

**BANKING THE UNBANKED: UNTAPPED MARKET
OPPORTUNITIES FOR NORTH CAROLINA'S
FINANCIAL INSTITUTIONS**

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I. INTRODUCTION¹

In the new economy, it is as important to have access to a basic bank account and financial services as it is to have access to electricity, running water, and a telephone.² This is why policymakers, bankers, and their counsel should be concerned that, despite the longest economic expansion on record and the lowest unemployment rates in a generation, 10% of all American families—including 25% of African-Americans and Hispanics, a quarter of all families with incomes under \$20,000, and nearly half of all families moving from welfare to work—have no bank account. Assuming this same one-of-ten ratio also applies to North Carolina, more than 300,000 Tar Heel families are unbanked.³

Doing a better job of bringing the unbanked into the financial mainstream is important because one's banking status has profound implications for long-term family self-sufficiency. In 1998, for example, the median value of all assets held by unbanked families was just \$2,300, compared with \$136,000 for all banked families.⁴ Lack of savings is particularly important to low- and moderate-income families in general and to unbanked families in

1. I would like to acknowledge the invaluable research assistance of Kelly Cochran.

2. Lawrence H. Summers, Helping Americans To Save More, Remarks at the Choose to Save Forum (April 2, 2000), available at <http://www.treas.gov/press/releases/ps524/htm> (last visited Feb. 2, 2001).

3. FED. RESERVE BD., SURVEY OF CONSUMER FINANCES (1998) at www.federal.reserve.gov/pubs/oss/oss2/98/scf98home.html (last updated Feb. 29, 2000). For a summary of the 1998 survey results, see Arthur B. Kennickell, et. al., *Summary Description of 1998 Survey Results Recent Changes in U.S. Family Finances: Results from 1998 Survey of Consumer Finances*, 86 FED. RES. BULL. 1 (2000).

4. FED. RESERVE BD., *supra* note 3.

particular because they are much less likely than other households to be covered by a retirement plan at work. In 1998, more than nine out of ten (92%) unbanked families were without a retirement account, compared with less than half of banked families (47%).⁵ Indeed, for more than half of the unbanked (54%), their only asset is their car.⁶

In my recent book, *Savings for the Poor*,⁷ I suggest how a cluster of new public policies—most importantly, the federal transition to electronic funds transfer (EFT) or the delivery of government benefits through direct deposit—present new opportunities for financial institutions to better serve unbanked and marginally-banked populations. Because of EFT, the Treasury Department has undertaken several initiatives to stimulate the development of new, low-cost banking products for unbanked federal benefit recipients. As part of this transition, Congress has also required all states to convert their food stamp programs to electronic payment by 2002, using point-of-sale (POS) terminals at participating retailers. And, while not required by law, more than forty states have decided to add their emergency cash assistance programs to the plastic food stamp cards so that welfare benefits will be accessible at ATM and POS networks.

Although the push to convert millions of benefit checks to electronic payments was begun to save the federal government money—as much as \$100 million a year according to one estimate—in my book I argue that EFT is more than an exercise in cost-saving technology transfer. When viewed in the context of a larger policy framework that rewards work, personal responsibility, and encourages the working poor to save, EFT is about financial inclusion and the recognition that “economic opportunity cannot thrive where access is denied.”⁸

In his review of my book, Mr. Joseph Smith argues that while most banks have a profound sense of responsibility for the

5. *Id.*

6. *Id.*

7. MICHAEL A. STEGMAN, *SAVINGS FOR THE POOR: THE HIDDEN BENEFITS OF ELECTRONIC BANKING* (1999).

8. ROBERT E. LITAN & JONATHAN RAUCH, U.S. DEP'T OF TREASURY, *AMERICAN FINANCE FOR THE 21ST CENTURY*, 135 (1997).

communities they serve, they cannot always fulfill their obligations because aggressively serving the poor and near poor “is incompatible with operating their institutions at the most profitable levels of which they are capable.”⁹ While I agree that the economics of better serving marginalized populations are critical, there is strong evidence that significant market opportunities exist for “first-movers” and creative institutions that do not sit back to wait for policy makers to put government programs in place, but rather use technology and strategic alliances to bank the unbanked. Rather than focusing on many of the national policy initiatives discussed in *Savings for the Poor*, I prefer to use this opportunity to apply the arguments in my book specifically to North Carolina and start a conversation with the local banking community about the challenges and opportunities posed by EFT.

This Article is divided into five parts, beginning with a discussion of North Carolina financial services: the decline in the number of commercial banks and thrifts along with significant market concentration by a handful of institutions, the explosive growth in the number of “fringe banks”—most notably check cashing outlets and payday lenders, and the scale of their volume.¹⁰ Next, I link the national policies that are supporting new banking initiatives for the poor to North Carolina, providing, where possible, data and statistics that might be useful to bankers in their business formulations.¹¹ Next, I summarize banking innovations that are useful models for North Carolina financial institutions to consider, emulate, or build upon.¹² In the final section I reaffirm my call for certain refinements in the Community Reinvestment Act (CRA) with which Mr. Smith takes issue—hopefully explaining it more compellingly than I evidently was able to do in my book.¹³

9. Joseph A. Smith, Jr., *Michael A. Stegman, Savings For the Poor: The Hidden Benefits of Electronic Banking: A Review and Response*, 5 N.C. BANKING INST. 1 (2001).

10. *See infra* notes 14-47 and accompanying text.

11. *See infra* notes 48-58 and accompanying text.

12. *See infra* notes 58-90 and accompanying text.

13. *See infra* notes 91-105 and accompanying text.

