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Are Payday Loans Really Evil? Controversy, Regulation, and Innovation in the Secondary Financial Services Market

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Stagnant income and persistent debt have induced low- and middle-income households to rely on alternative financial services (AFS): buy-here-pay-here auto loans, check-cashers, payday loans, auto title loans, rent-to-own furniture and appliances, and pawnshops. A secondary financial services market has evolved to serve the secondary labor market, replete with trade associations as well as state and federal regulators. Mainstream financial institutions have marketed innovations, such as reloadable debit cards, to appeal to low- and middle-income consumers. High fees and interest rates of AFS products have fueled a volatile debate about the future of the secondary financial services market, with options including prohibition, regulation, and inclusion.

Key words: *debt, alternative financial services, AFS, secondary financial services, secondary labor market*

The Secondary Financial Services Market complements the economic circumstances of workers in the Secondary Labor Market, whose chronically low-income, limited upward mobility, and susceptibility to expense shocks cause them to resort to Alternative Financial Services (AFS). As AFS product innovation has proceeded apace, an ensuing controversy about the relationship between poverty and AFS has led to reactive reform strategies, including prohibition, regulation, and inclusion. Proactive reforms that would provide constructive financial products to low-income households include Community-based financial services through community credit unions and the post office. Schools of social work have only recently begun to include financial services training in their curricula.

The expansion of Alternative Financial Services (AFS) reflects the consolidation of a Secondary Financial Services Market that serves workers in the secondary labor market. In the U.S., economic dualism has been examined extensively through analysis of the labor market. Michael Piore proposed a theory of dual labor markets in 1970, contrasting a primary labor market consisting of jobs that were salaried, paid well, included benefits, and were part of a career trajectory as opposed to a secondary labor market composed of hourly pay at low wages, with few, if any, benefits, which offered no career advancement and were often temporary or seasonal. Jobs in the secondary labor market, often high-turnover, include "the hourly staff of security-guard services and janitorial services and the floor staff of fast-food restaurants and some types of stores, such as supermarkets and low-priced department stores" (Bewley, 1995, p. 233). Wholesale, retail, and service sector firms typically justify low wages because of staff turnover, absenteeism, insubordination, as well as petty theft and pilferage. Because of the flat wage profile of employees in the secondary labor market, workers tend to move laterally from job to job as opposed to upwardly into the primary labor market (Wachter, 1974).

The psychological implications of the secondary labor market are profound with respect to upward mobility: "secondary jobs do not require and often discourage stable working habits, wages are low, turnover is high, and job ladders are few. Secondary jobs are mainly (though not exclusively) filled by minority workers, women, and youth" (Reich, Gordon & Edwards, 1973, pps. 359-360). Structural features of the secondary labor market impede ascent into the primary labor market, and:

> dual labor theory focuses attention on structure that endures irrespective of changes in human capital or with effort. It also focuses on missing rungs on career ladders, gaps that prevent upward mobility and sticky jobs that hold some workers to lives spent toiling in unrewarding, insecure, low-wage jobs. (Hudson, 2008)

The stratification of financial markets has become part of the nation's economic structure (Olen, 2012), as described by Mayer (2010):

> Affluent households were served by the commercial and industrial banks. These institutions made loans in large sums at low rates of interest but only to salaried professionals with good credit and reliable co-signers. The credit unions served working people but were tied to places of business, usually the larger employers. While their rates were low, they asked a lot of questions about what the money was for and supervised borrowers more closely. They served the better risks in the middle strata of the workforce. Pawnshops, by contrast, dealt with a clientele that lived in straitened circumstances and could only get cash by mortgaging a piece of personal property at a big discount. (p. 84)

In response to the economic circumstances and needs of lower-income households, AFS thrived, evolving to become part of the cultural infrastructure of low-income communities. The relationship between financial services markets and labor markets is depicted in Table 1.

