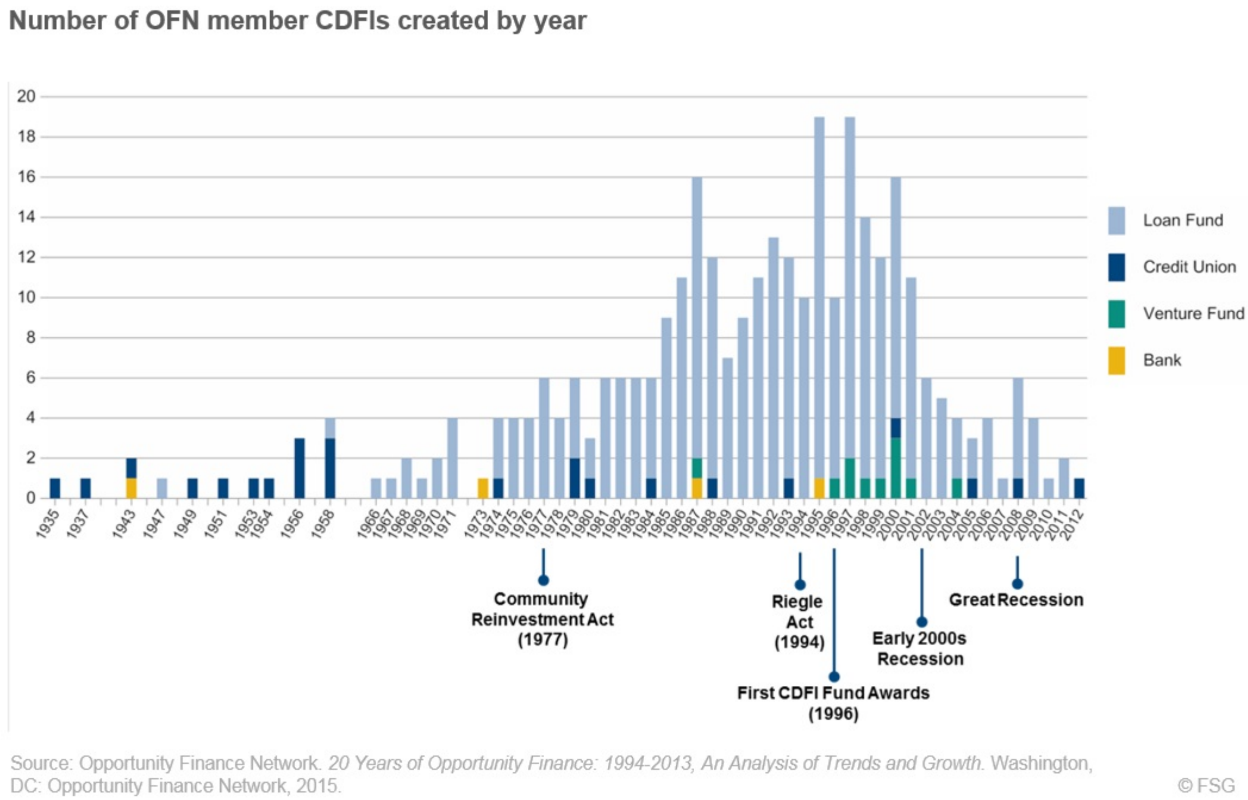
<u>Community Development Financial Institutions (CDFIs)</u>

CDFIs support financial health in lower-income communities – responding to a need for "basic financial services; affordable credit for home purchase, rehabilitation, and maintenance; and loan and equity capital for business development" that might otherwise be fulfilled by pawnshops, cash checkers, etc. (Benjamin et al. 2004:177). As already noted, South Shore Bank in Chicago is one clear innovation in this market (a *project*). It was founded in 1973 and offered both depository and lending services. The National Federation of Community Development Credit Unions was formed in 1974, a subset of work under the CDFI umbrella. CDFIs, as the sector was eventually named, offer a vast range of financial services including basic banking services, financial counseling, single and multi-family housing financing, affordable housing loans, small business loans, equity capital, community development venture capital funds, and micro-loans (Benjamin et al. 2004). Individual community development financial institutions, in their various forms, were important in modeling the possibility of financial institutions focused specifically on community development and serving underserved populations.

The Riegle Community Development and Regulatory Improvement Act of 1994 created Federal support for CDFIs, which started to be recognized as a sector, at that time. The CDFI Fund certifies organizations and provides capital to regulated banks and thrifts (Benjamin et al. 2004). Support for CDFIs has correlated with the Office of the President: growing under President Clinton, slightly diminishing under President Bush, and once again increasing with President Obama (Benjamin et al. 2004; Greenblatt 2014; Swack, Hangen, and Northrup 2014; Wingren 2014). Despite generally enjoying bipartisan support, and strong growth, the Trump administration is proposing to eliminate the CDFI Fund (Myers 2017; Swack et al. 2014; Wingren 2014).

What has this action looked like in terms of outputs (*projects*)? Figure 4 quantifies the growth and decline of CDFIs as an institution, with a bump in institutions after the Riegle Act, and a decline during the Bush era and after the Great Recession. According to research by FSG (2016:slide 53), the cumulative impact of CDFIs through 2015 include: $35 billion in loans and investments, 120,000 small businesses supported, 1.5 million units of affordable housing built, 721,000 jobs created or retained, and $259 billion in equity investments facilitated for New Market Tax Credits.

Figure 4: CDFI establishments, 1935-2012



Source: FSG (2016:slide 52)

<u>New Market Tax Credits</u>

New Market Tax Credits (NMTC) were created by the Community Renewal Tax Relief Act of 2000 to generate additional capital for economic development projects in low-income communities often overlooked by traditional financing (Abravanel et al. 2013; IRS 2010; Lambie-Hanson 2008; New Market Tax Credit Coalition 2017). Despite the booming economy of the 1990s, traditional forms of capital (i.e., venture capital) was not making its way to some of the areas where investment was needed most (Roberts 2006). The program is seen as an innovative solution appealing to business-oriented decision makers, urban and rural stakeholders, and more progressive and centrist players because of who and how it targets investment (Roberts 2006). The solution was extra enticing because it brought together the private sector and local government, using tax incentives as a way to encourage investment in a decentralized yet targeted way, leaving accountability to fall locally – all of which appealed to both Democrats and Republicans (Roberts 2006).