II. N.C. BANKING: FEWER INSTITUTIONS, MORE BRANCHES, AND GROWING MARKET SHARE

The interplay of the same factors—among them the deregulation of interest rate ceilings in the 1980s, new technology, and growing competition from nondepository institutions—that led to a significant decline in the number of federally insured financial institutions in the United States are causing similar results in North Carolina.¹⁴ The number of commercial banks in North Carolina declined by almost half (48%) since the mid-1960s,¹⁵ while in a much shorter period—from 1986 to 1999—the number of thrifts fell by two-thirds.¹⁶

Also consistent with national trends, the total number of banking offices in North Carolina has doubled since the 1960s,¹⁷ increasing by forty in 1999 alone.¹⁸ This is partly the result of growth by established institutions and partly because North Carolina continues to be fertile ground for *de novo* banks. Thirty-five new banks were chartered in North Carolina during the 1990s,

14. STEGMAN, *supra* note 7. Nationally, the number of federally insured banks and thrifts declined by 43% over the last fifteen years, and the number of credit unions fell by 19% in the 1990s. *Id.* at 2 (citing pre-1999 data); FED. DEPOSIT INS. CORP., STATISTICS ON BANKING, TABLE 103 NUMBER OF OFFICES OF FDIC-INSURED DEPOSITORY INSTITUTIONS, at <http://www2.fdic.gov/hsob> (last visited Feb. 16, 2001) (citing 1999 data and grouping according to class, institution, state and type of office); FED. DEPOSIT INS. CORP., NUMBER OF INSTITUTIONS AND OFFICES BY CHARTER TYPE, FDIC-INSURED SAVINGS INSTITUTIONS, UNITED STATES AND OTHER AREAS, BALANCES AT YEAR END 1984 – 1999, at <http://www2.fdic.gov/hsob> (last visited Feb. 5, 2001) (website provides a link to the table citing Thrift data); FED. DEPOSIT INS. CORP., TABLE RC-11, ASSETS AND LIABILITIES OF FDIC-INSURED SAVINGS INSTITUTIONS, at <http://www.fdic.gov/bank/statistical/statistics/0009/sirc11.html> (last visited Feb. 4, 2001) (citing 2000 data and grouping by asset size and insurance fund membership); Credit Union data on file with author.

15. FED. DEPOSIT INS. CORP., NUMBER OF INSTITUTIONS, BRANCHES AND TOTAL OFFICES, FDIC-INSURED COMMERCIAL BANKS, NORTH CAROLINA BALANCES AT YEAR END, 1966-1999, at <http://www2.fdic.gov/hsob> (last visited Feb. 5, 2001) (website provides a link to the referenced chart) [hereinafter BRANCHES AND TOTAL OFFICES].

16. FED. DEPOSIT INS. CORP., NUMBER OF INSTITUTIONS AND OFFICES BY CHARTER TYPE, FDIC-INSURED SAVINGS INSTITUTIONS, NORTH CAROLINA, BALANCES AT YEAR END, 1984-1999, at <http://www2.fdic.gov/hsob/> (last visited Feb. 5, 2001) (website provides a link to the referenced chart).

17. BRANCHES AND TOTAL OFFICES, *supra* note 15.

18. FED. DEPOSIT INS. CORP., STATISTICS ON BANKING, TABLE 102A, SUMMARY OF CHANGES IN BRANCHES OF FDIC-INSURED DEPOSITORY INSTITUTIONS DEC. 31, 1998 THROUGH DEC. 31, 1999, at <http://www.fdic.gov/bank/statistical/statistics/9912/all102a.html> (last visited Feb. 2, 2001).

reportedly “tops in the nation”.¹⁹ At least two of them—Greenville-based Millenia Community Bank and Pembroke-based Lumbee Guarantee Bank—are targeting under-served populations.²⁰

Nationally, most of the 29% increase in banking offices during the past twenty years has occurred in middle-income areas.²¹ In contrast, the number of branch facilities declined by 21% in low-income neighborhoods.²² Notwithstanding North Carolina’s modest increase in *de novo* community banks, the boom in the fringe banking industry discussed below suggests that there may have been a similar decline in mainstream banking services in low- and moderate-income communities in this state.

In the third quarter of 2000, the eight biggest NC-based banks—each with assets of more than \$1 billion—held more than 98% of all deposits in the state.²³ This is a significantly greater degree of market concentration than exists nationwide, where similarly sized banks hold 80% of total deposits.²⁴ Though it ranks as the nation’s second biggest bank, Bank of America ranks only fifth in the size of its North Carolina branch network, but is first in market share, holding about 22% of all North Carolina-based deposits.²⁵ BB&T, first in branches, is second in market share (15%) followed in order by Wachovia (13%), First Union (11%), and Centura (7%). Central Carolina Bank, which was recently acquired by National Commerce Bancorporation, controls about

19. STEGMAN, *supra* note 7, at 2 (citing 1998 data); Randy Dennis, *The Return of the De Novo (Part III) Final Chapter*, ARK. COMMUNITY BANKER, Summer 1998, at <http://www.acbonline.org/summer98/feature4.htm> (citing 1996 and 1997 data); Ed Martin, *De Novo Banks: Small Cogs Help Turn a Big Economy*, N.C. MAG., Jan. 2000.

20. Catherine Pritchard, *Small Banks a Perfect Fit*, FAYETTEVILLE OBSERVER-TIMES, (Fayetteville, N.C.) May 31, 1998, at D1; Ed Martin, *De Novo Banks: Small Cogs Help Turn a Big Economy*, NORTH CAROLINA, 12

21. STEGMAN, *supra* note 7, at 2.

22. Robert B. Avery, et al., *Changes in the Distribution of Banking Offices*, 83 FED. RES. BULL. 707, 719 (1997).

23. *Number, Assets, and Deposits of FDIC-Insured Commercial Banks, Third Quarter, 2000*, STAT. ON BANKING (Fed. Deposit Ins. Corp., Washington, D.C.), Table 105A, <http://www.fdic.gov/bank/statistical/statistics/0009/cbstru.html> (last updated Dec. 21, 2000).

24. *Id.*

25. Data on file with author.

6% of the North Carolina market.²⁶

Several of the largest Tar Heel banks are leaders in the use of technology to develop alternative delivery channels - five are in the American Banker's top 50 Bank Holding Companies in ATM ownership,²⁷ and a similar number have been judged to be among the nation's top 100 banks in web influence.²⁸

III. THE EXPLOSIVE GROWTH OF "FRINGE BANKS" IN NORTH CAROLINA

Though less understood, studied, or regulated, there is a parallel system of financial services providers that primarily serve lower-income working class communities in North Carolina and the nation. The core of this "fringe banking" industry, as it is commonly referred to by consumer advocates, is a national network of check cashing centers and payday lenders that cash more than 180 million checks a year with a face value of \$55 billion.²⁹ Notwithstanding the fact that they are banned in 19

26. *Id.*

27. Bank of America is first in the country with 14,082; First Union is fourth, with 3,689, Wachovia is eighteenth with 1,374, and BB&T is twenty-first with 900. *Top 50 Bank Holding Companies in Automated Teller Machines*, AM. BANKER, Dec. 6, 1999, at 12A.

