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Changing Banking Habits in Low-income Communities

Val A. Kaba

Bowling Green State University, vkaba@bgsu.edu

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By Val A Kaba

Abstract.
This paper examines how the current practices within the banking industry have helped influence banking habits within low-income communities. Using existing research data that studied low-income communities' current banking habits, the growth in check-cashing businesses, and current banking industry practices, this article suggests that changes in the banking industry practices are vital to help promote better banking habits within low-income communities. The impact of such changes will reduce unnecessary financial costs while generating savings that can help these communities build additional cash reserves. The findings show that with the support of banking industry leaders, government regulations, and philanthropic community revitalization efforts, these changes will create more inclusive products and services.
Keywords: low-income communities, banking industry, check-cashing businesses, social responsibility, community revitalization.

> "All our life, so far as it has definite form, is but a mass of habits."
> —William James

The habits we create could have significant implications for our well-being. The banking habits within low-income communities consume valuable resources that could be used to pay for other essential needs for these families. These costs include additional fees for services like check-cashing, utility bill payments, and cash advance servicing, to name a few. One may ask why these habits exist and whether they can be broken or changed. Who are the key players directly or indirectly promoting these banking habits, and can we advocate for more fair practices for these players? While the blame frequently falls on the families within these low-income communities, the current banking industry has played its role in influencing these unhealthy banking habits for low-income communities.

Banking Habits in Low-Income Communities

The United States Department of Treasury defines a low-income community as a census tract with a poverty rate of at least 20% or a median family income of 80% or less than the area it is benchmarked against (Metropolitan areas for metropolitan tracts, state for rural tracts) (Benzow et al., 2020). In addition, these communities often lack adequate access to resources, including healthcare, good education, recreational facilities, and conventional banking services that provide low-cost everyday banking solutions for families.

Many of the banking needs for families in these communities are the same as middle-class and wealthier customers—for example, access to cash from a paycheck or government check, utility bill payment services, access to lending solutions and emergency funds, the convenience of nearby banking centers with accommodating hours of operation, and access to financial wealth planning advice. Nevertheless, due to the unavailability of conventional banking locations in low-income communities and banks shutting down branches, these communities rely on businesses like check-cashing for their banking needs (Squires & O'Connor, 1998). Even though they can provide most of these services to their customers, check-cashing businesses tend to charge a high upfront fee which they justify by classifying these communities as "higher risk" customers (Squires & O'Connor, 1998). The risk of default on a short-term loan and the chance that a cashed check is unpaid could result in a potential loss for the check-cashing business or the bank.

To meet everyday banking needs, low-income communities typically utilize nontraditional banks, sometimes fringe banks (Squires & O'Connor, 1998). One of the more common businesses these communities use as alternatives to traditional banking is the check-cashing business. Check-cashing businesses offer check-cashing services and provide various financial services and products, including utility bill pay services, remittance, money order sales, payday loans, and tax preparation services. The US Department of the Treasury classifies these businesses as "Money Service Businesses" (MSB). Because these businesses are not considered banks, they typically charge relatively higher fees for their services than traditional banks while providing convenient hours of operation to access their services. Check-cashing businesses are commonly found in city centers and "downtown" residential areas occupied by low-income residents (Squires & O'Connor, 1998). Cashing paychecks, utility bill payments, and payday loans are the three most common banking services in low-income communities. With the absence of traditional banking solutions and because these check-cashing businesses do not accept deposits, these communities more frequently use cash for everyday transactions and payments for other money-related services. Therefore, they tend to be excluded from potential benefits like interest rates and security while keeping money in bank accounts.

Table 1. *Two Hypothetical Banks- Bank A and Bank B*

Bank A—Improved banking practices that promote good banking habits	**Bank B -Standard banking practices that promote bad banking habits**
Offers checking account products to everyone with reasonable ways to avoid fees	Disqualifies credit from opening checking
Offers credit products for those without established credit and provides tools to help establish credit	Disqualifies those without established credit products without providing any tools to help establish credit.
Charges fair and reasonable fees for an overdraft on accounts. It is transparent with information on how to avoid fees	Charges excessive and unfair fees for an overdraft of account, and is not transparent on how to prevent fees
Adopts social responsibility as a value, believes in its broader implications, and helps educate communities on better banking choices	Adopts social responsibility at the minimum levels stated by law only to avoid potential sanctions.
Offers inclusive banking hours of operation, including during weekends and evenings	Offers strict hours of operation—Mon- Fri: 9 am–5 pm.

The Role of the Banking Industry in Influencing Banking Habits

The banking industry has a reputation for designing products, services, and practices that favor wealthy customers. When we look at the banking industry practices around lending, service fees, overdrafts, operating hours, marketing, and account opening process, they have historically excluded most individuals from low-income communities. Most low-income households do not hold a favorable view of banks. Though the banking industry has made changes in their practices to be more inclusive over recent years, there is still so much work left to overcome the impression of being left out for these communities who have been left with no choice but to adopt costly alternative habits.

Existing regulations, like the community reinvestment act (CRA) and fair lending laws, have compelled the banking industry to eliminate discriminatory practices and reinvest in the communities they serve. These acts and laws define audits and examinations while imposing sanctions and penalties for banks that fall below the minimum established requirements. However, most banks could expand their sense of obligation to society when designing and implementing their products and services. Though there has been positive progress in the banking industry around growing social responsibility (Pérez et al., 2012), more intentionally systematic changes are warranted.