Support for NMTC has remained relatively consistent since being enacted under President Clinton. Despite some questions about the program’s success, NMTCs have received bipartisan support under President Bush, and again under President Obama; so much so, that President Obama proposed the program become permanently funded in his FY 2017 budget (Roberts 2006; U.S. Department of the Treasury 2016). At the end of FY 2016, “for every $1 invested by the Federal government, the NMTC Program generates over $8 of private investment." Additionally, since 2003, it is estimated to have created or retained 275,000 jobs and supported the construction of 178 million square feet of manufacturing, office and retail space (CDFI Fund 2016). Its impact has been profound, and has received support from community and economic development networks as well as municipalities. However, the program is in danger, as the current administration's proposed budget includes drastic cuts to the CDFI Fund, which puts the future of NMTC in jeopardy (Dovey 2017; Shear and Steinhauer 2017).

CARD Act/Dodd-Frank/CFPB

The current work towards inclusion has come on the heels of decades of deregulation, a growing need to adjust the regulatory environment to new financial realities, and the Great Recession. The most recent regulatory changes (*policy*) have come in the form of the Credit Card Accountability Responsibility and Disclosure (CARD) Act of 2009 and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 which created the Consumer Financial Protection Bureau (CFPB). The CARD Act has cracked down on predatory credit card services and is leading to new innovations in the credit card industry which we note below. The CFPB has saved consumers billions of dollars and, for example, has been a key player in responding to the 2017 Wells Fargo scandal (Servon and Davies 2017) and other consumer concerns.[2] It is the only financial regulatory body dedicated to protecting consumers.[3]

How have these innovations entered the marketplace, after decades of deregulation? As usual, there were a variety of forces. To a certain extent, the economic meltdown created political will for change (later exemplified through Occupy Wall Street) that politicians like Elizabeth Warren and organizations like National People's Action (NPA) and Americans for Financial Reform (AFR) and others had been working towards for some time (Goehl 2017). NPA and AFR collaborated to move Dodd-Frank and the CFPB into place. For NPA, this meant working on the public narrative—particularly changing the narrative that was scapegoating the CRA—so as to get the message correct and show the public's anger. It also coordinated the "Showdown in Chicago:" On October 27th, 2009, an estimated 5000 people hailing from 20 states marched for financial reform as a counterpoint to the American Bankers Association convention in Chicago (NPA 2009; Pastor et al. 2013:326–27). Echo events held by Americans for Financial Reform took place in Boston, MA, Orlando, FL, Cincinnati, OH, Wilmington, DE, Indianapolis, IN, Lansing MI, and Missoula MT (AFR 2009). Furthermore, between 2004 and 2010, AFR, Center for Financial Services Innovation, and other consumer financial protection advocacy organizations were founded (FSG 2016:slide 6).

While Dodd-Frank passed in 2010, the victory is different from that of the CRA. Though some of the players were the same, namely NPA, the Dodd-Frank fight was not as protracted and

[2] Consumer complaints categories in 2015 and 2016 included, by share of total complaints: debt collection (about one-third of complaints), credit reporting (about one-fifth of complaints), mortgage (about one-fifth of complaints), bank account or services (about one-tenth of complaints), credit card (about one-tenth of complaints), consumer loan, student loan, and payday loan, prepaid, money transfer, and other. (CFPB 2017)

[3] The other financial regulatory bodies are the Federal Depository Insurance Corporation (FDIC), the Federal Reserve, the Office of the Comptroller of Currency, and the Office of Thrift Supervision.

NPA executive director George Goehl argues that there is not the same level of ownership around issues like the CFPB as the CRA (Goehl 2017). So, the CFPB is more vulnerable. Obama and Elizabeth Warren, among others, were champions in moving this legislation (Zywicki 2013), but their power has been transferred to a new administration that is prioritizing dismantling Dodd-Frank and the CFPB.

Adverse Inclusion and Exclusion

> *In the four decades following the Great Depression, few changes were made to the regulatory framework. However, in the next three decades, technological advances, as well as shifts in ideology and political power, would all help to transform the system of financial regulation in America.* (Sherman 2009:4–5)

While there have been important moments of inclusion in the financial services market, the past few decades have been marked by deregulation. In short, the government has allowed the financial services industry to operate with fewer and fewer checks on their practice or power (Broaddus, Jr. 1985; Sherman 2009). Here, we identify those broader trends, their impacts on the economy, and the adverse incorporation of the U.S. financial services markets -- that is, how some have rationally turned from traditional banking to non-traditional, high-cost financial services.

Thrift Banking, Inflation, and Interest Rates

Financial services innovation in the 70s and 80s reflected a stark shift towards deregulation of the banking industry. Inflation played an important role, creating pressure to raise interest rates. Interest rates had been capped, nationally, until in 1978, *Marquette National Bank v. First of Omaha Service Corp* effectively allowed credit card companies to raise interest rates and late fees as they pleased. In 1980 under President Carter, Depository Institutions Deregulation and Monetary Control Act (DIDMCA) "removed interest rate ceilings on deposits, which removed the interest rate advantage that thrifts had held over banks. The Garn-St. Germain Act was intended to benefit the thrift industry specifically, but in doing so, it allowed these firms to enter into new financial territory with new risks" (Sherman 2009:7). Indeed, in the 1980s, the risky investments of thrifts – undertaken to keep them competitive – failed, as did the industry's deposit insurance fund (FSLIC) in 1987. "After all the dust had settled, the savings and loan crisis was estimated to cost taxpayers around $210 billion, with the thrift industry itself providing another $50 billion" (Sherman 2009:8).

Underlying the innovations that caused and came with deregulation was a prevailing ethos against government intervention, backed by power. Sherman's article "A Short History of Financial Deregulation in the United States" gives hints at the dynamics under the surface, making note of political details like: 'At a time when "Reaganomics" dominated the public consciousness, regulators were urged to avoid intervention and use forbearance in private markets' (2009:7) despite the fact that the crisis was "undoubtedly a failure of public policy"

(2009:8). The Republican Party held considerable power in this time – Ford, Reagan, and Bush held the presidency between 1974 and 1993 (excepting a 4-year hiatus by Democrat, Jimmy Carter). So while there were very real structural issues that the financial services market was facing (namely inflation), the retrenchment of regulation resulted in market innovations that ended up tanking entire sectors.