28. *View From Internet Valley: 1999 Web Influence Ranking 1-100*, at <http://www.netvalley.com/banks/> (last visited Feb. 2, 2001). Bank of America ranks number one nationally, First Union number five, Centura Bank number twenty-one, Wachovia twenty-six and BB&T number fifty. *Id.* The Internet Valley Benchmark (IVB) compares a company's zone of web influence to that of its peers and across industries through the use of a standard value. The set level for the IVB is the current zone of web influence for Internet Valley. One of the basic measures of Web influence is the total number of the external hyperlinks to the company's Web site. *Internet Valley: Web Influence*, at <http://www.internetvalley.com/influence.html> (last visited Feb. 5, 2001).

29. STEGMAN, *supra* note 7, at 63 (citing national statistics). Payday loans are small-dollar, high-interest, short-term loans backed by post-dated personal checks that borrowers promise to repay out of their next paycheck. Memorandum from Richard M. Riccobono, Deputy Director, Office of Thrift Supervision, Department of the Treasury, to Chief Executive Officers 1 (Nov. 7, 2000), available at <http://www.ots.gov/docs/25132.pdf> (last visited Feb. 5, 2001). North Carolina law sets a ceiling of \$300 on the amount that can be borrowed at any one time, limits fees to fifteen percent of the amount borrowed—which translates to a maximum of \$45 on a \$300 loan—and provides for a maximum term to maturity of thirty-one days. N.C. Gen. Stat. § 53-281 (2000); see generally N.C. Gen. Stat. §53 Art. 22 (2000) (relating to "Check-Cashing Businesses").

In practice, according to state regulators, the vast majority of all payday loans

states because of their high cost and potential for abuse,³⁰ the number of payday lenders has grown from just a few hundred outlets in the mid-1990s to approximately 10,000 today.³¹ One investment banking firm “forecasts the market to expand to 25,000 stores by 2002, producing 180 million transactions, and \$45 billion in loan volume that will generate \$6.75 billion in fees annually.”³²

As suggested above, North Carolina has become fertile ground for fringe bankers. Statewide, some 200 licensed check cashing companies operate more than 1,200 outlets.³³ While not all check cashers in the state extend credit, at year-end 1999, some 136 companies with more than 1,000 offices engaged in payday lending, which translates to about ten percent of all payday-lending outlets in the country.³⁴ In 1999, payday lenders in North Carolina originated more than 2.9 million transactions totaling more than \$535 million, generating in excess of \$80 million in fees.³⁵ And these numbers are only part of the story of how non-bank financial companies are filling a critical credit void, since they exclude the 300 or so licensed pawnbrokers in North Carolina that provide their own unique brand of consumer credit.³⁶

One way of putting this booming financial services industry in perspective is to note that there is one check cashing outlet/payday lender in North Carolina for every two FDIC-insured banking offices.³⁷ Five small counties have either the same

in North Carolina are even shorter term—just eight to fourteen days—which, given the fifteen percent simple interest rate, translates to an average annual percentage rate (APR) of approximately 460%. Telephone Interview with Otis Meacham, Deputy Commissioner of the North Carolina Office of the Commissioner of Banks, (Dec. 14, 2000) [hereinafter Meacham Interview].

30. Marcy Gordon, *Senator Condemns ‘Payday Loans’*, AP ONLINE, Dec. 16, 1999.

31. Donna Tanoue, Remarks Before the Seventh Annual Greenlining Economic Development Summit (June 13, 2000), available at <http://www.fdic.gov/news/news/speeches/chairman/sp13june00.html> (last updated June 14, 2000).

32. *Id.*

33. OFFICE OF THE COMM’R OF BANKS, REPORT TO THE GENERAL ASSEMBLY ON PAYDAY LENDING 5 (2001), available at www.banking.state.nc.us/pubcatns.htm (last update Feb. 22, 2001).

34. Meacham Interview, *supra* note 29.

35. *Id.*

36. *Id.*

37. This figure and all of the following data on the number and location of check cashers and payday lenders in North Carolina are the results of the author’s

number of banks as check cashers or more check cashers than banking offices.³⁸ And three of the state's seven economic development districts—all in Eastern North Carolina—are significantly under-banked. These include the eleven-county Southeast economic development district, and the thirteen-county Global Transpark district, where the overall ratio of fringe banks to mainstream banks is .70 and .65, respectively.³⁹ In addition, eight of the sixteen counties that comprise the Northeast economic development district are under-banked inasmuch as their respective individual ratios of fringe banks to conventional banks is greater than the statewide average of .50.⁴⁰

Fringe banks are also expanding more rapidly than conventional banks. The number of banking offices increased by less than two percent in 1999 (a net increase of 40).⁴¹ In contrast, the number of fringe banking outlets increased by 73%, or by 520 offices between late 1998 and January 2001.⁴² While much of this growth has been in the poorer regions of the state—163% growth in the Western economic development district and 125% in the Northeast—wealthier districts like the Research Triangle saw a 71% increase in the number of check cashers and payday lenders, including 82% growth in Wake County.⁴³ The Charlotte area also witnessed significant growth, with Mecklenburg County having forty-seven more fringe banking offices today than two years ago, bringing the grand total of fringe banks to 115 outlets in the heart

calculations from data obtained from the North Carolina Office of the Commissioner of Banks. Details are available from the author.

38. The five counties are Cumberland, Edgecombe, Hoke, Vance, and Washington Counties.

39. OFFICE OF THE COMM'R OF BANKS, N.C. CHECK CASHERS (2001), at <http://www.banking.state.nc.us/cclist.htm> (last updated Feb. 26, 2001) [hereinafter CHECK CASHERS]; OFFICE OF STATE PLANNING, STATE DEMOGRAPHICS, 1999 REVISED COUNTY POPULATION ESTIMATES (2000) at <http://www.ospl.state.nc.us/demog/rty99est.html> (last visited Feb. 23, 2000); FED. DEPOSIT INS. COMM'N, DEPOSITS OF ALL FDIC-INSURED INSTITUTIONS OPERATING IN NORTH CAROLINA (June 30, 1999) (on file with author).

40. The under-banked counties in the Northeast are Beaufort, Chowan, Halifax, Hertford, Hyde, Martin, Perquimans, and Washington.