Table 1. Dual Labor Markets and Financial Services

Labor Market	Occupations	Financial Services
Primary		
Salaried with career track and benefits	Professionals, managers, unionized workers, business owners	Savings and checking accounts, retirement portfolios, mortgages and auto loans, tax and investment consultants
Secondary		
Hourly wages without career track or benefits	Low-wage service workers, transient agricultural workers, day and seasonal laborers, contingent workers	Check-cashing, money orders, buy-here-pay-here auto sales, payday loans, rent-to-own, pawn

The American economy could provide a continuum of financial services, of course, products serving the range of economic groups while responding to their discrete preferences; however, the bifurcation of financial markets is evidence that structural factors, practices of mainstream financial institutions, and the preferences of consumers contribute to the evolution of the Secondary Financial Services Market. Structural factors include dualism in the labor market, regional economic disparities, and cyclical downturns. In addition, immigrants competing for low-skilled jobs, declining union membership, and automation pushed wages lower (Appelbaum, Berhardt & Murname, 2003). Practices of mainstream financial institutions, primarily banks and credit unions, have effectively excluded lower-income households; for their part, the unbanked and underbanked have responded to minimal balance requirements, high fees for managing accounts, penalties for overdrafts, rigorous loan underwriting, and inaccessibility with respect to location, inconvenient hours of service, and lack of receptivity of staff by defecting from mainstream financial institutions to AFS.

Windfalls

Economically speaking, workers in the secondary labor market face constant impediments, their plight poignantly portrayed in *Nickel and Dimed* by Barbara Ehrenreich (2001) and *The Working Poor* by David Shipler (2004). Michael Weiss has disaggregated the secondary labor market according to consumption patterns, income, and location, describing such marketing clusters as “rural industria” (low-income blue collar families), “blue highways” (moderate/blue collar farm families), “back-country folks” (remote rural villages), and “hard scrabble” (older families in poor, isolated areas). Consumption patterns, such as preferences for country music, Mountain Dew, and pick-up trucks, complement regional labor markets where jobs at low-wage retailers, including Wal-Mart and McDonalds, predominate, evidence of reciprocity between commerce and labor (Weiss, 2000, p. 13).

In their efforts to reconcile low-wages with consumption demands, workers in such circumstances often make improvident decisions, maxing-out credit cards and incurring overdrafts. Olen (2012) coined the term “money scripts” to define the mind-set of consumers whose credit reach exceeds their economic grasp (p. 20). So, as Pew researchers found, of payday borrowers who had used a credit card, 59 percent had maxed-out their limits, and 52 percent had over-drafted their checking accounts during the previous year, a problem that was exacerbated when payday lenders caused overdrafts for 27 percent of borrowers who bounced a check for repayment on a loan. Given the financial straits of many lower income families, the default payment option mandated by state law becomes important for payday borrowers:

> When the default was a two-week repayment, the case in Washington state, 90 percent of borrowers failed to opt for an available, extended repayment plan, while the automatic default of a 180-day installment loan was the choice by 86 percent of borrowers in Colorado. (Pew Charitable Trusts, 2013, pp. 31-37)

Payday borrowers viewed loans not as a regular bill, even when they frequently resorted to such loans, but as a quick infusion of cash. Accordingly, many payday borrowers used windfalls, especially tax refunds, to close outstanding loans. One in six, or 17 percent, of payday borrowers used a tax refund to pay off a loan. "The large windfall provided by a tax refund enables borrowers to repay a loan principal that their regular paychecks are not sufficient to cover" (Pew Charitable Trusts, 2012, p. 27). In the boom-and-bust personal finances of workers of the secondary labor market, such a strategy may be considered rational.

Controversy

Political battles have erupted over AFS, lending an air of siege over the Secondary Financial Services Market. Biblical injunctions against usury have animated opponents of payday lending, especially in the "Bible belt." After prohibiting payday lending in 2001, the North Carolina legislature is considering permitting such loans once again (Woolverton, 2013). Other jurisdictions have instituted interest rate caps that effectively prohibit payday loans; in 2008, Ohio limited interest to 28 percent, while the District of Columbia put in place a 24 percent interest rate cap in 2007. In its most recent survey of state regulations, the National Conference of State Legislatures reported that thirty-eight states permitted payday lending to varying degrees (Morton, 2013).

The Center for Responsible Lending (CRL) has served as a source of information for opponents of financial products and practices that it considers exploitive of low-income, disproportionately minority populations. Created in 2002 as a nonprofit, CRL has been supported by prominent foundations and has issued several reports focusing on "predatory lending." In its advocacy, CRL analysts have argued that a majority of borrowers are victims of predatory lenders. In 2012, CRL received a MacArthur Foundation "Creative & Effective Institutions" award.