<u>Deregulatory Innovations</u>

New innovations around mortgage loans, securities, and more were enabled by the ongoing press towards deregulation. Glass-Steagall, the regulatory response to the Great Depression, was officially rolled back through the Gramm-Leach-Bliley Financial Modernization Act in 1999, but in reality it was a codification of new practices that had been allowed for banks to innovate for some time, particularly in the securities, derivatives, and home loan market (*projects*) for at least the prior decade. (Sherman 2009)

Glass Steagall (a *policy*) represents the sort of regulation that was intended to keep financial innovations equitable – something that ran counter to the power of the Federal Reserve Chairman, Alan Greenspan, and many others "in government [who] shared the free market ideology of deregulation" (Sherman 2009:9). Banks started pushing against Glass-Steagall as early as the 1960s because of some, perhaps real, concerns about remaining competitive. In 1986, the Fed began chipping away at Glass Steagall, allowing banks to "derive up to 5 percent of gross revenues in investment banking business" (Sherman 2009:9) – remember that Glass Steagall kept investment and commercial banking separate—minimizing risky behavior. In this period the innovations were towards new forms of hybrid banking (*projects*).

Key Terms

Securities: A security refers to any form of tradeable financial instrument with value -- such as stock, bonds, or other forms of debt or contracts

Derivatives: A derivative refers to a contract between two or more parties that links the value of an underlying asset to a current or future valuation amount, providing a level of certainty for parties in the face of potential changes in the market or the performance of the asset

Credit Default Swaps:
Credit Default Swaps are essentially insurance contracts an investor can enter (for a fee or "premium") with a third party to guarantee their principal investment with a firm/entity in the event of a default by that firm/entity

In 1987, Alan Greenspan began his three decade long tenure as "outspoken advocate of deregulation" (Sherman 2009:9) and continued to chip away at Glass-Steagall. By 1996, the Federal Reserve began "allowing bank holding companies to own investment banking operations that accounted for as much as 25 percent of their revenues. The decision rendered Glass-Steagall effectively obsolete" (Sherman 2009:9). In 1999, millions of dollars of lobbying (read, *power*) paid off and the Gramm-Leach-Bliley Act (a *policy*) codified de-regulatory practice that the Fed had slowly been putting into place. In 2000, the day after SCOTUS made a determination about the Bush-Gore election, Congress quickly and quietly passed the Commodity Futures Financial Modernization that limited oversight on derivatives and, in turn, led to a blossoming of derivatives trading (read, innovations in the market).

How does all this piece together in terms of innovations and equity? To continue summarizing Sherman (2009), the first mortgage-backed security was created in 1970. The mortgage market began to evolve in the 1980s: “The Alternative Mortgage Transactions Parity Act of 1982 lifted restrictions against classes of mortgage loans with exotic features, such as adjustable-rate and interest-only mortgages” (2009:12). Mortgage lenders began to target “lower-income, higher-risk borrowers with lower credit ratings” (2009:12) to the extent that by 2006, about two-thirds of subprime borrowers could have qualified for conventional mortgages based on their credit scores (Servon and Davies 2017). Through the 1990s and up to the Great Recession, “the loose monetary policy, combined with the new forms of mortgage lending and securitized trading, allowed a housing bubble that had begun in the mid-90s to expand” (2009:13). At the same time, the largely “self-regulated” derivatives market looked to profit off the mortgage market. In sum:

> *There was enormous opportunity for profit with house prices at bubble-inflated prices, and the mortgage industry found creative ways to expand lending. Complex financial instruments were labeled as safe, while their underlying mortgage assets could be shoddy. All the while, government regulators took a hands-off approach to the activities of private actors. The system was highly vulnerable, and the inevitable collapse would have ramifications for the broader economy.” (Sherman 2009:13)*

At the same time, banking became less connected to neighborhoods and innovated with new forms of consolidated, mega-banking. The “passage of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, … eliminated previous restrictions on interstate banking and branching. Between 1990 and 1998, the number of banking institutions decreased by 27 percent as banks continued to merge” (Sherman 2009:9; drawing on Heiney 2009). With the Gramm-Leach Bliley Act (1999), banks were given the go-ahead to bring banking, securities, and insurance all under one roof, creating difficulty for regulators.

Deregulation has led to the accumulation of power by some and the breakdown in trust between bankers and their clientele. Lisa Servon in *The Unbanking of America* (2017) argues that deregulation allowed banks to consolidate, moving their decision-makers farther geographically, and further, relationally, from their clients. Banking institutions started looking for short-term profits, rather than long-term financial health. Lisa Servon recounts how as a child, their family would visit the neighborhood bank, and how the tellers knew her name, and the banker lived in their neighborhood—a professional alongside other professionals. Servon explains that in the earlier days, bankers would simply take care of overdraft fees, for example, rather than slapping a fine on their consumer (who was also, likely, their neighbor) (Servon and Davies 2017). To quote one of her interviewees: “consumer finance got to be about tricking people—getting them to engage in behavior that’s not in their interest” (Servon 2017:36). Innovations came in the form of finding new ways to make profits off clients.

As a result, non-traditional banking services like payday lenders, cash checkers, pawn shops, and so on have found a toe-hold in the U.S. retail financial services market. The bulk of financial equity literature sees these services as purely predatory–they do charge higher fees and clientele can get into serious financial fixes if things get out of control (Servon and Davies 2017). While these services do come at a cost, Servon (2017) argues that in comparison to the practices of traditional banking, non-traditional banking services, like cash checkers, are a better choice because of cost, transparency, and service. After all, they are local in a way that traditional banks no longer are: customers and tellers know each other, and customers–who are usually low-income–tip their tellers. Customers also know the costs and do not have to worry about hidden costs or accidentally triggering fees. So, while these non-traditional financial services are not ideal, they are a stopgap innovation in the face of the predatory traditional U.S. financial services market. Consumers are not excluded, in this case, but adversely incorporated in a harmful system.

Stalled CRA Implementation

After the CRA passed in 1977, deregulation swung into full force. Almost as a blip in the midst of deregulation, along with the support given to CDFIs, the CRA was finally strengthened in the mid-90s. "Federal regulators revised the CRA in 1995 so that banks were judged more on their actual lending and investment performance in low-income and minority communities than on their marketing and outreach efforts in these areas. The changes contributed to a sharp growth in lending in these communities" (Benjamin et al. 2004:178 drawing on; Belsky, Schill, and Yezer 2001) – in this case, a policy change led to market innovation. No too long after, the CRA was weakened through the Gramm-Leach-Bliley Act (1999), with Citigroup giving no small amount of money to both Democrats and Republicans to that end (Lee 2003).

Since its passage in 1977, shifts in the financial services market and the regulatory environment has left the CRA in need of modernization. Bank consolidation into larger institutions has shrunken credit markets and decreased use of cash all while financial uncertainty, especially among those most vulnerable low income communities, has risen (Seidman 2009; Servon 2017:48). Alternative financial services (check cashers, pay day lenders, etc.) have become one solution (Seidman 2009).