41. FDIC data are for 2000 at the time of this writing.

42. Data from Office of the Commissioner of Banks, 1998-99 and January 2001 (on file with author).

43. *Id.*

of North Carolina's and the Southeast's banking capital.⁴⁴

While there has been no systematic analysis of where fringe banks locate relative to mainstream banks within communities, our own research in Charlotte is instructive.⁴⁵ We found that check cashers and payday lenders are not scattered throughout the city, but are more likely to locate in high-minority and working class neighborhoods. Relative to population, there are one-third as many banking offices and more than four times as many check-cashing offices in high-minority neighborhoods as in low-minority neighborhoods.⁴⁶ Because payday lenders target working families with bank accounts—you need a checking account in order to patronize a payday lender—they are most likely to locate in moderate-income neighborhoods rather than in the city's poorest communities. Eighty-five percent of all check cashers in Charlotte (compared with fifty-five percent of all households) are in working class neighborhoods with median incomes between \$20,000 and \$40,000.⁴⁷

IV. COMPLEMENTARY PUBLIC POLICIES

As I argue in my book, EFT and state-related EBT efforts create a substantial market opportunity for traditional financial institutions. North Carolina, for instance, ranks ninth among the fifty states in the number of paper benefit checks—more than 600,000 a month—that could be routed into electronic transfer and other bank accounts.⁴⁸ In addition, more than 212,000 food stamp recipients have now been trained to use POS terminals to access their benefits, which has familiarized them with modern banking

44. CHECK CASHERS, *supra* note 39.

45. Anthony Kolb, Spatial Analysis of Bank and Check-Cashing Locations in Charlotte, N.C., Center for Community Capitalism (Dec. 30, 1999) (unpublished draft, on file with author).

46. *Id.* We identified 3.8 banking offices and 6.7 check-cashing outlets per 10,000 households in Charlotte neighborhoods that are at least 70% African-American, compared with 12.5 banking offices and 1.6 check-cashing outlets per 10,000 households in neighborhoods that were less than 10% African-American. *Id.*

47. *Id.*

48. DOVE ASSOCS., ETA INITIATIVE: FINAL REPORT 19 (1999), available at <http://fms.treas.gov/eta/final.pdf> (last visited Feb. 6, 2001) (prepared for the Department of the Treasury, Financial Management Service, Washington, D.C.).

technology like debit cards.⁴⁹

A number of recent policy initiatives that complement EFT promise to further enhance the economics of serving unbanked and under-banked populations. The most important of these involve savings initiatives for working families like those being piloted in Individual Development Account (IDA) programs across the country. IDA programs can make EFT and related banking initiatives not only more powerful forces for individual empowerment but can significantly improve the economics of low-cost account products for banks. While EFT has the potential to bring more people into the financial mainstream, savings incentives give them a reason to open an account and use their banked status to begin saving for their future.

Specifically, these policy initiatives include:

Treasury's First Accounts Initiative. After launching EFT'99, Treasury recognized that federal benefit recipients account for only about half of the 9.5 million American unbanked families, and that for the unbanked to become a commercially viable market, new accounts, marketing strategies, community-partnerships, and financial education campaigns must be targeted to all unbanked families and not just those who receive government checks. Congress appropriated \$10 million this fiscal year to support pilot partnerships between financial services providers and community organizations to provide the unbanked with access to low-cost accounts, ATMs, other electronic banking products, and financial literacy education.

Welfare Reform. Although often overlooked, it was the watershed Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) that helped legitimize government's role in helping the poor build assets. The rationale for an asset-based social policy is that assets promote a longer planning horizon by the poor and a variety of positive attitudes and behaviors, including household stability, community

49. U. S. DEP'T OF AGRIC., FOOD & NUTRITION SERVICE, FOOD STAMP PROGRAM, ELECTRONIC BENEFITS TRANSFER PROJECT STATUS (Oct. 2000) at <http://www.fns.usda.gov/fsp/MENU/ADMIN/EBT/statusnew.htm> (last visited Feb. 5, 2001).

involvement, and political participation.⁵⁰ Welfare reform not only led to new rules that liberalized asset limits—North Carolina raised its limits from \$1,000 to \$3,000—but it also encouraged savings by promoting IDAs. IDAs combine budget and credit counseling with a program of matched savings that help the working poor invest in a home, education, or their own business. The welfare reform law permits states to use their welfare block grants to fund IDAs and account balances in eligibility determination for all means-tested federal benefits.⁵¹ A total of thirty-one states have enacted legislation to support IDAs, with most of this legislation occurring since 1995.⁵²

Individual Development Accounts. The most important thing that banks should know about IDAs is they are proving that, with appropriate support and incentives, poor people *can* save. Two-year results from the nation's largest national demonstration in fourteen sites found that participants with incomes at about 130% of poverty are saving an average of about 3% of their income, or \$24 a month.⁵³ The Assets for Independence Act (AFIA) enacted in October 1998 authorizes \$125 million in federal funds to support local IDA programs over a five-year period.⁵⁴ After appropriating \$10 million a year for AFIA in FY 1999 and 2000, in response to local program successes, Congress appropriated \$25 million for AFIA in FY 2001.⁵⁵

Unfortunately, Congress did not pass the proposed Savings for Working Families Act of 2000 in the last session, which would have authorized \$5-\$10 billion in federal tax credits for financial

50. GREG MILLS ET AL., EVALUATION OF ASSET ACCUMULATION INITIATIVES 15 (2000) (prepared for the Department of Agriculture Food and Nutrition Service).

51. *Id.* at 1.

52. *Id.* at 5.

53. Mark Schriener et al., Asset Accumulation in Low-Resource Households: Evidence from Individual Development Accounts 30 (Sept. 2000) (unpublished paper presented at Inclusion in Asset Building: Research and Policy Symposium, Center for Social Development, Washington University in St. Louis, Sept. 21-23, 2000) (on file with author).

54. Community Opportunities, Accountability and Training, and Educational Services Act of 1998, Pub. L. No. 105-285, §416, 112 Stat. 2772 (1999).

55. U.S. DEP'T OF HEALTH AND HUMAN SERVS., ADMIN. OF CHILDREN AND FAMILIES, Administration for Children and Families FY 2001 Budget 4 (2000), available at <http://www.acf.dhhs.gov/programs/olab/budget/acf2001.pdf>. (last visited Feb. 27, 2001).

institutions and private sector investors to set-up, match, and support IDAs at financial institutions.⁵⁶ However, there continues to be strong bipartisan support for a national IDA program that would be funded on the tax side of the federal budget, and renewed efforts to pass SWFA will likely be made in the 107th Congress.

