Negative: Community Reinvestment Act - good

By “Coach Vance” Trefethen

***Resolved: The United States Federal Government should substantially reform its banking, finance, and/or monetary policy.***

Summary: AFF plan will abolish the Community Reinvestment Act. CRA is a federal program that scores banks on how well they loan money in poor communities and provide banking services in the local communities where they are located. The score they achieve is used by the federal government to influence whether they will be given favorable treatment for mergers and other requests for regulatory treatment. AFF will claim CRA influenced banks to make risky loans and even caused the ’08 financial crisis and should be repealed. This brief refutes these claims and shows disadvantages to repealing it.

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Negative: Community Reinvestment Act

DEFINITION

Background on what the CRA does

Julie Stackhouse 2018 (executive vice president and managing officer of Supervision, Credit, Community Development and Learning Innovation for the Federal Reserve Bank of St. Louis) 25 Jan 2018 The Community Reinvestment Act's History and Future <https://www.stlouisfed.org/on-the-economy/2018/january/community-reinvestment-act-history-future>

Enacted in 1977, the CRA affirms the obligation of federally insured depository institutions to help meet the credit needs of communities in which they are located. The obligations of the CRA are expected to be carried out within safe and sound banking practices. Banks are subject to laws and regulations like the CRA in return for the privilege of deposit insurance protection and access to the Federal Reserve’s discount window.

How CRA is enforced: Banks are scored on how well they are serving their local communities, and their score is taken into consideration when they apply for mergers, etc.

Dr. Neil Bhutta and Dr. Daniel Ringo 2015 (Bhutta – PhD economics; principle economist for the Federal Reserve. Ringo – PhD economics; economist in the Real Estate Finance Section for the Federal Reserve. He was not the drummer for the Beatles.) 26 May 2015 <https://www.federalreserve.gov/econresdata/notes/feds-notes/2015/assessing-the-community-reinvestment-acts-role-in-the-financial-crisis-20150526.html>

The federal banking regulatory agencies periodically evaluate the performance of banks in serving their local communities, including their patterns of lower-income lending. These assessments are taken into consideration when regulatory agencies review bank applications for mergers, acquisitions, and branches, and applications can be denied on CRA grounds.

HARMS / SIGNIFICANCE

1. No risky loans

CRA does NOT require banks to make risky loans. It’s not jeopardizing financial stability

Office of the Comptroller of the Currency 2014 (federal agency that regulates banking) “Community Reinvestment Act” March 2014 <https://www.occ.gov/publications-and-resources/publications/community-affairs/community-developments-fact-sheets/pub-fact-sheet-cra-reinvestment-act-mar-2014.pdf>

Neither the CRA nor its implementing regulations prescribe ratios or benchmarks regulators must use in the evaluation or application processes. Nor does CRA require banks to make high risk loans that jeopardize their financial stability. To the contrary, the law makes it clear that a bank’s CRA activities must be consistent with the safe and sound operations conducted by the bank.

CRA loans are not high-risk

Dr. Neil Bhutta and Dr. Daniel Ringo 2015 (Bhutta – PhD economics; principle economist for the Federal Reserve. Ringo – PhD economics; economist in the Real Estate Finance Section for the Federal Reserve. He was not the drummer for the Beatles.) 26 May 2015 <https://www.federalreserve.gov/econresdata/notes/feds-notes/2015/assessing-the-community-reinvestment-acts-role-in-the-financial-crisis-20150526.html>

Second, CRA loan programs that might result from such commitments are not necessarily high risk. As documented in Avery, Bostic, and Canner (2000), many banks work with nonprofits to develop special programs with additional borrower screening and financial counseling, which can help mitigate credit risk. A recent study shows that loans originated from 2003 to 2006 through a major CRA-related lending program performed almost as well as prime loans and far better than the average subprime mortgage during the housing bust (Ding et al., 2011). In sum, the growth in banks' announced CRA commitments is not reliable evidence of a link between CRA and the growth in risky lending. In the next section, we discuss more-direct evidence on this question.