CRA modernizations needs to take into account two main principles: fairness and transparency (Seidman 2009). To this end, the definition of "essential" services for low and middle income families' full participation in the changing economy needs to be revised to include products and services that are used widely by the general public, today – including types of transactions, credit, savings and investments, and insurance. Modernization should include:

- Consumer protection at the heart of any innovations
- Updated public reporting standards
- Compliance and enforcement with locally and federally layered consequences
- Exploration of a "starter" financial product's effect on equitable outcomes
- Sequencing the implementation of any new regulatory frameworks, beginning with the most difficult segments of the markets first (i.e., credit)

- Evaluation by outside entities

There is no doubt about the power and good that has been brought about because of the passage of the CRA. But as time wears on, and the financial services sector changes, the CRA needs to be modernized to ensure equity. (Seidman 2009)

The Future of Financial Services

A variety of factors may affect the U.S. retail financial services market, moving forward. Here we detail a few of note.

International Capital Flows

The US trade deficit has incentivized investment in U.S. securities by countries or regions with trade surpluses, especially China. In 2006,[4] foreign investors accumulated $3 trillion in corporate bonds and over $2 trillion in treasury bonds (Bardhan and Jaffee 2017). More specifically, "Asian investors hold 32 percent of US Treasuries, 13 percent of Agency bonds, and 6 percent of Agency" Mortgage Backed Securities (MBS) (Bardhan and Jaffee 2017:7). Asian security holdings have been on the rise for the better part of the last two decades, outpacing European investor holdings (Bardhan and Jaffee 2017). Their increased share of securities can have profound impacts on the economy, depending on what actions are taken. Potential market instabilities can include changing prices, interest rates, or exchange rates (Bardhan and Jaffee 2017).

An example of potential supply-side impacts comes from Asian investment in U.S. residential housing. From 2010 to 2015, Chinese buyers invested $93 billion and $17.1 billion in U.S. residential and commercial property, respectively (Hsu 2016; Rosen et al. 2016; Sheng 2017). According to the National Association of Realtors assessment of 2015-2016 data, the plurality of foreign residential investors are from Asian countries (34 percent) (Yun, Hale, and Cororaton 2016). The influx of cash is having an impact on housing markets—an adjacent market to the U.S. retail financial services market—in some areas contributing to the rise in prices and fall in housing supply in an already tough market (McCullen 2016). Moreover, foreign buyers are now competing in middle-income housing markets, not just high-end homes (McCullen 2016; Yun et al. 2016), causing increased concern about local—not to mention first-time—homebuyers being priced out of the housing market (McCullen 2016).

The future of foreign investment is undetermined but what is clear is that when banking services remove themselves from local interests, they become less equitable. It is the CRA, CDFIs, and, even, non-traditional banking services that are closest to consumers and have trust in those neighborhoods – not global investors.

Fintech

Financial technology—or *fintech*—is taking advantage of the market inefficiencies that

[4] While these data are somewhat dated, the most recently released data from the Federal Reserve, according to the authors.

have disproportionately impacted low income and other disadvantaged groups to create innovations that serve the increasingly financially unstable consumer base (Servon 2017:48, 144). These needs parallel the loss of trust in financial institutions and the increasing use of mobile devices to manage money (Servon 2017:146). Fintech is prominent in the literature with some arguing that it is the potential answer to inequality (Christopher 2015). However, there is a relative lack of regulatory clarity (Council of Economic Advisers 2016), and Paulina Gonzalez of the California Reinvestment Coalition reflected to us that there is not a clear plan for how to ensure that mobile banking, one aspect of fintech, will be kept equitable (Gonzalez 2017).

Creative destruction – as innovators have called it – is leading the re-imagination of the financial service sector, propelled by advancements in technology, changes to consumer behavior, regulations, and differences in institutional culture (Servon 2017:143, 146, 148). Changes in the regulatory environment are also creating opportunities for innovation. New regulations have had a nuanced impact, leading to traditional banks moving resources from lending to compliance, away from innovation and riskier portfolios, further complicating access to credit and loans, and pushing subprime consumers to more expensive forms of borrowing (Servon 2017:146–47).

With the traditional financial service sector hesitant to innovate, others are pushing the envelope and incorporating new tools grounded in behavioral economics and a desire to do well by consumers (Servon 2017:148–49). Here is a round-up of some market innovations:

- **Redefining Risk Assessment:** Traditional credit rating formats rate consumers at an instant in time instead of over a period of time. Pushing risk assessments to also include assets and income instead of just liabilities has the potential to expand access to cheaper forms of credit for borrowers who traditionally were unable to because of how credit scores (i.e., FICO) are currently calculated. (Servon 2017:151–52)
- **Eliminating Institutional Inefficiencies in Transactions and Liquidity:** Existing institutional infrastructure does not facilitate a free flow of transactions or liquidity of assets in a timely manner. Advancements in technology have increased demand for instantaneity, something ventures such as Ripple are looking to tackle by creating a system where assets like money and property can be transmitted at no cost, in no time. (Servon 2017:152)
- **Creation of Targeted Credit Card Opportunities:** Taking advantage of the impact the CARD Act[5] has on the credit market, Fenway Summer focuses on providing credit to subprime consumers. They specialize in the small dollar lending-subprime market which allows them to compete with pay day lenders, and create the Build credit card, whose terms and process is upfront and transparent. (Servon 2017:155–57)
- **Commitment to Trust and Relationship Building through Access to Capital:** Breaking the traditional mold by putting community development in the center of its

[5] The CARD Act placed limitations on the practices of credit card holders, including banning "a range of deceptive practices that had become common" like increasing interest rates retroactively. It is known as the "credit card holders' bill of rights" and some call it the most important credit card legislation to ever pass (Servon 2017:72).

work, Keybank reoriented its banking business to focus on building trust with its consumers. They offer check cashing and other alternative services, at a time when other banks are moving away from their provision. They have also developed more expansive individualized data profiles which allows their customers to access a special small-dollar revolving loan fund for which they would otherwise not qualify. (Servon 2017:159–60)

- **Formalizing and Securing Existing Community Savings Practices:** Mission Asset Fund (MAF) looks at their community's current savings practices and seeks to formalize and integrate greater security into those processes. To strengthen lending circles, MAF created a Lending Circles Program that, for example, ensures the credit history documented through the program benefits consumers' credit scoring. (Servon 2017:161–62)

Financial Justice

The City of San Francisco recently created a Financial Justice Project in order to better understand the impact city-levied fines and fees have on vulnerable residents (Dalmas 2017; Loudenback 2017; Office of the Treasurer & Tax Collector 2017; Smiley 2017). The focus on fees, fines, and tickets is relevant because of how municipalities have used these mechanisms to raise revenue and balance budgets often at the expense of the poor – the investigation of the Ferguson Police Department prompted national attention to this practice (Stuhldreher and Brown 2017; Taylor 2016; Treasurer & Tax Collector 2017; United States Department of Justice 2015). Recall the massive community mobilization in Ferguson through which the power of the people was on display. Given the high level of economic uncertainty and residents' increasing difficulty to pay penalties, levying these fees and fines can deepen poverty and criminalize those who cannot pay (Stuhldreher and Brown 2017).

