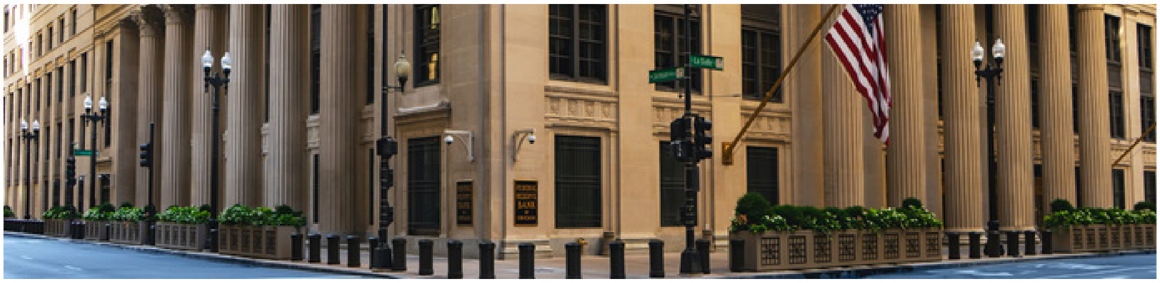

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CAN A PUBLIC BANK REDRESS THE PRIVATE BANKING INDUSTRY'S HARMS TO CHICAGO'S RESIDENTS? AN ANALYSIS OF THE CONSUMER FINANCIAL PROTECTION BUREAU'S COMPLAINTS DATABASE

By Terri Friedline and Ameya Pawar

INTRODUCTION

To participate fully in the economy, people need financial products and services made available by banks to pay bills, send money to friends and relatives, buy a house, and start businesses. These products and services such as bank accounts, credit cards, home mortgages, and business loans should be easy to access and inexpensive.

Unfortunately, private banks and lenders often provide products on expensive and exploitative terms—especially to people who are poor and racially marginalized.[1] For instance, in 2021, 40% of households without a bank account did not have enough money to meet minimum balance requirements while another 30% report that account fees were too expensive.[2] Private banks profit from these account fees, which are getting more expensive, and collect $12 billion to $15 billion in overdraft fee revenue annually.[3] Private banks' total profits rose 315% in the first quarter of 2021, compared to the same quarter in the prior year.[4]

The terms that private banks and lenders set for credit cards and mortgages are also notoriously expensive and exploitative.[5] For example, banks and lenders base their credit card interest rates on the prime rate, which is a rate determined by the Federal Reserve that guides banks' own borrowing and lending.[6] This means credit card interest rates fluctuate and people's credit card balances can grow quickly and unexpectedly. Case in point: The Federal Reserve raised the prime rate at least six times in 2022,[7] and credit card debt is increasing precipitously. In the last 18 months alone, the total value of consumer debt from credit cards and revolving loan plans issued by private banks and lenders has risen 19%.[8] Sizeable percentages of poor and moderate-income Black (34%), Latino (40%), and White (60%) households use credit cards.[9] The implications of the rise in credit card debt for poor families is worrisome, especially since economic relief initiated at the beginning of the COVID-19 pandemic has expired, inflation is rising, and student loan debt payments are set to resume in January 2023. Many people may continue relying on expensive credit card debt to survive.[10]

KEY FINDINGS

- Residents of Chicago submitted 40,645 complaints about financial products and services to the Consumer Financial Protection Bureau (CFPB) between 2011 and 2022. The number of complaints rose exponentially over time.
- A majority of complaints (64%) had to do with credit. The next largest categories of complaints were related to debt collection (12%), bank accounts (9%), and mortgages (8%).
- Residents of Chicago's poor and racially marginalized communities submitted complaints about credit-related products and services at substantially higher rates than their more advantaged counterparts.
- Evidence indicates many Chicago residents have experienced harms or problems related to financial products and services, a majority of which are provided by private banks and lenders.