There are presently seventeen operational IDA programs in North Carolina that are being supported with funding from the North Carolina Departments of Commerce and Labor, and from local support from the City of Durham.⁵⁷ Early program data from North Carolina are consistent with national findings. One national study of eleven IDA programs, including those in North Carolina, showed that average account balances per participant were \$903, including both deposits and accrued match, ranging from a high in \$2,361 in Raleigh to a low of \$362 in Chicago.⁵⁸

V. INNOVATIVE PRODUCTS FOR THE UNBANKED

In the course of our research, we have identified many products that target the unbanked, several of which I summarize here in hopes that they will stimulate creative thinking among North Carolina financial institutions. Some of these products are built around technology, others use off-the-shelf products that are delivered through community development partnerships. Others blend the products and services of fringe- and conventional-banks to help transition unbanked customers into the financial mainstream, while still others use payroll direct deposit to attract new low- and moderate-income customers at the work-place, many of whom are unbanked.

56. Fact Sheet, The Savings for Working Families Act of 2000 (S. 2023/H.R. 4106) (on file with author).

57. STEPHANIE A. JENNINGS, ELIZABETH KEHBERGER, ROBERTO G. QUERCIA, WILLIAM M. ROHE, AND MICHAEL A. STEGMAN, *HELPING FAMILIES BUILD ASSETS: THE IMPLEMENTATION OF INDIVIDUAL DEVELOPMENT ACCOUNTS IN NORTH CAROLINA 1* (May 1999) (prepared for the North Carolina Working Group on IDAs and Asset Building and can be ordered from the UNC Chapel Hill, Center for Urban and Regional Studies). The North Carolina General Assembly and the North Carolina Department of Commerce have allocated \$860,000 for IDAs. *Id.*

58. MILLS ET AL., *supra* note 50, at 63.

2001]

BANKING THE UNBANKED

35

*A. Technology-Based Products**1. Banco Popular's Electronic Transfer Account (ETA).*

The transition to direct deposit of federal benefits is much slower than the government had hoped. In the first year, only about 5,000 people have opened a low-cost, government-designed Electronic Transfer Account (ETA) that the Treasury designed to take direct deposits from Uncle Sam. However, one particular bank has distinguished itself as a model provider.⁵⁹

As of October 31, 2000, the \$18.4 billion asset of Popular Inc., Banco Popular de Puerto Rico, had opened more than 3,000 ETA accounts.⁶⁰ This is more than sixty percent of all ETAs opened by all U.S. banks, but number two on the list, Firststar Bank of Milwaukee, has opened just 405 ETA accounts.⁶¹ Banco Popular attributes its success to three facts: (1) serving the unbanked is a long and honored tradition of the People's Bank of Puerto Rico—its 2001 business plan calls for converting an additional 35,000 unbanked individuals; (2) it uses its most sophisticated technology and delivery systems to create low-cost, *and* low-risk accounts for financially marginalized populations, including debit cards without checking privileges to prevent overdrafts; and (3) despite low account service charges—ETA charges are limited by the Treasury to \$3 a month—Banco Popular invested more than \$100,000 in a rollout campaign and provided financial incentives to employees for every ETA account they opened during the early months of the campaign.⁶²

In response to a recent Treasury inquiry of how banks could better serve unbanked persons who do not receive government checks, Banco Popular indicated an intent to create a

59. Lisa Daigle, *E-Benefit Accounts Fail to Gain Broad Usage*, AM. BANKER, Dec. 12, 2000 at 1.

60. *Id.*; U.S. DEPARTMENT OF THE TREASURY, ETA PROVIDERS COMPENSATION REPORT (Oct. 31, 2000).

61. *Id.*

62. Banco Popular de Puerto Rico's Response to the U.S. Treasury's Request for Information on First Accounts 3 (Dec. 11, 2000) (on file with author).

low-cost electronic combined account that would contain separate transaction and savings purses.⁶³ Like the ETA, to simplify account management, reduce risk, and avoid overdrafts, no check writing or off-line transactions would be available for this account. This account, which would work best if combined with payroll direct deposit, would feature a savings plan option involving an automatic transfer of a pre-specified amount of money each pay period from the transaction-to-the savings-purse. Customers would have electronic access to the transaction purse through ATM and POS terminals, but to discourage savings withdrawals on impulse, there would be no electronic access to the savings purse—all withdrawals would have to be made in person at a bank branch. A savings bonus would encourage balances of long duration.

2. Standard Bank of South Africa's Auto E-Bank.

According to an analyst at McKinsey and Company, Standard Bank of South Africa is defying “the conventional wisdom of the financial-services industry: that the low-income market is at best marginal, at worst disastrous.”⁶⁴ The bank created its E-Bank (later renamed E-Plan) program in the 1990s to serve a growing market of low-income, largely illiterate wage earners who could no longer receive their pay in cash because of growing crime problems.⁶⁵ When employers switched to paying employees by check or direct deposits, Standard Bank was flooded by waves of unbanked customers.⁶⁶ Operating exclusively through a “fingerprint-secured” debit card system and ATM network that is programmed to give operating instructions in each of South Africa’s eleven official languages, costs per outlet are 30% to 40% below those of traditional branches.⁶⁷ ATM technology greatly reduces the delivery and service expenses of transactions and sales (since there is no back office) and the bank minimizes unit cost of

63. *See id.*

64. David Moore, *Financial Services for Everyone*, 1 MCKINSEY Q. 125, 125 (2000), at <http://mckinseyquarterly.com> (last visited Feb. 5, 2000).

65. *See id.* at 128.

66. *Id.* at 127.

67. *Id.* at 129.

2001]

BANKING THE UNBANKED

37

its ATMs by using education and incentives to maintain high transaction volume.⁶⁸ E-Plan grew to around 340,000 accounts by 1996. By 1999, the number of E-Plan accounts had grown to 2.6 million, with around 50,000-60,000 new accounts opened each month.⁶⁹

3. Umbrellabank.com.

For several years now, the U.S. Department of Housing and Urban Development has supported the development of computer learning centers in assisted housing developments. To my knowledge, few of these “neighborhood networks” are being used to help connect residents with banking services. A new Internet-only bank recently announced that it would partner with a large housing developer to target residents of such housing, most of whom are working and trying to improve their financial standing and credit record.⁷⁰

Umbrellabank.com of Westmont Ill., which opened [in June 2000], is working with the Chicago Equity Fund to install automated teller machines and personal computers in assisted housing in the Chicago area. The bank will also provide representatives to teach residents how to use the machines and to foster financial planning and the use of checking, savings, and credit accounts. The new bank, a subsidiary of the \$391 million-asset Argo Bancorp, . . . will have access to Argo’s network of 1,000 ATMs throughout the Midwest and East Coast, [and] plans to install additional ATMs in many of the buildings sponsored by the Chicago Equity Fund.⁷¹

68. *Id.* at 129-130.