CRL has worked in tandem with the Consumer Federation of America (CFA), which was established as a nonprofit in the mid-1960s to represent consumers' rights. Representing 300 advocacy organizations nationwide, CFA addresses a range of financial services, including payday and auto-title loans, focusing on abusive practices: "*Cash-strapped consumers run the risk of becoming trapped in repeat borrowing due to triple-digit interest rates, unaffordable repayment terms, and coercive collection tactics made possible by check-holding*" (Consumer Federation of America, 2013, p. 1, emphasis in original). For networking purposes, CFA maintains a listserv for advocates of regulating what it considers abusive lending practices. CFA was an advocate for the Military Lending Act (MLA) of 2007, which instituted a 36 percent limit on interest rates charged on loans to members of the military and dependents.

Short of prohibition, opponents of AFS have advocated a 36 percent interest rate limit on loans, which equates to prohibition, since lenders insist that interest rate is too low for their business model. A penultimate strategy of AFS opponents has been strict regulation. Thus, limiting fees and interest, restricting the number of loans annually, outlawing consecutive roll-over loans, and requiring "cooling-off" periods between loans are methods that have been advocated by opponents of payday loans to make them less harmful to consumers (Pew Charitable Trusts, 2012, p. 20).

The controversy over AFS centers around habitual use, with opponents conceptualizing a "debt trap" when consumers resort to products repeatedly, incurring charges that exacerbate their already fragile finances. For example, CRL has argued that five or more payday loans per year constitute a "debt trap" from which consumers have difficulty escaping. Evidence and logic dispute the debt trap concept, however. Using Oklahoma payday data, CRL analysts calculated that "90 percent of business is generated by borrowers with five or more loans per year, and over 60 percent of business is generated by borrowers with 12 or more loans per year" (King & Parrish, 2007); yet, subsequent analysis of the same data found that 43 percent took out fewer than 5 loans per year, and that 74 percent took out fewer than 12 (Veritec, 2007). Patterns of consumer usage, in other words, reveal a standard distribution, with more economically marginal households resorting to payday loans more often; however, they tend to repay promptly, especially if they anticipate the need for future loans. The logic of the debt trap has been disputed by economist Thomas Sowell, who notes that payday loans are short-term loans, and that computing a three digit APR is analogous "to the price of salmon as $15,000 a ton or say a hotel room rents for $36,000 a year, when no consumer buys a ton of salmon and few people stay in a hotel room all year" (Sowell, 2011, p. 2).

Other economists have put the matter in more pedestrian terms, calculating the implications of using payday loans to resolve hypothetical expense shocks: One involved $100 needed to avoid a $35 payment penalty for a utility bill. Assuming the loan was repaid promptly, a payday loan at $15 per $100 borrowed was $17.39 less costly than the late payment penalty fee. Another involved a $300 auto repair for a vehicle needed for work. Compared to the costs of alternative transportation, the payday loan at $15 per $100 borrowed was $14.55 less costly (Elliehausen, 2009, pp. 17-18). Significantly, neither of these scenarios factor in the more dire consequences of a utility shut-off or loss of employment, which would make the payday loan even less expensive than such draconian outcomes. Opponents of AFS had hoped that the creation of the Consumer Financial Protection Bureau (CFPB), under the Wall Street Reform and Consumer Protection Act of 2010, would introduce federal regulations on an industry that had been the province of the states (Tomasky, 2013). In 2007, Elizabeth Warren had proposed creating a consumer financial protection watchdog, similar to the Consumer Product Safety Commission, to regulate AFS. Subprime "financial products are dangerous, and any consumer who is not careful is inviting trouble," she argued, "And yet, dangerous or not, millions of Americans engage in billions of credit transactions, adding up to trillions of dollars every year." As conceived by Warren, this entity,

> would be charged with responsibility to establish guidelines for consumer disclosure, collect and report data about the uses of different financial products, review new financial products for safety, and require modification of dangerous products before they can be marketed to the public. (Warren, 2007, p. 4)

Subsequent jockeying around CFPB regulations of AFS have left its opponents disappointed, as lobbyists have convinced lawmakers to exempt their products, such as the carve-out of car loans, and obstructed the appointment of a permanent director (Weise, 2013).