The trend in mortgage debt is similar. A declining number of people have mortgage debt; though, mortgage debt is becoming more expensive.[11] The total value of mortgage debt has increased 9% in the last 18 months[12] and interest rates have also increased during this time frame. The average interest rate that banks and lenders charge on a 30-year fixed rate mortgage has risen from about 3% in 2020 to 7% in 2022. This means that borrowers are paying significantly more to purchase a home today than they would have paid only a year or two ago.[13] And, banks and lenders still engage in subprime lending—a practice of charging higher interest rates and offering worse terms on mortgages to borrowers with lower credit scores.[14] Banks and lenders disproportionately target Black and non-Black borrowers of color for subprime mortgages even when they qualified for better terms.[15]

In Chicago, people experience the consequences of private banks' and lenders' expensive and exploitative terms. In part, these consequences can be observed in the percentage of residents that use private banks' and lenders' products and services. The percentage of residents in the Chicago metro area that do not have bank accounts is higher than the national average—5.4% compared to 4.5%.[16] Access to bank accounts is tenuous and intermittent for 40% of the city's Black and Latino residents.[17] Twenty-three percent of residents have credit scores below 660, putting a sizable percentage of the population at risk for receiving expensive credit cards and mortgages.[18] Moreover, the racial disparities in Chicago's homeownership rates are some of the most severe in the nation. Seventy-four percent of White metro residents own their homes, compared to 39% of Black metro residents.[19] Seventeen percent of residents with incomes below the federal poverty level live in owner-occupied housing.

Public banking is one idea for mitigating the harms and problems Chicago residents experience from private banks and lenders. In this case, a public bank is a locally and democratically governed institution that can serve as the city's fiscal agent.[20] A public bank can support a variety of retail banking products and services (e.g., bank accounts, credit and mortgage lending) and also invest in the types of development that communities need. For instance, local governments struggling to respond to rising housing costs could benefit from a public bank that finances the development of affordable housing. Whereas a private bank, concerned about slimmer profit margins, might decline these types of investments, a public bank could affirmatively respond to communities' needs.

It is useful to evaluate how Chicago residents experience harms and problems from private banks and lenders before moving toward public banking as a mitigating response. One way of understanding Chicago residents' experiences is through their complaints made to the Consumer Financial Protection Bureau (CFPB). These complaints can illustrate how private banks and lenders harm Chicago residents and even thwart the city's efforts to support residents in paying bills and buying a home.

This report analyzes Chicago residents' complaints about financial products and services to the CFPB between 2011 and 2022. The findings provide understandings about how Chicago residents use private banks' and lenders' financial products and services, the extent to which residents experience harms and problems, and the potential for a public bank to intervene. Additional, community-specific information is available upon request, and supplemental materials including [select community profiles and appendices are available here.]

THE CFPB CONSUMER COMPLAINTS DATABASE

The CFPB Consumer Complaints Database is useful for exploring people's and communities' experiences with financial products and services. Since 2011, people have been submitting complaints to the CFPB on topics ranging from credit reports, credit cards, and bank accounts to mortgage lending and debt collections. These complaints are added into the database and categorized according to products and issues, along with basic information such as the date the complaint was received, the state and ZIP code of the person submitting the complaint, a brief narrative summary of the complaint, and whether the company provided a response.

The database includes information from people who have experienced a problem with a consumer financial product or service and subsequently submitted a complaint to the CFPB. These data offer a unique perspective even while not being representative of or generalizable to the population. The complaints database likely underestimates the extent of people's and communities' difficulties with products and services, given that not everyone who experiences a harm or problem submits a complaint. And while complaints about companies' products and services are not necessarily indicative of illegal activities, the database can reveal their unethical or harmful corporate activities.

These data lend insights into the potential failures of and abuses by financial services companies including private banks and lenders. The short narrative summaries that Chicago residents often submit with their complaints include statements such as, "*My cell phone was stolen. The thief was able to log in to my…checking account through the [bank's] mobile app, it is unclear how they were able to do this as it is password protected…[The bank] refuses to recognize the transaction as fraud and will not refund me the stolen money,*" and "*My mother passed away suddenly. In the process of dealing with her financial affairs we discovered a redo of a mortgage…The terms of the loan are absurd as well as the fees associated the loan…My family is not rich and these practices are deceitful.*" Among the subset of people who submit complaints, we can begin to understand what products and services receive the most attention and the extent to which complaints are received disproportionately from communities with racially and economically marginalized populations.

We analyzed 40,645 complaints received from 67 ZIP codes within the city of Chicago between Dec. 2, 2011, and Aug. 29, 2022. This date range includes the full scope of time that data were available when we began our work. Given the volume of complaints, we focus on analyzing patterns related to the number and type of complaints rather than the brief narratives that people include with their submissions. We use the U.S. Census Bureau American Community Survey (ACS) 2020 5-year estimates to incorporate data on ZIP codes' population demographics. For instance, we can explore patterns of complaints based on the percentages of the population within a ZIP code that have a family income below the federal poverty level, identify with a certain racial or ethnic group (e.g., Asian, Black, Latino, Native, and White), and have broadband internet in the home. We can also include the unemployment rate. We focus on poverty and racial or ethnic group since classism and racism create starkly segregated communities, which is especially apparent in Chicago.