Source Indictments: Pinto, Wallison, Calomiris and Haber are wrong. CRA did not cause an expansion in risky lending

Dr. Neil Bhutta and Dr. Daniel Ringo 2015 (Bhutta – PhD economics; principle economist for the Federal Reserve. Ringo – PhD economics; economist in the Real Estate Finance Section for the Federal Reserve) 26 May 2015 <https://www.federalreserve.gov/econresdata/notes/feds-notes/2015/assessing-the-community-reinvestment-acts-role-in-the-financial-crisis-20150526.html>

While Pinto (2010), Wallison (2011), and Calomiris and Haber (2014) claim the commitments data is strong evidence that the CRA caused an expansion in risky lending, in our view this argument is not compelling. First, these commitments generally lack any enforcement mechanism and, to a large extent, may not represent increased lending or, surprisingly, even consist of CRA-targeted loans. For example, a Citigroup managing director testified to the Financial Crisis Inquiry Commission (FCIC) that most CRA commitments "would have been fulfilled in the normal course of business" (Financial Crisis Inquiry Commission, 2011, p. 99). The FCIC report also found that less than one-fourth of the loans pledged in the largest-ever CRA commitment ($800 billion by JPMorgan Chase) were to the lower-income borrowers and neighborhoods targeted by the CRA (Financial Crisis Inquiry Commission, 2011, p. 97).

Source Indictment: Agarwal study on “risky lending” missed key factors. Even if it was right, it didn’t find much impact

Dr. Neil Bhutta and Dr. Daniel Ringo 2015 (Bhutta – PhD economics; principle economist for the Federal Reserve. Ringo – PhD economics; economist in the Real Estate Finance Section for the Federal Reserve) 26 May 2015 <https://www.federalreserve.gov/econresdata/notes/feds-notes/2015/assessing-the-community-reinvestment-acts-role-in-the-financial-crisis-20150526.html>

Notably, a study by Agarwal et al. (2012) has garnered considerable attention from critics of the CRA, including Calomiris and Haber (2014), who claim it supports the contention that the CRA caused risky lending. The study reports higher approval rates on mortgage applications in the six-quarter window around banks' CRA exams, and elevated delinquency rates on such "CRA-induced" mortgages. However, one criticism of this paper is that there is little incentive for banks to ramp up lending near the exam date, because examiners focus on lending done well before the exam (Foote, Gerardi, and Willen 2013). Indeed, Agarwal et al. (2012) also report increased lending to higher-income borrowers and neighborhoods, suggesting there may be some confounding factor driving the results. Regardless, the magnitudes of the estimated effects in Agarwal et al. (2012) appear moderate: a few percentage point increase in approvals and a 0 to 2 percentage point increase in delinquency rates.

2. Not responsible for the 2008 crisis

Studies find no support for the theory that CRA caused the crash

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Overall, there appears to be little reason to believe that the CRA was an important factor in the subprime boom and subsequent crash. Not only is the law explicitly written and enforced to avoid pushing banks too far, but empirical research, by and large, also finds little connection between the CRA-related activities of banks and the expansion of risky or subprime mortgage lending.

Interesting theory, but when you look at the actual data, CRA didn’t cause the ’08 financial crisis

Dr. Neil Bhutta and Dr. Daniel Ringo 2015 (Bhutta – PhD economics; principle economist for the Federal Reserve. Ringo – PhD economics; economist in the Real Estate Finance Section for the Federal Reserve. He was not the drummer for the Beatles.) 26 May 2015 <https://www.federalreserve.gov/econresdata/notes/feds-notes/2015/assessing-the-community-reinvestment-acts-role-in-the-financial-crisis-20150526.html>

The CRA provides an incentive structure that could plausibly have motivated banks to originate or purchase loans they would have otherwise considered too risky. However, empirical research indicates that CRA-related loans were a small fraction of the subprime market during the mortgage boom. The literature estimating the effect of the CRA finds small increases in originations--if any at all--and effects on delinquencies that are small or even negative. While we do not have a good estimate of the net costs or benefits of the act, the current best evidence suggests that the CRA was not a significant contributor to the financial crisis.