After an extensive study, the Financial Justice Project found that the impacts of these penalties disproportionately fell on African Americans – 45 percent of those arrested for "failure to appear/pay" a traffic court warrant were African American; the Black population in San Francisco is less than 6 percent. The report's conclusions included proposals for reforming several fine and fee areas within the city. Some of those areas included proposals to alter bail practices, driver's license suspensions, quality of life citations, transportation fines/fees, child support debt and the overall ability of residents to pay. The underlying goal of the movement towards financial justice is to infuse racial equity into fee and fine structures—another adjacent market of the U.S. financial services market. (Stuhldreher and Brown 2017) But it took the community outcry in Ferguson, Missouri, to elevate the seriousness of fees and fines—and it will require community-based pressure for municipalities like San Francisco to continue to implement financial justice practices.

Conclusions

NPA Director, George Goehl, argues that by the 1990s, there was not enough community-based power to stop deregulation. While it is true that Bill Clinton supported CDFI's and CRA implementation, massive deregulation proceeded under his watch. In the 1970s, community-based organizations fighting for financial equity contested even Democrats if the bill was bad. By the 1990s, the infrastructure for financial equity—well-funded community-based, power-building organizations, think tanks, research organizations, etc.—was not there to hold politicians and power accountable (Goehl 2017). And by the time Graham-Bliley-Leach was voted on, most people did not still know what that CRA was any more (Lee 2003). As a result, those in power proceeded with deregulation that resulted in a financial meltdown an increase in inequity throughout our entire economy.

Social movements can uniquely hold powerful entities accountable in the long-term. Immediately after reviewing financial innovations and as a conclusion to her research, Servon (2017) calls for a movement for financial health. Some of the authors of this paper have evaluated the state of the movement for financial equity in *Breaking the bank/(Re)Making the bank: America's financial crisis and the implications for sustainable advocacy for fair credit and fair banking* (Pastor et al. 2013). In it we looked at how robust the movement for financial equity is, using the following framework:

- A clear vision or frame: a vision and a frame, an authentic base in key constituencies, a commitment to the long-haul,
- A solid membership base: an underlying and viable economic model, a vision of government and governance, a scaffold of solid research, a pragmatic policy package, and
- A commitment to be in it for the long-haul: a recognition of the need for scale, a strategy for scaling up, a willingness to network with other movements.

A framework like this is useful in assessing the strengths and weaknesses of the current movement for U.S. financial equity. It is not meant to be constraining, but rather evaluative for all parties involved, from funders to organizers to policy wonks to tech-based innovators.

Finally, all of this is not to say that technical solutions do not matter – market innovations (*projects*) can help to create an inclusive economy. Rather, we are overemphasizing the importance of organizing and power, since it is typically underemphasized and, more importantly, under-resourced work. We are taking seriously Paulina Gonzalez's caution that innovations may be promising, but that the infrastructure must be in place to ensure that their processes and outcomes are ultimately inclusive.

Equity Indicators

In the dynamic field of the U.S. financial services market, measuring the inclusivity of the current system can help to clarify the work ahead. What share of residents are excluded from traditional banking services? What share of residents are experiencing adverse incorporation in the non-traditional banking system? How easily can residents engage in the civic process and affect the structure of the market? The tension, here, is measuring the outcomes of the market while understanding that the market itself, not just individual behavior, needs to be shifted.

Luckily, others have already laid a good foundation for measuring the inclusivity of this market. The following analysis of indicators draws on these indicator projects:

- The 2016 Brookings Financial and Digital Inclusion Project Report Advancing Equitable Financial Ecosystems (Villasenor, West, and Lewis 2016)
- G20 Financial Inclusion Indicators (Global Partnership for Financial Inclusion 2016)
- Organization for Economic Co-operation and Development Toolkit for Measuring Financial Literacy and Financial Inclusion, 2015 (Organization for Economic Co-operation and Development 2015)
- Financial Inclusion Data/Global Findex (Demirguc-Kunt et al. 2015)[6]
- FSG's MSI Case Studies: U.S. Financial Services Market (FSG 2016)

In what follows we asses and build on these indicator projects. We also include insights from two reports: "Council of Economic Advisers' Financial Inclusion in the United States" (Council of Economic Advisers 2016) and "Achieving the Sustainable Development Goals: The Role of Financial Inclusion" (Klapper, El-Zoghbi, and Hess 2016). While the report by the Council of Economic Advisors (2016) is not an indicator project, it is specifically about the U.S. and tracks a range of financial inclusion indicators. As such, it was helpful in that it allowed us to cull indicators from the report. Klapper and colleagues (2016) is included because it highlights the intersection of financial services and sustainable development – and sustainability was a sub-category that we found was a bit weak among the indicator projects. Specifically, it highlights the role of financial inclusion in adjacent markets—efficient water, sanitation, and energy infrastructure and food security—though this intersection is most applicable in countries with less developed infrastructure than the U.S.

After culling together the indicators, we categorized them within 5 inclusive economy categories—equitable, participatory, growing, sustainable, and stable—developed in our prior work (Benner and Pastor 2016). The tables presented below offer highlights from the indicator projects. With just over 175 indicators, we chose to highlight indicators that were repeated across indicator projects, that were unique and useful, or that were the only indicators in a category. The indicators mostly focus on individuals and their access to traditional and non-traditional financial services. However, much of the literature around financial equity identifies the system or market itself as where reformers should look. As a result, we recommend additional indicators to capture

[6] The Global Findex includes hundreds of indicators. Rather than use specific indicators, we started by using the major categories of indicators, of which there were 55, and pulled a few especially good detailed indicators into the master list. For example, we pulled the "Credit depth of information index" indicator because it had not shown up in other indicator projects (as did, say, possession of a bank account) and captured a valuable aspect of the financial services market.

systemic health and community participation.

