

TESTIMONY BEFORE THE
U.S. House of Representatives Committee on Financial Services
Subcommittee on Consumer Protection and Financial Institutions

Hearing On

"Banking the Unbanked: Exploring Private and Public Efforts to Expand Access to the Financial System"

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Ameya Pawar

Fellow – Open Society Foundations
Senior Fellow – Economic Security Project
Special Advisor -UChicago Inclusive Economy Lab
Senior Adviser -The Academy Group
Former Alderman – City of Chicago (2011-2019)

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Thank you, Chair Perlmutter, Ranking Member Luetkemeyer, and the Members of the Subcommittee on Consumer Protection and Financial Institutions, for the opportunity to testify today.

My name is Ameya Pawar. I hold fellowships with the Economic Security Project (funded in part by the Chicago Community Trust) and the Open Society Foundations, where I advocate for guaranteed income and public banking. This work serves as the guidepost for my forthcoming book *Organize Capital: The Case for Public Banks*.¹

I am here to express my support for the Access to the No Fee Accounts (Fed Accounts) Act and Public Banking Act. Together, these robust proposals create the financial infrastructure necessary for people to manage their finances and access wealth-creating loans.

Today, 25% of Americans are unbanked or underbanked and rely on non-bank financial services such as payday lenders and currency exchanges to manage their finances.² Tellingly, 36% of unbanked households reported a lack of trust in banks as a reason for not having a bank account.³ Fed Account can help rebuild that trust and bring tens of millions of people into the formal banking system by establishing no-fee bank accounts made available through the Federal Reserve, the nation's central bank. Private banks and the post office⁴ would serve as the conduit for Fed Accounts – making it possible to receive money, deposit earnings, pay bills, and save without paying exorbitant fees.

The Public Banking Act creates the necessary infrastructure so states and communities can launch public banks. These banks would be set up as public entities with membership in the Federal Reserve and originate wealth-creating home and business loans. In addition, state and local public banks can partner with community banks to expand their balance sheets and channel capital to small-business owners. And the goal would be to originate profitable loans but structure loan terms that set up people to succeed, an issue in which private banks struggled mightily in the leadup to the subprime mortgage crisis. These loans would be responsibly priced and based on risks, not solely based on where people live or their skin color.

Furthermore, there are opportunities for public banks to finance innovative projects such as revenue-generating public enterprises – public options – for housing, childcare, broadband.

Moreover, state and local public banks can finance transformational infrastructure projects, including transitioning to a green economy. By financing these projects locally, public banks would save taxpayers billions in interest payments that currently flow to wealthy investors. And finally, the savings could fund innovative programs such as a guaranteed income and baby bonds.

² <https://www.cnbc.com/2019/03/08/25percent-of-us-households-are-either-unbanked-or-underbanked.html>

³ <https://www.fdic.gov/analysis/household-survey/index.html>

⁴ <https://theconversation.com/postal-banking-could-provide-free-accounts-to-21-million-americans-who-dont-have-access-to-a-credit-union-or-community-bank-161626>

To be clear, we need both proposals to pass. The financial system we currently have is not meeting the needs of many people, communities, or our economy and it is time for policymakers to work beyond the margins.

Ten years ago, I was elected to the Chicago City Council. At the time, I believed the best way to tackle poverty and inequality was to pass laws and reform government programs. So, after I took office, I worked with my colleagues to pass legislation to raise the minimum wage, guarantee paid sick leave, and combat wage theft. I advanced reforms to affordable housing policy and supported more transparency in tax incentive programs. I interfaced with market-based tools such as grants, tax-increment financing, philanthropy, and opportunity zones. But in the end, these efforts, while critically important, only worked on the margins.

I was frustrated by an increasing divergence. The ward I represented was then and still is a solidly middle-class community with pockets of significant wealth. As a result, banks were eager to lend to homebuyers, business owners, and developers. I worked to secure a slew of public infrastructure projects to improve public schools, park facilities, streetscapes, and other amenities. These public investments made it easier to secure additional private investments, and the inflow of private dollars greased the wheels for more public projects. In sum, money followed money.

I did the job my constituents elected me to do. Yet, at the same time, I realized that no amount of well-intentioned legislation was going to be enough. Even if alderpersons and the mayor rowed together, the city lacked the proper tools to create a current for change.