5 Studies find no link from CRA to the 2008 crisis: Bhutta & Canner 2009, Bhutta & Canner 2013, Avery & Brevoort 2015, Ghent 2015, Ringo 2015

Dr. Neil Bhutta and Dr. Daniel Ringo 2015 (Bhutta – PhD economics; principle economist for the Federal Reserve. Ringo – PhD economics; economist in the Real Estate Finance Section for the Federal Reserve. He was not the drummer for the Beatles.) 26 May 2015 <https://www.federalreserve.gov/econresdata/notes/feds-notes/2015/assessing-the-community-reinvestment-acts-role-in-the-financial-crisis-20150526.html>

A number of researchers have investigated whether the CRA could be responsible for the subprime boom and riskier lending in general. Three key findings suggest the CRA did not have an important role in the subprime mortgage boom, either through banks' direct originations or their secondary market purchases. First, Bhutta and Canner (2009) analyze 2005–2006 mortgage origination data from the Home Mortgage Disclosure Act (HMDA) and find that just 6 percent of all higher-priced loans (a proxy for subprime loans) were "CRA-related"--that is, were originated by depositories to either lower-income borrowers or lower-income neighborhoods in the banks' CRA assessment areas. The small share of subprime lending in 2005 and 2006 that can be traced to the CRA suggests that the CRA is unlikely to have played a substantial role in the subprime crisis. Second, in follow-up work using loan performance data matched to 2006 HMDA origination records, Bhutta and Canner (2013) find that CRA-related loans experienced a delinquency rate that was less than half the overall rate for loans in lower-income neighborhoods and was actually lower than the overall delinquency rate across all 2006-vintage mortgages. Avery and Brevoort (forthcoming) and Ghent et al. (forthcoming) also find no evidence that the CRA drove up mortgage default rates during the housing bust, showing that default rates in neighborhoods that just meet the CRA definition of "lower-income" are nearly identical to those in neighborhoods just outside the lower-income definition. Relatedly, in preliminary work, Ringo (2015) finds that the CRA increased refinancing opportunities in lower-income neighborhoods that were added to a bank's assessment area by the Office of Management and Budget's redefinition of statistical areas between 2003 and 2004. By lowering homeowners' mortgage payments, the increase in refinancing reduced default rates. Third, Ghent et al. (forthcoming) examine the prospectuses of 100 randomly selected private-label nonprime mortgage-backed securities (MBS) representing more than $100 billion of mortgage debt from Florida and California from 2004 to 2006 and find that not one prospectus mentioned CRA eligibility as a salient feature. Moreover, few, if any, of the MBS pools met CRA qualifications based on the incomes of the borrowers in those pools. Although banks can be credited in their CRA exams for MBS purchases, this potential incentive does not appear to have been a driver in the growth of the subprime MBS market and the loans it funded.

3. Wrong timeline

If CRA caused the ’08 crash, then it should have happened in the 1980’s

Federal Reserve Bank of Atlanta 2013. “**Government Policy and the Crisis: The Case of the Community Reinvestment Act” 1 Aug 2013** <https://www.frbatlanta.org/blogs/real-estate-research/2013/08/01/government-policy-and-the-crisis-the-case-of-the-community-reinvestment-act>

According to Bhutta and Canner (2009), only about 6 percent of subprime loans made in 2005 and 2006 were made to CRA-targeted populations by CRA-regulated lenders. In effect, one of the consequences of the dramatic rise in private-label securitization volume was that it created lots of competition among the riskier segments of the mortgage market. This situation likely resulted in less lending by banks in CRA-eligible areas rather than more. Finally, perhaps a more fundamental reason to doubt that securitization explains the timing of the paper's effects is that securitization has been around a long time. Laws needed to be changed before securitization could take off, but these legal changes occurred in the 1980s. So if the CRA and securitization together formed a lethal combination for the mortgage market, then why did the crisis occur in the late 2000s rather than the late 1980s?