We also make notes along the way with regard to how indicators can be interpreted. For instance, increased use of check cashers and pay-day lenders is usually seen in a negative light. But Lisa Servon (2017) convincingly argues that for some consumers, check cashers and pay-day lenders are an imperfect but rational choice over traditional banking institutions. The root problem is a self-interested traditional banking system—something that is hard to capture through indicators and the reason that an understanding of the history of financial inclusion is necessary. The indicators are as follows:

Equitable

Sub-category	**Sample Indicators**	**Reflections**
A. Upward Mobility	•Intergenerational Income mobility (Organization for Economic Co-operation and Development 2015) •Saving propensity (Global Partnership for Financial Inclusion 2016) •[Lack of] credit barrier for small and medium enterprise (Global Partnership for Financial Inclusion 2016)	
B. Reduction of Inequality	•Share banked/underbanked •Stopped using payday loans •Algorithm-based loan determinations (Council of Economic Advisers 2016)	Possession of transaction accounts is one of the most common indicators for financial equity. These are just a few of many indicators, with many repeated across indicator projects.
C. Equal Access to Public Goods & Ecosystem of Services	•Availability of bill payments via mobile money services (Villasenor et al. 2016) •Adults using digital payments (Global Partnership for Financial Inclusion 2016) •High frequency account usage •Credit depth of information index (Demirguc-Kunt et al. 2015, detailed)	These are just a few of many indicators, with many repeated across indicator projects.

** Many indicators could be classified as fitting in all three sub-categories simultaneously, and many of the indicators are not discrete.*

Disaggregating Data by Race/Ethnicity and More

Disaggregating the data by different socio-economic characteristics is salient for the "equitable" category. For example, the Council on Economic Advisors (2016) uses the following categories to disaggregate data: household income, educational attainment, race/ethnicity, geography, and urban/rural. The Organization for Economic Co-operation and Development (2015) disaggregates by gender, region, and urban/rural. Klapper and colleagues (2016) in their assessment of the intersection of financial services and sustainable development goals highlight the importance of financial services to farmers—in rural places—where services might be far from their customers. We recommend disaggregating by "immigrant status," as well (Pastor, Ortiz, and López 2018).

The U.S. financial services market has been one of the primary reasons why there is economic inequity in the U.S. Redlining and racialized housing covenants locked many non-white and lower-income prospective homebuyers out of the market (Callahan 2013; Goehl 2017; Sides 2006:106) and credit unions initially served African Americans who were locked out of other markets (Benjamin et al. 2004; drawing on Isbister 1994). So, disaggregating data by socio-economic status – but race/ethnicity, in particular – will help track how our nation is doing at repairing former (and ongoing) acts of systemic racism.[7]

Transactions Accounts

The Council of Economic Advisors offers the following data points for why traditional banking is preferred to non-traditional services:

- "The unbanked pay anywhere from 1 to 5 percent in fees to cash a check...At an annual salary of $22,000 (the average for unbanked households), such fees can total over $1,000 a year in extra costs for unbanked households." (2016:2)
- "Unbanked and underbanked households also face additional costs due to their reliance on other, non-mainstream financial services, such as payday loans (used by roughly 5 percent of households in 2013) and auto title loans (used by roughly 0.6 percent of households in 2013), among other forms of so-called small dollar credit. These products' costs can be quite substantial--anywhere from $10 to $30 in extra costs per $100 borrowed in the case of payday loans." (2016:2)

As such, having a transaction account could result in greater equity—and having a transaction account is perhaps the most common indicator of financial equity among the existing financial inclusion indicator projects. However, Lisa Servon (2017) nuances things, noting that those who use non-traditional financial institutions (e.g., pawn shops, cash checkers, payday lenders, etc.) do so for rational reasons: for transparency, cost, and service. As noted earlier, traditional financial institutions have consolidated services and power, prioritized making profits off of consumers, broken trust, and retreated from customer service. The indicator "having a transaction account" should be understood within the context of an imperfect, and sometimes adversely inclusive, retail financial services market.

Adjacent Market: Access to Capital for Small Businesses

The G20 indicator project included some measures of small business viability. Disaggregating those indicators by socio-economic status markers could help us understand another aspect of the financial services market that is currently underemphasized among the extant indicators (Global Partnership for Financial Inclusion 2016). For small business owners

[7] For quantitative evidence of the enduring legacy of systemic racism in the U.S., see the National Equity Atlas (http://nationalequityatlas.org/) which shows the correlation between race/ethnicity and unequal outcomes across a variety of indicators.

and, in particular, minority and women owned businesses, access to capital is one of the key constraints that can inhibit growth and success for ventures (Barr 2015).

Most firms depend on a diverse base of funding to start and sustain businesses – ranging from government grants, venture funds, loans or family and friends (Wiens and Bell-Masterson 2015). Of these funds, the most widely used source to help start businesses are resources from friends and family (Barr 2015; Wiens and Bell-Masterson 2015). The assumption is that friends and family have the internal capital (relationships, advice, and financial resources) to be able to effectively assist with the creation of new ventures. For disadvantaged communities, this may not be the case – especially when talking about the financial wherewithal necessary to be an early investor in business (Barr 2015; De La Cruz-Viesca et al. 2016).

These inequities also extend to capital from traditional financial institutions, like bank loans (Barr 2015). Communities of color have historically been disadvantaged when it comes to accessing these forms of capital whether through market inefficiencies or discriminatory lending practices (Jacobs 1970; Servon 2017:65–68, 144). When minority business borrowers seek out loans, they are less likely to receive approval than their non-minority peers (Barr 2015; Fairlie and Robb 2010). The types of ventures (i.e., retail) and the geographic location of minority and women owned businesses contribute to increased notions of risk and perceived lower returns on investments, both disincentives for would be investors (Barr 2015; Fairlie and Robb 2010; Servon 2017:146–47).

Recommended Indicators

Based on the history and power struggle that underlies the U.S. retail financial services market, we recommend the following additional indicators. They focus on who holds the power, the role of policies, and the role of government in ensuring an equitable financial services market.

- Implementation of financial equity policies (Mariano 2003; Squires 2003b)
- Strong regulatory framework (inspired by Broaddus, Jr. 1985; Sherman 2009:10)
- Independent oversight (Pastor et al. 2013)
- Effective regulatory interventions (Campbell et al. 2011)

Participatory

Sub-category	**Sample Indicators**	**Reflections**
D. People are able to access and participate in markets as workers, consumers, and business owners	•Formal financial institution account penetration among lower-income adults (Villasenor et al. 2016) •Commercial bank branches per 100K adults (Demirguc-	An excess of indicators, with many repeated across indicator projects. Overlap with sub-categories B and C.