69. *Id.* at 127.

70. Megan J. Ptacek, *Web Bank Plans ATMs for Subsidized Housing*, AM. BANKER, June 20, 2000, at 12.

71. *Id.*

B. Community Development Banking Partnerships

1. Chicago CRA Coalition and Bank One's Alternative Banking Program (ABP).

“The Coalition, which is convened by the Woodstock Institute . . . developed an agreement with Bank One when it purchased First Chicago Bank NBD in 1998,” that included a pilot program “to promote deposit services to unbanked customers.”⁷² Rather than a separate product, “the Alternative Banking Program (APB) incorporates into standard Bank One products features similar to a model lifeline account, including: \$10 to open an account, minimum balance as low as \$0 . . . unlimited check writing, unlimited use of Bank One ATMs, and some free teller transactions, depending on the account.”⁷³

Bank One [also] conducts financial literacy workshops in cooperation with community partners to demonstrate cost savings over check cashers, improve financial management skills, and increase trust . . . with mainstream financial institutions. Although applicants with a credit history must have suitable credit scores, people with no or borderline credit may also open accounts. In exchange for more flexible credit criteria, the bank established some modest restrictions on the ABP. However, after one year, account holders can apply to upgrade to traditional account[s].⁷⁴

72. Marva Williams, *Community-Bank Partnerships: The Chicago CRA Coalition and Bank One Forge the Alternative Banking Program*, COMMUNITY. DEVS., (Office of the Comptroller, Washington, D.C.), Fall 2000, at 5, *available at*, <http://www.occ.treas.gov.cdd/resource.htm> (last visited Feb. 5, 2000).

73. *Id.* at 5. The two other features of the APB are: a service fee as low as zero dollars depending on the account and free financial literacy training. *Id.*

74. *Id.* at 5, 17.

2001]

BANKING THE UNBANKED

39

2. The Extra Credit Savings Program.

The nation's preeminent for-profit community development bank, South Shore Bank (SSB), and the Center for Law and Human Services created the Extra Credit Savings Program to encourage the unbanked working poor to save a portion of their sizable Earned Income Tax Credit (EITC) refunds by providing them with low-cost savings accounts.⁷⁵ Between January and April 2000, the Tax Counseling Project of CLHS offered free tax preparation assistance to EITC-eligible individuals two nights a week at a SSB branch.⁷⁶ On these evenings, SSB bankers invited individuals to join the ECSP. Those who chose to participate opened a no-fee, no minimum balance savings accounts and arranged to have their 1999 federal tax refunds directly deposited into the accounts. Funds in these accounts earn a market rate of interest (currently 2.5%), and a no-fee ATM card is available. As an extra saving incentive, participants receive an additional 10% bonus on any funds remaining in the account on December 31, 2000 (up to a maximum bonus of \$100 per account-holder).⁷⁷

75. Sondra G. Beverly et al., *Low-Cost Bank Accounts and the EITC: How Financial Institutions Can Reach the Unbanked and Facilitate Saving* 4 (Sept. 2000) (paper prepared for Inclusion in Asset Building, Research and Policy Symposium, Washington University in St. Louis, Center for Social Development).

76. The Earned Income Tax Credit is a refundable federal tax credit designed to help low-income workers increase their financial stability. "In 1998, the EITC was expected to cost the federal government \$30.5 billion according to the Council of Economic Advisors. More than 19.7 million working families benefited from the EITC in 1998." Timothy M. Smeeding, *The EITC and USAs/IDAs: Maybe a Marriage Made in Heaven?* 2 (Nov. 2, 2000) (paper prepared for the Annual Conference of the Association for Public Policy Analysis and Management (APPAM) Seattle, Washington, on file with author). "By 1999 a maximum refundable tax credit of \$3,816 was available to low income households with two children and earned income between \$9,540 and \$12,460." *Id.* at 3.

77. Beverly et al., *supra* note 75, at 5.

C. Transitions to Mainstream Banking

1. Union Bank of California's Cash & Save Program

Union Bank's Cash & Save is a hybrid program that goes beyond check cashing by using education and consulting services to transition previous check-casher users to traditional banking services.⁷⁸ “[W]ith profit margins ranging from fourteen percent to fifty-one percent at its fifteen locations, Cash & Save [successfully] competes with other check cashing outlets.”⁷⁹ “But what differentiates it is the way it tries to bring unbanked customers into the financial mainstream rather than simply exploiting profit from their financial alienation.”⁸⁰

Cash & Save provides a full range of services targeted to lower-income, ethnic markets with large contingents of unbanked workers. While each location provides basic check cashing services—at lower fees than those generally charged by [check cashers]—what really distinguishes Cash & Save from other check cashing operations is the range of banking services that it provides. Under its Money Order Plan, which carries a one-time fee of \$10, customers get six free money orders per month plus a 1% check cashing charge. With Nest Egg Savings, a customer can open a no-fee, passbook interest rate savings account with an initial deposit of \$10 and a commitment to deposit \$25 monthly for at least one year. Cash & Save also offers a basic checking account for . . . as little as one dollar, a secured credit card for people who are repairing their credit rating, and a direct deposit option for the electronic

78. STEGMAN, *supra* note 7, at 79.

79. *Id.* (citing Cynthia A. Glassman, *Consumer Finance: The Borrowing/Savings Dilemma*, J. OF RETAIL BANKING SERVICES, Autumn 1996, at 54).

80. *Id.*

2001]

BANKING THE UNBANKED

41

delivery of government benefits.⁸¹

Almost one third of Cash & Save customers converted to traditional banking services in 1997, up from 14% in 1996.⁸²

2. Arvest Bank's Credit Builder CD Loan

Because many of the entry-level employees of local poultry-processing plants were Mexican workers with no credit histories, Arvest Bank created the \$1,000 Credit Builder CD Loan—a creative, low-cost way for consumers to develop a credit history while minimizing risk to the bank.⁸³ Customers take out a \$1,000 loan and deposit the proceeds in a CD. They then pay the loan back from monthly earnings to build a credit history and use the CD interest to help offset their loan interest payments. By repeating this process twice, borrowers gain confidence in the bank and in their ability to save regularly and build good credit. At maturity, the borrower has also accumulated \$2,000 towards the down payment and closing costs on a modest house. Since 1990, the Credit Builder CD Loan program has led to more than 500 mortgage loans to immigrant families—with no defaults as of June 2000.⁸⁴

In the process, Arvest also experienced tremendous customer growth among the community's Latino workers—less than 8% of them had any previous banking relationship. “[W]ithin two years of the launch of this program over 60% of workers at participating plants” were Arvest customers, with 7% having purchased houses with Arvest mortgage loans, and 27% having had consumer loans.⁸⁵ As of April 30, 1999, the bank's Latino

81. *Id.* at 80.