Can’t blame CRA for problems in 2000’s when CRA was passed in 1977 and had less impact after the ‘90s than it had in the ‘70s. Why didn’t it crash in the ‘70s or ‘80s?

Federal Reserve Bank of Atlanta 2013. “**Government Policy and the Crisis: The Case of the Community Reinvestment Act” 1 Aug 2013** <https://www.frbatlanta.org/blogs/real-estate-research/2013/08/01/government-policy-and-the-crisis-the-case-of-the-community-reinvestment-act>

In concluding, we should point out that the CRA went into effect in 1977, 3**0 years before the financial crisis**. If the CRA did shift the risk-return tradeoff for mortgage lending, then why didn't risky lending take off in 1978 rather than 2003? Moreover, the footprint of CRA-regulated institutions in the mortgage market has shrunk dramatically since the law passed. Figure 1 (taken from [Foote, Gerardi, and Willen [2012]](http://www.frbatlanta.org/documents/pubs/wp/wp1207.pdf?d=1&s=blogrer)) shows that nondepository mortgage companies—which generally are not covered by the CRA—accounted for only 15 percent of mortgage lending when the CRA was passed in 1977. By the late 1990s, however, these non-CRA entities had grown to nearly 60 percent of the mortgage market. If the CRA is so toxic to the mortgage market, then it is puzzling why the act had no effect soon after its enactment, when it covered 85 percent of the mortgage market, yet led to an explosion of risky lending 25 years later, when it covered only 40 percent of the market.

SOLVENCY

1. Won’t solve risky lending because they’re going after the wrong root cause

There is federally-motivated risky lending, but it’s not coming from CRA. Blame FHA and VA

Federal Reserve Bank of Atlanta 2013. “**Government Policy and the Crisis: The Case of the Community Reinvestment Act” 1 Aug 2013** <https://www.frbatlanta.org/blogs/real-estate-research/2013/08/01/government-policy-and-the-crisis-the-case-of-the-community-reinvestment-act>

Indeed, any attempt to link the recent crisis to government policies aimed at expanding mortgage credit and homeownership faces an uphill struggle. The basic problem is that the federal government has been deeply involved in housing and mortgage markets since at least the end of World War II. In particular, the Federal Housing Authority (FHA) and Veterans Administration (VA) loan programs began at about that time and were explicitly designed to extend homeownership to underserved populations. As figure 2 (also from Foote, Gerardi, and Willen, 2012) shows, the FHA and VA pioneered no and low down payment loans in the 1950s and 1960s. And as figure 3 shows, FHA loans accounted for 40 percent of loans outstanding in the 1970s and had default rates that were an economically massive 100 percent higher than non-FHA loans. In their size and their effect on housing markets, the FHA and VA were literally orders of magnitude more important than the CRA. Did government lead to risky lending? Yes! But it did so 30 years before CRA and 60 years before the recent financial crisis.

DISADVANTAGES

1. Housing discrimination

Link: CRA was enacted to stop housing discrimination

**[Analysis: “Redlining” was a practice of drawing a map and putting red lines around black neighborhoods, and telling the banks not to make mortgage loans for those areas. A fair number of people who could have / should have been able to get mortgages were thus excluded by generic discrimination against entire neighborhoods.]**

Julie Stackhouse 2018 (executive vice president and managing officer of Supervision, Credit, Community Development and Learning Innovation for the Federal Reserve Bank of St. Louis) 25 Jan 2018 The Community Reinvestment Act's History and Future <https://www.stlouisfed.org/on-the-economy/2018/january/community-reinvestment-act-history-future>

Prior to the passage of the CRA, “redlining”—or limiting or refusing to make loans in certain areas—was rampant. History suggests that this practice of drawing “red lines” around geographic areas initially stemmed from “residential security maps” created by the now-defunct Home Owners’ Loan Corp. The maps designated four categories of lending and investment risk for each of 239 cities. Private lenders, in turn, created similar maps. Some argue that redlining was simply the best mechanism available at the time to estimate credit risk. However, it also resulted in discrimination against those with the same credit risk relative to others in a non-redlined area.