	Kunt et al. 2015, detailed) •New business density (new registrations per 1,000 people ages 15-64) (Benner and Pastor 2016 drawing on other work)	
E. Market transparency and information symmetry	•Existence of a consumer protection framework regarding financial services (Villasenor et al. 2016) •Disclosure Requirements (Global Partnership for Financial Inclusion 2016, drawing on other work) •Dispute Resolution (Global Partnership for Financial Inclusion 2016, drawing on other work) •Credit depth of information index (Demirguc-Kunt et al. 2015, detailed) •Strength of Legal Rights Index (Demirguc-Kunt et al. 2015, detailed)	Indicators are discrete but few. Based on Servon (2017) there needs to be considerably more work done in this area and the existing indicators do not capture the shifts towards better cost, transparency, and service that she recommends.
F. Widespread technology infrastructure for the betterment of all	•Adults using digital payments (Global Partnership for Financial Inclusion 2016) •Algorithm-based loan determinations (Council of Economic Advisers 2016; ambiguous) •Digital literacy (Council of Economic Advisers 2016)	Almost exclusively about mobile banking technology, though this category may change with the rise of Fintech (Council of Economic Advisers 2016).

Adjacent Markets

The U.S. retail financial services market is integral to sub-category D, that people are able to access and participate in markets as workers, consumers, and business owners, particularly when it comes to adjacent markets. Financial inclusion can make it possible to participate in other markets like farming/agriculture, medical insurance, education, water and sanitation, and industrialization (Klapper et al. 2016). Saving towards education is particularly salient in the U.S. context.

Recommended Indicators

The noticeable gap in this category is participation in terms of voice and accountability. The CRA was created, passed, and implemented because of community participation in the democratic process, as with Dodd-Frank to a small extent. Another story of the importance of community participation and voice: In the San Francisco Bay Area, residents discovered that First Republic Bank was financing mortgages that would result in evictions at 13 buildings. Residents came to the California Reinvestment Coalition (CRC) who found out that First Republic was using these mortgages towards their CRA obligations. CRC helped to arrange a meeting with the bank, but it was through community protest in front of the bank headquarters that residents were able to get it to not only stop lending towards evictions but to help community-based organizations to buy these properties and keep tenants in their homes. (CRC n.d.; Gonzalez 2017).

We recommend the following indicators to help capture the vibrancy of civic life, civic engagement, and the democratic process with regards to the U.S. retail financial services market:

- The balance of power between the financial services industry and community organizations which might be captured through dollars spent on bank lobbying, CRA-based denials of bank applications (Squires 2003b:10), and the age and sophistication of membership-based organizations for financial equity (Pastor et al. 2013)
- Democracy score (see Taylor and Silver 2003)
- The level of power-building in community organizations (see Squires 2002; Pastor and Ortiz 2009)
- Policies passed into law with significant grassroots engagement
- National-level, non-profit organizations for financial inclusion (which are needed to match the might and scale of the U.S. financial services market)

The ability of residents to have a stronger say in their future through greater influence or regulatory control over U.S. financial services market is needed. The existing indicator projects do not include this capacity.

Growing

Sub-category	**Sample Indicators**	**Reflections**
G. Increasing good job and work opportunity	•Mobile phone used to receive salary or wages (among recent wage-earners) (Villasenor et al. 2016) •Direct Deposit (an increased use of DD by government programs) (Council of Economic Advisers 2016; Klapper et al. 2016) •Without main source of household income, how long could [one] continue without borrowing money or moving? (Organization for Economic Co-operation and Development 2015)	A few indicators that are not a great fit.
H. Improving material well-being	•Funds directed to CDFI (Council of Economic Advisers 2016) •Internet Affordability (Council of Economic Advisers 2016)	As this indicator is about non-income related measures, it is not very robust for the financial services market. We have only two indicators,

		which we do not think are a great fit.
I. Economic transformation for the betterment of all	•Existence of a national financial inclusion strategy (Villasenor et al. 2016) •Existence of quantifiable financial inclusion targets (Villasenor et al. 2016) •Financial Knowledge •Trust of banks (Council of Economic Advisers 2016) •Fintech access (Council of Economic Advisers 2016) •Algorithm-based loan determinations (Council of Economic Advisers 2016)	Best sub-category to capture government strategic planning and the possibilities that may come with fintech/mobile banking.

It is not exactly clear how to apply "Growing" in this market, as also noted by FSG (2016). In their report, they considered growing as related to ways that financial services could tap into larger economic trends rather than focusing on the financial services market *per say*. FSG identified three challenges: inability to trace direct causality, challenges in gathering impact metrics, and multiple factors affecting long-term growth. Their metrics went on to measure increases in wealth and income. Among the existing indicators we examined, the match-up with the inclusive economies sub-categories G, H, and I was not clear cut.

Innovations within the market could potentially fit under sub-category I, "Economic transformation for the betterment of all." For example, the CARD Act opened up new small-dollar, sub-prime, lending markets that companies like Fenway Summer are now occupying. In this way, bans, limitations, and regulations (*policy*) could fit into sub-category "I" because they may spin off new innovations (*projects*). The convergence of technology, regulatory changes, and adverse incorporation has led to innovative "growth" in the market, but clear plans for equity are needed (Gonzalez 2017) and all of this could change under the current presidential administration that is targeting Dodd-Frank and the CFPB.

Sustainable

Sub-category	**Sample indicators**	**Reflections**
J. Social and economic well-being is increasingly sustained over time	•Enough savings to cover an unexpected expense (Council of Economic Advisers 2016) •Financial Resilience (Demirguc-Kunt et al. 2015) •Started saving on behalf of a child (Organization for Economic Co-operation and Development 2015) •Inflation, consumer prices (annual %) (Demirguc-Kunt et al. 2015, detailed)	J could include some indicators that are not a perfect fit. There are some indicators like "Existence of a national financial inclusion strategy," "small and medium business access to credit," or "trust of banks" that have to do with sustainability, but do not fit the category as it is currently described. Currently only four indicators are included but they are not all a great fit with this category.