82. OFFICE OF THE COMPTROLLER OF THE CURRENCY, COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION, UNION BANK OF CAL., N.A. 47 (Mar. 30, 1998), <http://www.occ.treas.gov/cra/crasrch.htm> (last visited Feb. 15, 2001).

83. David Bugea, *Building Credit in Underserved Communities*, COMMUNITY DEVS. (Office of the Comptroller of the Currency, Washington D.C.), Fall 2000, at 7, available at <http://www.occ.treas.gov/cdd/resource.htm> (last visited Feb. 5, 2001). Arvest is based in Rogers, Arkansas. *Id.* at 7.

84. *Id.*

85. *Id.* at 19.

customers represented “a total of \$26.5 million in business, including \$5 million in deposit accounts, \$1.2 million in consumer loans, \$20 million in mortgage loans, and \$341,000 in commercial loans.”⁸⁶

D. Bank at Work Programs

Bank at Work programs produce win-win partnerships between employers and financial institutions because of the savings each realizes when payroll checks are switched to direct deposit.⁸⁷ Citibank operates one prominent Bank at Work program. With direct deposit of an employee’s pay, the bank offers a special checking account, special credit card offers, and discounted points on some credit products. “In addition, the employee is provided access to Citicorp Investment Services, no-fee PC Banking Service, no-fee Bill Payment service, and no-fee ATM transactions.”⁸⁸ Currently, 43,479 customers in the bank’s assessment areas use the service.⁸⁹ Two percent of the households participating in this program live in Low- and Moderate-Income census tracts.⁹⁰

86. *Id.*

87. Research by the National Automated Clearing House Association (NACHA) found that businesses could save more than \$1.25 on each payroll check processed by switching to direct deposit. Banks save an estimated \$0.70 for each check deposited through the ACH network instead of through the teller window where as many as 10 sets of hands touch each paper deposit. Additional savings from reduced fraud are also likely by using the ACH network instead of paper checks. Sam Frumkin & Karen Furst, *Direct Deposit: Using Technology to Reach the Underserved*, COMMUNITY DEVS., (Office of the Comptroller of the Currency, Washington, D.C.), Fall 2000 at 3, available at <http://www.occ.treas.gov/cdd/resource.htm> (last visited Feb. 5, 2001).

88. OFFICE OF THE COMPTROLLER OF THE CURRENCY, COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION, CITIBANK, N.A. 13 (Oct. 26, 1998), available at <http://www.occ.treas.gov/cra/crasrch.htm> (last visited Feb. 15, 2001).

89. *Id.*

90. *Id.*

VI. CONCLUSIONS AND RECOMMENDATIONS

The fact that ten percent of the nation's payday lenders and check cashers have located in North Carolina in the last two years should set off alarm bells in boardrooms across this state. These businesses *are* acting rationally in the face of a difficult market and *are* making the economics of serving low- and moderate-income households work for their owners and shareholders. Where traditional deposit accounts have proved unpopular with customers or unprofitable for banks, they have succeeded by selling money orders and check cashing services separately. Moreover, by tailoring products to meet customer demand and by providing convenient hours, locations, and other services, they are converting banks' and thrifts' *own* relatively low-profit checking account customers into high-profit short-term borrowers.

Some mainstream institutions are waking up to the size of the potential market. For instance, the State Employees Credit Union (SECU) recently introduced a lower-cost payday loan product after a statewide sample of its branches found that 4,000 members had written checks to payday lenders.⁹¹ SECU's Salary Advance Option (SAO) is a reusable line of credit with a maximum loan of \$500, at an interest rate of 11.75%; automatic transfer pays the balance of the loan after the direct deposit arrives on the next payday.⁹² SAO appears to be a highly competitive alternative to payday loans, which are capped at \$300 under North Carolina law and are typically charged a fifteen percent fee.⁹³ And while only eight small North Carolina banks initially signed up to offer ETAs to the recipients of more than 600,000 monthly federal benefit checks, Bank of America has announced a three-state pilot program, including North Carolina, through which, it expects to sign up 50,000 accountholders when the campaign is fully rolled out.⁹⁴ Check recipients will get account applications while they

91. Kim Nilsen, *SECU to Provide Payday Lending*, TRIANGLE BUS. J., Jan. 1, 2001, available at <http://triangle.bcentrla.com/triangle> (last visited Feb. 8, 2001).

92. *Id.*

93. *Id.*

94. *Id.*

wait in line to cash their checks and will be able to apply over the phone.⁹⁵

Other institutions are focusing on the same market that proved so successful for Arvest Bank. The 1997 Census estimates North Carolina's Hispanic population to be about 150,000, which is almost double what it was in 1990.⁹⁶ According to one estimate, North Carolina ranks among the top ten states in terms of the rate of growth of Hispanic buying power, which is forecast to grow by 255% between 1990 and 2001.⁹⁷ To serve this burgeoning market, Cooperativa Comunitaria Latina de Credito—North Carolina's first Latino-focused financial institution recently opened for business in downtown Durham. Outperforming its business plan that set a modest goal of 500 members within the first year, the credit union had more than 1,100 members after just seven months.⁹⁸ The credit union has begun offering an international money transfer service that costs just \$6.50 to send up to \$5,000 to

95. Daigle, *supra* note 59.

96. James H. Johnson, Jr., et al., *A Profile of Hispanic Newcomers to North Carolina*, 65 POPULAR GOV'T 2, 3, (1999). Most of this growth is in five counties—all of which are included in the top thirty U.S. counties with the most rapid growth in their respective Hispanic populations—Wake, Mecklenburg, Forsyth, Guilford, and Durham (ranked in declining order of their relative growth). *Id.*

97. Jeffrey M. Humphreys, *Buying Power at the Beginning of a New Century: Projections for 2000 and 2001*, 60 GA. BUS. & ECON. CONDITIONS 1,9,17 (2000). This compares with eight-six percent and three percent growth in buying power among white and African American consumers, respectively. *Id.* at 15. A combination of rising numbers, increasing incomes and a demographic profile that favors high marginal rates of consumption—seventy-seven percent of North Carolina's Hispanic population is age thirty-five or younger, compared to fifty-two percent of the total population—suggests that rising Hispanic buying power will not only “energize” consumer markets for some years to come, including financial services. Johnson, *supra* note, at 3. H. Nolo Martinez, director of Hispanic/Latino Affairs for the State of North Carolina puts, it this way:

In the area of economic development, we're looking at what people need in order to understand financial institutions and practices, not only banks and banking but also savings and investments, like buying a home. You know, the American dream isn't necessarily a realistic dream for these new immigrants because without formal credit you can't buy a home.