Link: Yes, housing discrimination against minorities still is a threat even today

Jaime Weisberg 2019 (senior Campaign Analyst at the Association of Neighborhood & Housing Development) 18 Dec 2019 “Protecting the Community Reinvestment Act Is an Investment in Economic Justice” <https://shelterforce.org/2019/12/18/protecting-the-community-reinvestment-act-is-an-investment-in-economic-justice/>

The term redlining refers to the [historic practice](https://shelterforce.org/2019/02/21/long-before-redlining-part-2/) of refusing to make or insure mortgages in perceived “risky” neighborhoods, which were low-income neighborhoods or neighborhoods with large concentrations of people of color. It is often used to describe persistent discrimination in lending that continues to this day.

Link: CRA is successful at combatting discrimination against poor communities

Julie Stackhouse 2018 (executive vice president and managing officer of Supervision, Credit, Community Development and Learning Innovation for the Federal Reserve Bank of St. Louis) 25 Jan 2018 The Community Reinvestment Act's History and Future <https://www.stlouisfed.org/on-the-economy/2018/january/community-reinvestment-act-history-future>

The CRA has been successful in many respects. The incentives provided by the CRA and requirements for compliance with other laws and regulations have prompted partnerships between banks and community groups to promote access to credit for low- and moderate-income communities and foster development in these areas.

Link & Brink: CRA is one of the most important laws preventing housing discrimination against minorities

Jaime Weisberg 2019 (senior Campaign Analyst at the Association of Neighborhood & Housing Development) 18 Dec 2019 “Protecting the Community Reinvestment Act Is an Investment in Economic Justice” <https://shelterforce.org/2019/12/18/protecting-the-community-reinvestment-act-is-an-investment-in-economic-justice/>

The CRA is one of the most important laws we have to hold banks accountable to addressing banking and lending inequalities in order to meet the needs of our communities. The CRA was one of a series of civil rights acts passed in the 1960s and ’70s in response to systemic redlining, disinvestment, and discriminatory policies and practices, including those that locked out people and neighborhoods of color from banking and homeownership.

Impact: Housing discrimination harms public health

*Brian Smedley, Rachel Davis, Avery Smedley 2019. (Brian Smedley is the executive director of the National Collaborative for Health Equity. Rachel A. Davis is the executive director at Prevention Institute. Avery Smedley is an intern at the Poverty & Race Research Action Council) 27 Aug 2019 “*The effects of housing discrimination on health can reverberate for decades” <https://thehill.com/opinion/civil-rights/458899-the-effects-of-housing-discrimination-on-health-can-reverberate-for>

Where a child lives — including the quality and affordability of her family’s housing, and whether her family owns their home — shapes how healthy that child will be, what kind of schools she can attend, even how long she’ll live. And the effects of housing discrimination on health can reverberate for decades. Even though redlining (the policy of discouraging economic investment, typically in highly-segregated black and brown neighborhoods) formally ended over 50 years ago, researchers have found that life expectancy is still lower in areas that were previously redlined. The separation of groups into separate and unequal neighborhoods is not the only way that housing impacts health. The quality of the housing stock in high-poverty neighborhoods is lower than in low-poverty neighborhoods, exposing children to health risks such as lead and vermin infestation. And children in high-poverty neighborhoods find fewer options to keep them healthy, like access to affordable, nutritious foods, or safe spaces for play and recreation.

2. Loss of banking services in poor areas

Link: CRA promotes access to bank services in poor communities

Office of the Comptroller of the Currency 2014 (federal agency that regulates banking) “Community Reinvestment Act” March 2014 <https://www.occ.gov/publications-and-resources/publications/community-affairs/community-developments-fact-sheets/pub-fact-sheet-cra-reinvestment-act-mar-2014.pdf>

CRA is designed to encourage banks to help rebuild and revitalize communities through sound lending and good business judgment that benefits the banks and the communities they serve. Further, CRA provides a framework for depository institutions and community organizations to work together to promote the availability of credit and other banking services in low- and moderate-income communities and for low- and moderate-income individuals. CRA has encouraged banks to open new branches, provide expanded services, and make a variety of community development loans and investments. In addition, CRA has encouraged banks to provide substantial commitments to state and local governments and community development organizations to increase lending to underserved segments of local economies and populations.