Opponents of AFS have been fighting a rear-guard action insofar as the Financial Service Centers of America (FiSCA) and Community Financial Services Association of America (CFSA) have not only been receptive to regulation but also encouraged installment loans as a default for delinquent borrowers. Moreover, mainstream banks and credit unions continue to offer small dollar loans (SDLs), similar to payday loans, as well as other financial products for lower income consumers. While the demand for AFS products is likely to be robust, attempts to regulate them are also likely to continue.

Product Innovations

The AFS market has become more established as a result of maturation of the industry, technological innovations, and the incursion of mainstream financial institutions. As noted above, "best practices" promoted by AFS trade associations include defaults for delinquent borrowers that convert payday loans to installment loans. This is not only in the best interests of borrowers, since installment loans extend the time for repayment, but also lenders, who stand to lose the principal if no payment is made.

The internet has altered AFS fundamentally by allowing vendors to evade state regulators. Because they enjoy sovereignty, Tribal Lending Entities (TLEs) have the opportunity of competing in a global AFS market. Much of the growth in payday loans, for example, has been a result of online lending, which has grown from $5 billion in 2006 to $18.6 billion in 2012 (Hecht, 2013). Tribal sovereignty notwithstanding, the CFPB will probably attempt to clarify internet lending by TLEs (Miller, 2013).

The emergence of General Purpose Reloadable (GPR) debit cards is a growing market for unbanked consumers wanting an alternative to a conventional checking account. Major vendors of reloadable debit cards, such as AccountNow, Rush Card, Emerald, Green Dot, and NetSpend, have found consumers willing to pay nominal monthly fees for access to ATMs and card reloading. When cardholders' employers make direct payroll deposits and cardholders access cash from ATMs, GPR cards are less expensive than conventional checking cards. Moreover, when consumers use GPR cards for bill payment and their cards report to credit bureaus, GPRs can contribute to a credit history. The inclusion of savings and loan options would make GPR cards even more functional for unbanked, low-income households (Rust, 2013).

Recognizing the expanding AFS market, mainstream financial institutions have offered payday loans and bank advance loans for account holders (Borne & Smith, 2013). In March 2013, American Express and Wal-Mart rolled-out the Bluebird card. Customers from the military, recipients of Social Security and other government benefits, and taxpayers expecting refunds will be able to deposit funds directly into Bluebird Accounts that will be insured by the FDIC. In addition, Bluebird will provide pre-authorized checks and allow account holders to check balances in real time ("American Express," 2013). Offered through Wal-Mart, the nation's largest retailer, Bluebird promises to reach millions of unbanked and underbanked customers, providing direct access to low-income households (Morrison, 2013).

The consolidation of the secondary financial services market continues apace as banks, retailers, and marketers craft financial products for the working poor. The entry of Wal-Mart into the arena, which has been long suspected of considering a bank charter, reflects the viability of the Secondary Financial Services Market. The entrance of major retailers and mainstream banks into the Secondary Financial Services Market through GPR cards may presage expanding GPR card functions to permit bill payment, savings, and possibly SDLs. All of this will be regulatory fodder for the CFPB (2013); and, while there is little doubt that regulations will be imposed on AFS, the likelihood is that any constraints will conform to the requirements of trade associations representing vendors of the Secondary Financial Services Market.

Reactive Policy Options

The sturm und drang of AFS opponents, directed at vendors and their trade associations, has not yet produced corresponding industry corrections as had been hoped via the CFPB. Regardless, chronic debt by low- and middle-income households, a prolonged recession, and the entry of mainstream financial institutions into the AFS sector, promise turbulence for the Secondary Financial Services Market, at least in the near future. In this context, three policy strategies have evolved with respect to the burgeoning AFS sector: prohibition, regulation, and inclusion.

Prohibition, or its equivalent through interest rate and fee caps, reflects an impulse that has been evident since the founding of the republic, making unlawful those activities that have been deemed morally offensive, including alcoholic beverages, lotteries, and abortion. Making activities for which there is significant demand illegal, however, not only drives them underground where providers tend to offer a product that is inferior, if not outright dangerous, compared to that available through legitimate purveyors, but also obligates government to the costs of oversight, prosecution, and incarceration. Currently, 15 states prohibit payday lending, compared to 28 that permit such loans (Pew Charitable Trusts, 2012).