Eleanor Howe, *Helping Hispanics in Transition, An Interview with H. Nolo Martinez, director of Hispanic/Latino Affairs, State of North Carolina*, 65 POPULAR GOV'T. 13, 15, (Fall 1999).

98. Editorial, *Bank on Latino Customers*, NEWS & REC. (Greensboro, N.C.) Jan. 24, 2001, at A8.

El Salvador and Guatemala and is negotiating a contract with the Mexican Government that would carry the low charge of \$8 for up to \$1,000 transfer, which would also pay the official exchange rate for dollars to Mexican pesos on the day of the transaction.⁹⁹ This is a better deal than is offered by more substantial companies and has a large prospective market. Nationwide, “immigrant workers sent \$17.4 billion to their home countries last year, nearly double the level in 1991.”¹⁰⁰

Other market opportunities are as yet unrealized. Because of North Carolina’s large working poor population, the federal EITC brings in as much as \$1 billion per year to the state,¹⁰¹ suggesting that an effort to replicate the South Shore Bank savings model discussed in Part IV may have good local potential. And though state officials decided not to add cash assistance to the electronic food stamp cards, they are considering a campaign to encourage *banked* welfare recipients to sign up for direct deposit, and to make financial education a priority of welfare reform. The State Department of Social Services has also contracted with the Center for Community Capitalism to conduct a statewide survey of the financial services needs and behavior of welfare recipients and the working poor. In addition to informing policy makers and social services program directors, the results of this survey, which should be completed in Spring 2001, should contain useful market information for the banking community.

While Mr. Smith may be right to suggest that some banks and thrifts cannot profitably serve unbanked and marginally banked customers by expanding traditional branching networks or by offering Treasury’s ETAs, North Carolina institutions can draw on extensive resources in fashioning other innovative programs like those highlighted in *Savings for the Poor* and Part IV of this

99. Charles Fargo, *From Dollars to Pesos*, NEWS & REC. (Greensboro, N.C.) June 5, 2000, at A; *Competition Heats Up for Overseas Wire Transfers*, NEWS & OBSERVER (Raleigh, N.C.) Nov. 23, 2000, at 3D.

100. *Competition Heats Up for Overseas Wire Transfers*, NEWS & OBSERVER (Raleigh, N.C.) Nov. 23, 2000, at 3D.

101. *A State Earned Income Tax Credit: One Step Closer to a Living Wage*, BTC REPORTS (Newsletter of the North Carolina Budget & Tax Center, Raleigh, N.C.), May 1999, at 1, available at <http://www.ncjustice.org/btc/v5no7.html> (last visited Feb. 6, 2001).

article. Moreover, in addition to the state's extensive network of branches and ATMs, banks have a wide range of potential community partners who can help deliver financial services in new ways. Specifically, North Carolina has more minority, community-based credit unions than any other state; the North Carolina Association of Community Development Corporations has more than 50 members; and with continuing appropriations from the General Assembly, the North Carolina Community Development Initiative is supporting a network of high-performing community development organizations.¹⁰² This network is ready and willing to work with banks, thrifts, and credit unions to improve financial literacy and to link working households to mainstream banking services.

If the economics alone are not enough to convince North Carolina banks to reach out to unbanked and marginally banked populations, I advocate refining the CRA to provide additional incentives for institutions that are examined under "large bank" procedures. Specifically, my proposal calls for increasing the importance of the service test—which focuses on retail banking and community development services such as financial education and IDA sponsorship—to account for more than its current weight of twenty-five percent of banks' overall CRA ratings.¹⁰³ This would enable a bank that is having difficulty in, say, the community development investment area—which is not a core business—to improve its overall CRA score by doing more to deliver financial services in low- and moderate-income communities—which is a core business. The fact that many banks are finding it hard to do well under the investment test has been confirmed by FDIC chairman Donna Tanoue¹⁰⁴ and our own research.

We recently analyzed all "large bank" examinations of

102. H.R. 1313, 1999 Leg., 1999-2000 Sess. (N.C. 1999), available at <http://www.ncleg.net/html1999/bills/CurrentVersion/house/hbill1313.full.html> (last visited Feb. 28, 2001).

103. The large bank exam has three components. The lending test counts for half a bank's total score and the investment and service tests each count for twenty-five percent.

104. Barbara A. Rehm, *Disappointing CRA Fund Gets a Lift*, AM. BANKER, Oct. 17, 2000, at 4.

2001]

BANKING THE UNBANKED

47

North Carolina banks since the current regulations went into effect in 1997, as well as the examinations for the fifty biggest banks in the country.¹⁰⁵ Only five of thirty-two North Carolina examinations resulted in outstanding CRA ratings. More than half of the North Carolina tests scored in the middle-to-low range for “satisfactory,” with three earning CRA scores that were just one point above a “needs to improve” rating. This is a sharp contrast to the distribution of CRA scores among the fifty biggest banks, where only about 25% of the tests scored in the low part of the “satisfactory” range.

When the scores are disaggregated by lending, investment, and service test, it is clear that North Carolina banks’ poor performance on the investment test is dragging down their overall CRA scores. Of the thirty-two NC banks, ten received a “Needs to Improve” on the investment test, while another sixteen received scores of “Low Satisfactory.” We found a relationship between bank size—measured by assets—and investment test scores. About half (four of nine) the NC sample with more than \$1 billion in assets received High Satisfactory or Outstanding investment test scores. In contrast, only 9% (two of twenty-three) of smaller banks received better than Low Satisfactory.

North Carolina banks also performed worse than the “Top 50” sample on the lending test. The one bright spot for the state was the service test, where similar percentages of North Carolina (80%) and top fifty (78%) financial institutions earned either High Satisfactory or Outstanding ratings. Thus, increasing the weight of the service test could help many North Carolina banks improve their CRA scores while doing more to achieve financial inclusion.

105. Consult the author for more information about this work in progress at the Center for Community Capitalism at the University of North Carolina at Chapel Hill.