Case in point. A 2020 investigative report by WBEZ-Chicago and City Bureau found that the majority-white neighborhood of Lake View, a neighborhood near the one I represented, received \$6 billion in mortgage loans between 2012 and 2018--more than all of Chicago's 18 majority-Black neighborhoods, spanning enormous sections of the south and west sides of the city.⁵ Yet, when this story broke, the banks involved made pledges to set aside funds for grants and loans but would not commit to equalizing their lending across the city. What's more, between 2008 and 2016, Chicago lost 13% of its bank branches⁶, and another 8%⁷ closed between 2017 and 2020. In total, over 200 bank branches closed over the last 13 years. And the best we (the city) had to offer was more tax credits, subsidies, and grants. These market-based tools made for great press releases but often failed to multiply into additional projects. So we were trying to address a lack of bank lending with everything but bank lending. It was, in effect, "pushing on a string."

If we are to move beyond the margins, it is essential to recognize a bank's superpower. They exercise public policy through lending. When banks lend to people and businesses in a community, the loans drive up property values, increase local revenues, and broaden the tax base. As a result, schools and other public services get better funded, driving more demand for

⁵ Loury, Linda Lutton, Andrew Fan, Alden. *Home Loans in Chicago: One Dollar To White Neighborhoods, 12 Cents To Black*. <https://interactive.wbez.org/2020/banking/disparity>.

⁶ https://ncrc.org/wp-content/uploads/2017/05/NCRC_Branch_Deserts_Research_Memo_050517_2.pdf

⁷ <https://ncrc.org/research-brief-bank-branch-closure-update-2017-2020/>

home and business loans. In time, new wealth gets created. This cycle of development is elegant and powerful. Unfortunately, however, there are few requirements for banks to serve all communities, despite requiring a public charter. Financial institutions should and must function as the catalyst for *local* economies and *local* stakeholders, not just distant shareholders.

Former Republican Congressman Tom Ridge said it best: "communities without credit are very much like land without rain; nothing grows."⁸ So, taken in sum, we must ask ourselves: should we continue to concentrate this much power in the hands of private banks? Or, might there be a better way?

The issue before you today is at its heart an issue of public infrastructure. As this chamber considers how to define infrastructure, including broadband internet and affordable child care, we should consider what else has changed in the post-war era. Right now, millions of people (about 80 million) have no way to receive money quickly or cheaply. They either don't have bank accounts or have a bank account and depend on payday loans, check cashers, and tax refund loans. And the lack of access is often incredibly costly, with unbanked households spending more annually on financial transaction costs than on food.⁹ They also lack access to loans that can help them build a financial cushion for rainy days and create generational wealth.

To move into a post-Covid era, we must continue to push for progressive governance rather than accepting market mechanisms that will, by design, prioritize profits over the public good. For example, we know investments in roads, child care, and internet provision have a multiplier effect on our economy's growth. Similarly, adding public banks to the financial infrastructure will pay dividends to local economies and private financial institutions alike. Policymakers need additional tools, and consumers need additional options, and healthy markets don't allow this many people and communities to be left behind. That's why Fed Accounts and public banks should be part of the nation's economic recovery agenda.

[1] I also advise the Academy Group, a Chicago-based social enterprise focused on breaking the racial wealth gap. In addition, I co-lead Green Climate Finance Illinois, a fiscally sponsored project of the National Climate Jobs Center to help pension funds align their investments with ESG and Paris Climate goals.

⁸ Baradaran, Mehrsa. 2015. *How the other half banks: exclusion, exploitation, and the threat to democracy*.

And finally, I hold advisory positions with the UChicago Inclusive Economy Lab and am an adjunct lecturer at the Crown School of Social Work, Policy, and Practice at the University of Chicago.

[2] Loury, Linda Lutton, Andrew Fan, Alden. *Home Loans in Chicago: One Dollar To White Neighborhoods, 12 Cents To Black*. <https://interactive.wbez.org/2020/banking/disparity>.

[3] Baradaran, Mehrsa. 2015. *How the other half banks: exclusion, exploitation, and the threat to democracy*.

[4] Baradaran, Mehrsa. 2015. *How the other half banks: exclusion, exploitation, and the threat to democracy*.

[5] <https://www.marketplace.org/2021/07/14/with-child-tax-credit-payments-coming-fdic-wants-more-people-to-use-banks/>

[6] [How the Decline in Community Banks Has Hurt U.S. Entrepreneurship | Barron's \(barrons.com\)](https://www.barrons.com/news/economy/banking/decline-in-community-banks-has-hurt-u-s-entrepreneurship)

[7] Jesse Eisinger, Jeff Ernsthausen, Paul Kiel. "The Secret IRS Files: Trove of Never-Before-Seen Records Reveal How the Wealthiest Avoid Income Tax." *ProPublica*, <https://www.propublica.org/article/the-secret-irs-files-trove-of-never-before-seen-records-reveal-how-the-wealthiest-avoid-income-tax>. Accessed July 19 2021.