Regulation of various industries, by contrast, allows them to operate in the open, affording a measure of surveillance, permitting government to tax transactions as well as a means for penalizing noncompliant businesses. Regarding payday lending, 8 states have established rigorous regulatory schemes (Pew Charitable Trusts, 2012). CFPB may introduce national regulation of AFS, which has been largely the province of state regulators.

Inclusion encourages financial service providers to make products more available for those who are not in the economic mainstream, especially workers in the secondary labor market. Innovative financial products, such as a GPR card with a savings function, could not only be inclusionary but also propel the upward mobility of low-income households. In 2006, the FDIC established the Advisory Committee on Economic Inclusion for this purpose. Primary obstacles of inclusion are the very structural and psychological factors that maintain the Secondary Financial Services Market.

While these strategies will consume the attention and resources of those concerned about AFS, a larger issue remains. The Secondary Financial Services Market, replete with high interest rates and fees affixed to financial products for low-income, high-risk consumers, provides access to credit that may stabilize their financial circumstances but at a price that jeopardizes their long-term prosperity.

Proactive Policy Options

Ultimately, the dual financial services market problem will be resolved in the same way it will be for the dual labor market problem, by constructing more rungs in the ladder of upward mobility. Two agendas have evolved around the American Dream: anti-poverty measures of the New Deal and War on Poverty located primarily in the federal Department of Health and Human Services, and a subsequent array of tax expenditures situated in the Treasury Department.

Public welfare consists largely of public assistance and social insurance that were created by the Social Security Act of 1935 and amplified during the 1960s with the War on Poverty. The intricacies of these programs are beyond the scope of this article, but it would be fair to conclude that they are embedded in American social policy due to their popularity, as in Social Security and Medicare, as well as their essentiality, as in Supplemental Security Income. The greatest controversy has been around the means-tested public assistance programs—the Supplemental Nutrition Assistance Program (SNAP, formerly Food Stamps), Temporary Assistance for Needy Families (TANF, formerly Aid to Families with Dependent Children), and Medicaid—which are targeted for the poor, who are disproportionately minorities.

The eligibility for public assistance programs, dictated by a means-test on income as well as assets, limits family resources from about $1,000 to $3,000, meaning that minimally prosperous families, such as those with a dependable automobile needed for work, are ineligible for benefits. TANF's "work-first" strategy, through which recipients must take the first available job, discourages recipients from searching for optimal employment, and the practice of many states to disallow job training and education consigns many poor households to dead-end jobs. Noncompliant welfare recipients face benefit sanctions through which assistance is cut or terminated altogether. The federal five-year time limit and even shorter state-imposed time limits discontinue benefits for families transitioning from welfare to work, a poignant problem for those who need training and education to secure well-paying jobs and for the poorest families that require long-term support (Lawinski, 2010; Ridzi, 2009).

A decade after its inception, welfare reform achieved disparate outcomes: many welfare recipients were employed, yet eligible for other public assistance programs, such as SNAP and Medicaid; concurrently, the percentage of TANF-eligible families actually receiving benefits ("take-up rate") dropped from 84 percent in 1994 to 42 percent in 2003 (Department of Health and Human Services, 2007, p. 18). Put another way, in 1996, 68 families received TANF out of every 100 poor households; by 2010, only 27 families out of 100 poor households benefited from TANF (Trisi & Pavettti, 2012).

Most of those eligible for, but not receiving benefits were children, of course (Epstein, 2010), underscoring the urgency of their parents' need for income. A Faustian bargain had evolved for low-income American families. Absent adequate income, workers in the secondary labor market were confronted with suboptimal institutions: public assistance through a non-responsive welfare apparatus or reliance on high-priced AFS products.