Link: Reduction in bank availability is a problem for low-income communities

Paula Gonzalez-Brito 2019 (executive director of the California Reinvestment Coalition) 23 Dec 2019 “BankThink By staying on sidelines, the Fed is protecting CRA” AMERICAN BANKER <https://www.americanbanker.com/opinion/by-staying-on-sidelines-the-fed-is-protecting-cra>

A 2019 study by the Federal Reserve found that 100 banking markets went from having at least one banking headquarters in 2012, [to having none by 2017](https://www.federalreserve.gov/publications/files/bank-branch-access-in-rural-communities.pdf). And almost all of them were in rural markets. The loss of banking headquarters often result in the loss of reinvestment activity, a main driver for low-income communities to access wealth-building opportunities.

Link: Lack of banking for the poor leads to vast inequality

Mehrsa Baradaran 2018 (associate dean at the University of Georgia School of Law) 20 Aug 2018 “Postal Banking's Public Benefits” AMERICAN AFFAIRS <https://digitalcommons.law.uga.edu/cgi/viewcontent.cgi?article=2198&context=fac_artchop>

The dependency of bank lending activity on federal policy makes the exclusion of the poor from the banking system a national problem that must be faced by the federal government. The disparity between how banks treat most Americans and how they treat poor Americans does not have to exist, nor has it always existed. A social contract between banks and the government has been in place since the early days of the republic. The government supports the banks through trust-inducing insurance, bailouts, liquidity protection, and a framework that allows the allocation of credit to the entire economy. Banks, in turn, operate as the central machinery of the economy by providing transaction services, a medium for trade, and individual and business loans that spur economic growth. This entanglement between the state and the banking system means that banks should not be allowed to exclude a significant portion of the public from the bounty of government support. This is not just a problem of the banking market. It threatens our social fabric through the array of disruptive consequences that follow from the lack of normal banking and the vicious cycle of impossible loan payments. If the state is so heavily involved in the banking system, it has a direct interest in making sure that the banking system does not create or contribute to such vast inequality.

Impact: Economic inequality causes multiple bad social impacts

Prof. Richard Wilkinson 2011 (professor emeritus of social epidemiology at the University of Nottingham) “Why inequality is bad for you -- and everyone else” 6 Nov 2011 https://www.cnn.com/2011/11/06/opinion/wilkinson-inequality-harm/index.html

People have always known that inequality is divisive and socially corrosive. What is surprising, now that we have the data to compare societies, is how clear the effects of inequality are. A wide range of social problems are worse in societies with bigger income differences between rich and poor. These include physical and mental illness, violence, low math and literacy scores among young people, lower levels of trust and weaker community life, poorer child well-being, more drug abuse, lower social mobility and higher rates of imprisonment and teenage births. The differences in performance of more and less equal societies is often enormous: Most of these problems are between twice and ten times as common in countries like the United States, Britain and Portugal, which have large income differences compared to countries with smaller income differences like the Nordic countries or Japan.

Impact: Cycle of debt and bankruptcy

Mehrsa Baradaran 2018 (associate dean at the Univ of Georgia School of Law) 20 Aug 2018 “Postal Banking's Public Benefits” AMERICAN AFFAIRS <https://digitalcommons.law.uga.edu/cgi/viewcontent.cgi?article=2198&context=fac_artchop>

Without a viable alternative, many poor Americans are left with only volatile and usurious options, such as using payday lenders and check cashers. An empire of payday lenders has emerged to meet this demand. One independent report cited by the Consumer Financial Protection Bureau ( CFPB) estimated that there were 16,480 payday loan stores in the United States in 2015-more than all of the McDonald's in the United States and Canada combined}- These lenders charge rates that range from 300 to 2,000 percent APR, pushing their borrowers into a cycle of debt that lands many of them in bankruptcy proceedings.