K. Greater investments in environmental health and reduced natural resource usage	•None	K is not a relevant category with regards to existing indicators. Findex has some measurement of farm insurance and agricultural payments, but no assurance of sustainability.
L. Decision-making processes incorporate long-term costs	•None	As defined (focusing on environmental costs), L is not relevant to existing indicators. However, if the focus was less on the environment and more on financial sustainability, some indicators would fit (e.g., access to credit, financial behavior, retirement savings, rain/drought insurance for farmers, medical insurance, etc.).

In general, metrics of inclusion for the U.S. retail financial services market do not fit very well within the "sustainable" category. Many of the indicators in sub-category J are a stretch and fit better in the "stable" category. Potentially, indicators of a strong regulatory system could fit in "L" if the category is redefined. Perhaps part of this is too narrow of a focus on what "sustainable" means; Klapper and colleagues (2016) argue that good financial services support adjacent markets that are the mainstay of economies and communities.

Recommended Indicators: Limits, bans, and regulations

Indicator projects did not include bans, limitations, or regulations on predatory financial products. While under the current system, some of these adversely inclusive products may be stop-gap measures (Servon 2017), an ideal financial services market would not include potentially harmful products. If "sustainable" goes beyond environmental concerns, then this category could include indicators related to limiting non-traditional financial services (e.g., cash checkers). An indicator could be geared towards tracking how both traditional and non-traditional financial institutions make money off of their customers.

Adjacent Market: Home Mortgages and Sustainable Development

The structure of mortgage assistance in the U.S. has led to urban sprawl, which has distinct environmental impacts. This could be considered an 'adjacent' market to financial services given how closely tied homes loans (and tax incentives) are to the nature of urban development. The particular combination of federal incentives in the post-World War II period, including interest tax breaks and government-guaranteed loans, were important components of sprawling patterns of urban development (Hersch 2015; Pincetl 1999; Starr 2009).

So, the system of financing and building suburbs not only created white flight, but gobbled up untouched land. In the current period, in places like California, the inability of many prospective homeowners to purchase near their places of employment continues this legacy. For example, many lower-income buyers found affordable property in the ex-urbs (e.g., Riverside and San Bernardino counties, the City of Stockton, etc.) and have massive commutes that are both costly and burdensome on the environment (Pastor, De Lara, and Scoggins 2011). These are thorny problems created by multiple forces, and part of the solution is better financing options.

Stable

Sub-category	**Sample Indicators**	**Reflections**
M. Public and private confidence in the future and ability to predict outcome of economic decisions	•Inflation, consumer prices (annual %) (Demirguc-Kunt et al. 2015, detailed) •Percent of families with stock holdings (FSG 2016) •Regulatory quality indicator (Benner and Pastor 2016 drawing on other work) •Existence of a consumer protection framework regarding financial services (Villasenor et al. 2016)	Indicators fit well in this category.
N. Members of society are able to invest in their future	•IDA availability (FSG 2016) •Enterprises with outstanding loan or line of credit at regulated institution (Global Partnership for Financial Inclusion 2016) •Started saving on behalf of a child (Organization for Economic Co-operation and Development 2015)	Many indicators. Some duplication of indicators across sub-categories, and equitable and participatory indicators show up here, again.
O. Economic resilience to shocks and stresses	•Adults with insurance (Global Partnership for Financial Inclusion 2016) •Coming up with emergency funds (Demirguc-Kunt et al. 2015, detailed) •Enough savings to cover an unexpected expense (Council of Economic Advisers 2016) •Herfindahl-Hirschman Index (Benner and Pastor 2016 drawing on other work) •Dispute Resolution (Global Partnership for Financial Inclusion 2016)	A good array of indicators. Medical and other insurances in adjacent markets could apply, here (Klapper et al. 2016).

The “stable” category is salient for the U.S. financial services market. On the one hand, the indicators from the existing projects fit easily here, and there is a robust set. So, stability is a high value for most people looking at the inclusivity of this market. Moreover, the history of inclusion, exclusion, and adverse incorporation highlights the fleeting nature of financial stability, especially for lower-income people and communities of color.

Recommended Indicators

This category is quite robust as it stands. However, the following two indicators could strengthen the existing set and, once again, point to ensuring that the system is working:

- Appropriate deposit insurance
- Effective warning systems and stress tests

Conclusion: Building Power for Financial and Economic Inclusion

The Great Recession was caused by innovations in the U.S. retail financial services market. So, it is as important to pay attention to innovations that lead to adverse incorporation or exclusion as to those that lead to inclusion. The Great Recession also points to the many adjacent markets impacted by the financial market: many people lost their retirement accounts, their homes, their savings for big purchases, their shot at a job, etc. The inclusivity and equity of the U.S. retail financial services market directly impacts the broader economy.

Moreover, the Recession highlights the importance of paying attention not only to innovations (*projects*) but to policy and to power. The decades of deregulation in the name of "small government" and "free markets" led to unregulated innovations (especially the derivatives market) that took down the entire economy. Much of this deregulation was driven by the power of the Office of the Chairman of the Federal Reserve, the Office of the Secretary of the Treasury, and various Congress members and Senators. Between them and the might of the banking lobby, their power to change policy and make innovations (*projects*) that have led to adverse incorporation legal went mostly unchecked.[8]

Key to creating an equitable U.S. financial services market is building the community power to hold the power of elected officials and the banking industry accountable. While Servon (2017) focuses mainly on policy and market innovations, one of her final conclusions is the need for a movement for financial health. Her conclusion is consistent with ours: innovations are important, but they must have a constituency that will ensure that they are carried out equitably and keep the power of the bankers, lobbyists, and politicians in check. Updating the 2013 report "Breaking the Bank / (Re)Making the Bank: America's Financial Crisis and the Implications for Sustainable Advocacy for Fair Credit and Fair Banking" (Pastor et al. 2013) would be one of several places to start.

[8] Brooksley Born, who chaired the Commodity Futures Trading Commission, warned about the "potential risks of the unregulated market in many derivative instruments" and after being publically and strongly opposed by Federal Reserve Chairman Alan Greenspan, Treasury Secretary Robert Rubin, and Rubin's successor, Lawrence Summers, she was pushed out of office. "Later that year, Greenspan and Rubin issued a report along with Born's successor at CFTC that recommended no regulation on derivatives." (Sherman 2009:10–11; drawing on Faiola, Drew, and Nakashima 2008)

Shaping the U.S. financial services market to be inclusive and support a broader inclusive economy can shape our future. The financial services market reaches into almost every aspect of American life and can set back individuals and families, or propel them forward. As innovative projects and policies develop, we must put in the hard work to keep those innovations equitable. Doing so will help to craft a brighter future for lower-income residents, communities of color, and the nation.

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