Tax expenditures were used to benefit low-income workers through public policy beginning in the 1970s with the Earned Income Tax Credit (EITC). As a tax credit, the EITC added to a lengthy list of benefits by virtue of exclusion from taxation:

corporate pensions, health insurance coverage, and the interest on mortgages. Significantly, such tax credits enjoyed broad bi-partisan support, allowing Republicans and Democrats to show their allegiance to middle-class voters. As a refundable tax credit, however, the EITC paid a rebate to families whose income fell below a certain level (Holt, 2006). By the end of the 20th century, tax credits, several of which were also refundable, had been crafted to address specific concerns: the Welfare to Work Tax Credit, the Work Opportunity Tax Credit, the Child Tax Credit, the Low-Income Housing Tax Credit, and the Adoption Tax Credit, among others (House Ways and Means Committee, 2004). By 2005, 15 states complemented the federal EITC with state refundable tax credits for low-income families (Holt, 2006).

Refundable tax credits had several advantages. Foremost, the volume of revenues was significant: for example, the EITC benefited 22 million low-income families $41.2 billion in 2006, and the Child Tax Credit was projected to benefit 35 million families $52 billion in 2010 (Urban Institute, 2008). Moreover, tax credits were open-ended. Unlike TANF, which was capped at $16.5 billion annually, the amount refunded by tax credits was contingent on the number of eligible tax filers. Tax credits also avoided the welfare assets test: refunds were apportioned according to earned income, regardless of the tax filer's wealth. In 1986, the EITC was indexed for inflation, thus the value of refunds increased automatically, a provision that had not been affixed to AFDC/TANF. Finally, tax credits avoided the stigma of welfare. Instead of repeated visits to an impersonal welfare department, tax credits were accessed by filing a W-1040 electronically or by mail. An important indicator of the value of the tax credit paradigm is the take-up rate, which approximated 75%, far above the 50% typical of public assistance programs. Thirty years after enactment of the EITC, $205 billion in tax expenditures have benefited low-income families (Cramer, Rourke, Cooper, & Luengo-Prado, 2009).

While tax credits have eclipsed TANF in the volume of benefits for poor families and the strategy has enjoyed bipartisan support, it has demerits. Accessed through the Internal Revenue Service in the spring, refunds are available at one time; although they can be spread over the year as a wage supplement, few tax filers take this option. Moreover, beneficiaries must participate in the tax system in order to receive refunds; an unknown, but probably sizable number of the poor prefer the informal, underground economy to meet their economic needs. Almost certainly, a large portion of undocumented immigrants remains unbanked for fear of risking deportation.

Limited access to public assistance and the time restriction of tax expenditures, coupled with the growth of AFS, justify a new organizational strategy to address poverty: Community Based Financial Services (CBFS). Such financial services would offer an array of products, including checking, savings, small dollar loans, tax preparation, and financial literacy education. Account holders would have a personal advisor, an account manager, to help them maximize benefits from various sources in order to construct a plan to assure their upward mobility. CBFS organizations would be private, probably nonprofit, although Yunus (2010) has proposed a for-profit, social business model to address poverty. Significantly, consumers would be able to choose their CBFS organization, encouraging vendors to be responsive to service demand. Two candidates for CBFS have been proposed: Community Credit Unions and financial services at local post offices.

Following subsidies to establish credit unions in poor neighborhoods through Community Development Financial Institutions Fund, Stoesz (2000, 2013) has proposed Community Credit Unions (CCUs) as a means to provide financial services while building capital in low-income communities. CCUs would be licensed and regulated by the National Credit Union Administration (NCUA), and provide an array of traditional products, such as savings and checking, as well as innovative services, such as micro-finance and Individual Development Accounts, short-term loans, and tax preparation in order to maximize tax refunds for workers and employers. Assistance to consumers would be provided by an account manager who would not only help members maximize benefits, but also assist them with other financial objectives related to home ownership, business development, and higher education/vocational training. Community groups would be allowed to petition local government to provide public assistance through CCUs, effectively chartering welfare departments. By 2014, the National Federation of Community Development Credit Unions boasted 250 members in 46 states serving 2.5 million members (National Federation of Community Development Credit Unions, 2014).