Very few complaints (n = 21) were submitted in 2011, given that the CFPB opened the database and began receiving complaints in December of that year. Similarly, given that we began our work in August 2022, only complaints submitted during the first eight months of the year are recorded in the data (n = 7,696); though, trends for the first half of 2022 are already suggestive of the direction of continually rising complaints. Thus, we focus most of our discussion on the 10-year period from 2012 through 2021, which provide data from every month for each calendar year. It is notable that the number of complaints received per year increases exponentially, from 785 in 2012 to 7,070 in 2021 (see Figure 1). This increase is attributable in part to people gaining familiarity with the CFPB and the complaints database over time. Though, the number of complaints nearly doubled between 2019 and 2021, perhaps indicating a rise in harms and problems during the COVID-19 pandemic.

ACCORDING TO THEIR COMPLAINTS, CHICAGO RESIDENTS HAVE THE MOST PROBLEMS WITH CREDIT

A majority of complaints (64%) from Chicago residents have to do with credit: unauthorized charges on a credit card, incorrect credit card balance, credit card cancelled without warning, improper use of a credit report, incorrect information on a credit report, problems with credit monitoring or identity theft, problems locating a credit report or credit score, and problems with the ways a credit reporting company is investigating an existing concern. The next largest categories of complaints are related to debt collection (12%), bank accounts (9%), and mortgages (8%).

We focus on complaints related to credit, bank accounts, and mortgages since public banks are capable of providing these financial products and services directly and/or indirectly.[21] For instance, public banks can provide retail financial products and services to customers directly, such as opening checking accounts or offering low-cost loans. Public banks can also support credit unions and other local financial institutions that already offer retail financial products and services.

Credit increases in prominence as a percentage of overall complaints, rising from 23% in 2012 to 66% in 2021. This pattern contrasts with the patterns of complaints about bank accounts and mortgages, which both comprise larger shares of overall complaints in 2012 and decline on average over time (see Figure 2). For instance, in 2012, 25% of complaints were related to bank accounts and 41% were related to mortgages—both making practical sense given that this time frame coincided with the aftermath of the Great Recession and the beginning of highly publicized bank account scandals. By 2021, these numbers as percentages of overall complaints fall respectively to 9% and 4% in the database.

RESIDENTS OF POOR AND RACIALLY MARGINALIZED COMMUNITIES SUBMIT A MUCH GREATER SHARE OF CHICAGO'S CREDIT-RELATED COMPLAINTS

A majority of complaints submitted by people in Chicago has to do with credit, with a higher number of complaints submitted by residents of poor and Black communities. Among the ZIP codes with the lowest poverty rates, 52% of total complaints have to do with credit compared to 72% among ZIP codes with

Figure 1: Total # of CFPB Compaints from Chicago Zip Codes, (2011-2022)

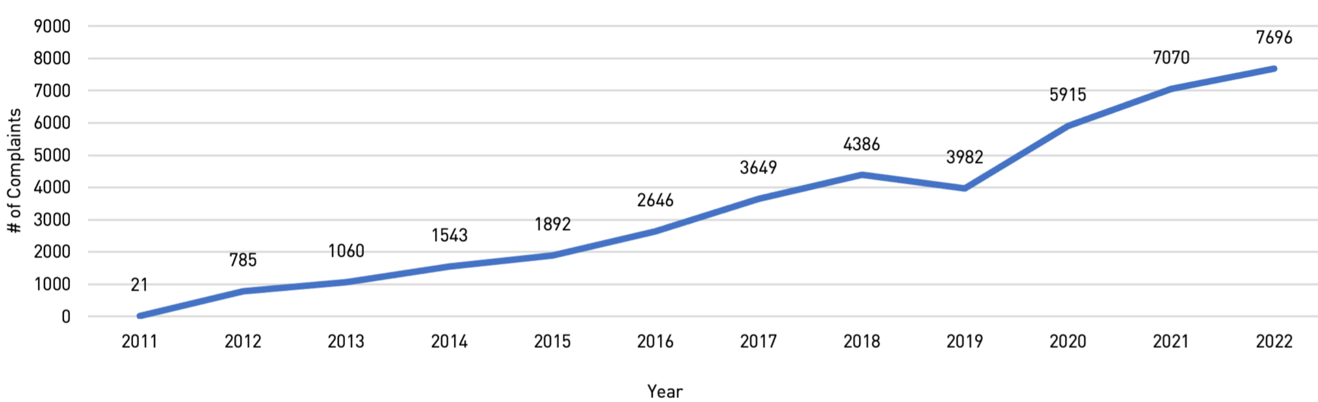


Figure 2: Average Percentage of CFPB Complaints from Chicago ZIP Codes (2011-2022)