Few individual banks within the banking industry have built processes and practices to address specific issues like excessive overdraft fees and discrimination that have helped create bad banking habits for low-income communities (Dlugosz et al., 2021). Changes like lower overdraft fees and more inclusive marketing practices have emerged because of federal penalties imposed on banks for violations of rules under the Federal Trade Commission Act (FTC Act) and Dodd-Frank Act (Samuel, 2021). These acts help reform banking practices considered unfair, deceptive, or abusive, commonly referred to as the UDAAP. These practices often target individuals in minority and low-income communities. While many banking institutions continue designing and promoting bad banking habits within low-income communities, some have begun modeling more inclusive banking designs and practices. *Table 1* compares the practices of hypothetical Bank A to the standard practices of hypothetical Bank B and their impact on promoting good banking habits in low-income communities.

Ways that Banks Can Improve a Community's Banking Habits

With increased awareness of Diversity, Equity, and Inclusion, many corporations increased their philanthropic efforts to help revitalize low-income communities. This collective effort between corporations has emphasized less discrimination related to financial services practices. For example, in the wake of the racial tensions that spread across the U.S. after the death of George Floyd, U.S. corporations pledged over $50 billion to revitalize Black communities (Quiroz-Gutierrez, 2021), which primarily represent low-income communities. In addition, these efforts from some Philanthropic organizations like Catholic Charities and United Way support financial literacy programs for low-income communities, which can be further expanded and leveraged to help create more banking knowledge and awareness around better banking habits.

Five additional ways the banking industry can contribute to more inclusive practices include:

1. Adopting social responsibility as a core value
2. Offering and marketing checking account products to everyone with reasonable ways to avoid monthly service fees
3. Redesigning overdraft products to make them fair and transparent while also providing low-cost options to avoid overdraft fees
4. Offer more inclusive credit products for those without established credit, and
5. Better banking hours of operation.

Implementing one or more changes could help break bad banking habits in low-income communities.

1. **Embed Social Responsibility** in every stage of banks' operations, including product design, marketing, and banking practices. With social responsibility as a core value, a socially responsible bank will demonstrate that it truly values the communities it serves and will invest in ensuring that everyone, especially low-income households, feels encouraged to utilize its services.
2. **Design and market checking account products to everyone** with reasonable ways to avoid monthly service fees. This change would be a good step toward promoting better habits. Creating a checking account solution for low-income families can help provide options to get their paychecks without the additional fees they currently pay at the check-cashing business.
3. **Redesign overdraft products** to make them fair and transparent while also providing low-cost options to avoid overdraft fees. Low-income households are more likely to spend more money than they have available, making it essential for banks to ensure fair and transparent service fees. Also, ensure that low-income families are informed about general ways to avoid such fees. Providing more inclusive short-term borrowing options will help create better habits within low-income families. These changes give incentives to plan more effectively within reasonable financial means. These changes will also discourage using check-cashing businesses and payday loans.
4. **Offer more inclusive credit products** for those without established credit. Given the importance of credit in our society, the banking industry can offer credit-establishing tools that will include low-income communities. Tools like credit education and secure credit cards can help establish credit, providing better borrowing options than payday loans.
5. **Expand banking hours of operation.** More adjusted banking hours could encourage low-income communities to visit a traditional bank more frequently. Due to the nature of their work weeks, members of these communities are more likely to visit the banks during weekends or after regular standard banking hours of 9 am–5 pm as they need checks cashed and utility bills paid. Just by matching their hours to meet the needs of low-income communities, banks could provide a realistic alternative to check-cashing businesses and promote a positive shift in banking habits.

The current practices of the banking industry have led to the rise of higher-cost alternatives like check-cashing businesses, which cost more for low-income communities and leave few choices but to rely on these businesses for their banking needs. The banking industry needs to take full ownership of its social responsibility to these communities. When these communities feel included and have a fair chance to make better banking choices, good banking habits will begin to form, thus helping them save money and build a more vibrant society with happier families, less financial burden, and increased financial knowledge.

Conclusion

The fundamental banking needs of low-income communities are like every other community, including savings, borrowing, investing, checking accounts, and convenience. However, influenced by today's banking industry, these communities often have fewer banking choices than wealthier communities. The current practices of the banking industry have led to the rise of higher-cost alternatives like check-cashing businesses, which cost more for low-income communities and leave few choices but to rely on these businesses for their banking needs. The banking industry needs to take full ownership of its social responsibility to these communities. When these communities feel included and have a fair chance to make better banking choices, good banking habits will begin to form, thus helping them save money and build a more vibrant society with happier families, less financial burden, and increased financial knowledge. These outlined changes could provide additional benefits to the banking industry as low-income communities will avoid the "high risk" classification of bank prospects (Squires & O'Connor, 1998). As a result, a larger market for more profitable traditional bank products like mortgage loans, car loans, savings, and investment products and services could emerge.

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Val Kaba has 16 years of experience in the banking industry, having worked in various roles for five different banking institutions, including bank teller, personal banker, assistant branch manager, financial center manager, and business banker. In his current role, Val works to understand business clients' needs and helps bring unique insights and value to everyday interactions with the businesses he supports. Val is a father, husband, student, banker, soccer coach, and community man. He enjoys working, coaching youth soccer, and serving his community through volunteer programs, including Children's Resource Center, Work Leads to Independence, Bowling Green Soccer Club, and Bowling Green Kiwanis Club.

He is currently enrolled at Bowling Green State University, pursuing his doctorate in Organization Development and Change. He attained his master's degree in business administration (MBA) from the University of Toledo in 2010 and a bachelor's degree (BSc) in Banking and Finance from the University of Buea in Cameroon in 2006.

Val is passionate about exploring ways banking systems can become more inclusive to poor communities. If you are interested in being part of this journey, please reach out to Val at *vkaba@bgsu.edu*.