Another alternative would be to provide financial services at local Post Offices (POs), as has been the case in many European countries. In January 2014, the Inspector General of the United States Postal Service proposed expanding its financial products to unbanked consumers. This plan would expand money orders, already sold at POs, to include reloadable debit cards as well as international remittances. Currently 38 percent of the nation's 35,000 POs operate in ZIP codes without a bank, so this plan would directly fill a vacuum left by mainstream banks that have abandoned poor neighborhoods. The PO projects that providing services to just ten percent of the unbanked would divert $8.9 billion to the postal service, a much needed revenue stream for the beleaguered institution (U.S. Postal Service Office of the Inspector General, 2014). Senator Elizabeth Warren, as well as Democratic Congressional leaders, endorsed the proposal, but it quickly encountered opposition by Republicans (Becker, 2014). AFS trade associations would likely oppose the PO proposal.

Staffing Community Based Financial Services

The deployment of an effective network of CBFS providers rests in large measure with the quality of its staffing. Most AFS personnel acquire their skills by on-the-job training according to employer priorities and industry "best practice" standards. Credit unions and the Post Office require a high school diploma for counter services with an undergraduate degree for supervisory responsibilities. Administrative positions in financial services are typically reserved for employees with graduate degrees in business or a related discipline. A handful of business schools now offer special programs in "social entrepreneurship" that promote economic justice through market principles (Bornstein & Davis, 2010).

Since the publication of Michael Sherraden's *Assets and the Poor* (1991) and the emergence of a network of organizations advocating asset building, social work has expressed renewed interest in economic justice. Returning to a field that it had abandoned for a half-century, social work found other disciplines had assumed control (Stuart, 2013). Currently three schools of social work offer curriculum in financial services: Arizona State University, the University of Maryland, and several forming a collaborative in New York City (Birkenmaier, Kennedy, Kunz, Sander, & Horwitz, 2013), a modest gesture given the scale of AFS. Bolstering social work's presence in the Secondary Financial Services Market would require raising the visibility of financial capability in professional education.

> Within social work, a standardization of the requirements of certification in financial capability would facilitate a coordinated approach in social work education and continuing education efforts. One way to progress toward standardization is an interprofessional commission that could study the financial capability field and research, make recommendations to the relevant professions about standardization and certifications, and consider next steps. (Collins & Birkenmaier, 2013, p. 318)

A late arrival to AFS, social work has much ground to regain compared to other academic disciplines that educate students in financial services, such as business, economics, and human ecology (formerly home economics). Educating students in financial services is problematic if a network of CBFS vendors has not evolved to employ them. CBFS could be capitalized through Social Impact Bonds (SIBs), financial instruments through which government pays investors according to their achieving predetermined social outcomes. If predetermined objectives are not met, investors lose their money. New York Mayor Michael Bloomberg, MDRC, and Goldman Sachs negotiated an SIB to reduce recidivism among older adolescents sentenced to Riker's Island. As analysts explained,

> In a SIB, investors provide financing to operate federal, state, or local-run programs that aim to achieve predetermined outcomes. Generally, these outcomes are expected to save government money, for example, by reducing the need for beds in prisons or homeless shelters. The government entity agrees in advance that, if the program meets its goals, it will use the savings to pay back the original investment, plus a return. (Butler, Bloom & Rudd, 2013, p. 1)

Goldman Sachs calculated its investment of $9.6 million would generate positive returns once recidivism dropped at least ten percent, outcomes determined by the Vera Institute of Justice (Loeser & Levine, 2012). Given the scale of the Secondary Financial Services Market, SIBs represent a logical candidate for financing a network of CBFS.

Conclusion

The Secondary Financial Services Market has expanded significantly in recent decades, driven by demand for AFS products. Carrying high fees and interest, AFS are harmful for many workers in the secondary labor market; however, in the absence of more constructive options, financially distressed households have little recourse other than resort to the Secondary Financial Services Market. The access to AFS products has been essential for millions of lower-income workers not only when routine expenses exceed income, but also when dealing with emergencies. Reactive policy options are unlikely to provide constructive financial services to lower-income families, compared to the deployment of Community Based Financial Services, such as through Community Credit Unions or Post Offices. Social Impact Bonds are an innovative means for capitalizing CBFS. Professional training in financial capability could provide lower-income families with services that would introduce them to an array of financial products designed to accelerate their upward mobility. Along with business, economics, and human ecology, social work could contribute to the professionalization of financial services, given its historic concern for economic justice.

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