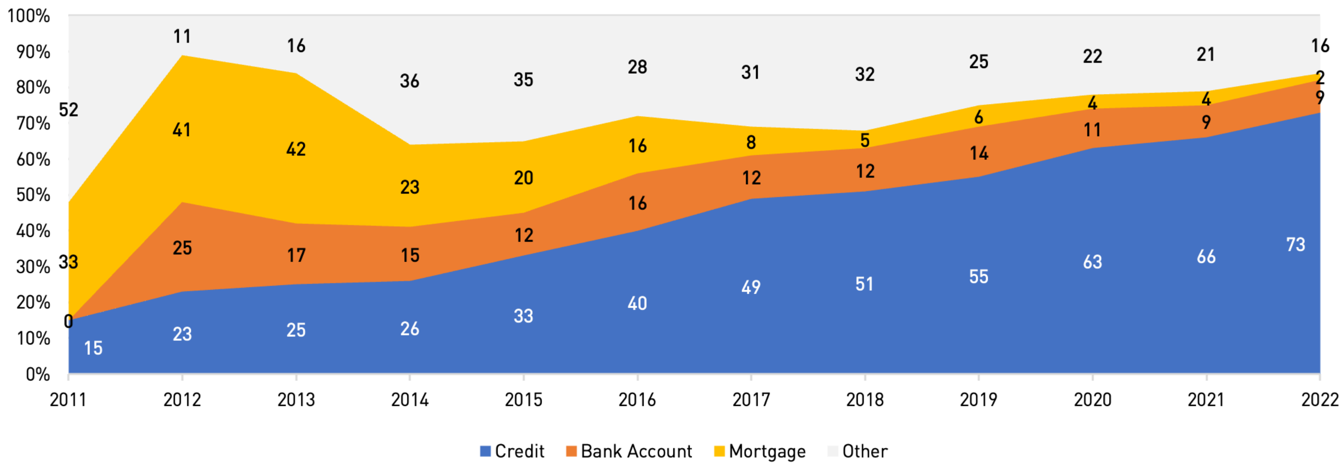
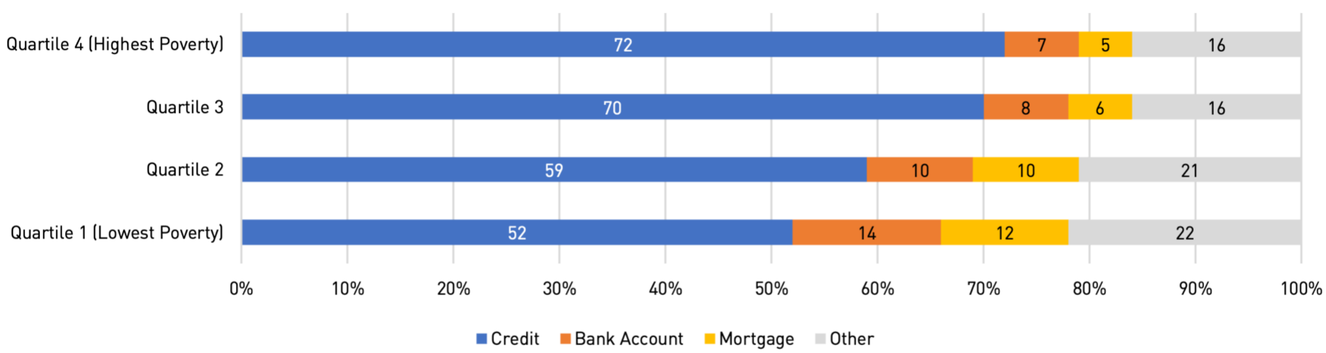


Figure 3: Distribution of Average Percentage Credit, Bank Account, Mortgage, and Other Complaints by ZIP Code Poverty Quartile



the highest poverty rates in the city (see Figure 3). This gap suggests residents of Chicago's poorer communities report more problems with credit products and services to the CFPB compared to their more advantaged counterparts (see Figure 4).

One way racism is expressed is through classism. Given Chicago's history of White racial violence for extracting wealth and enforcing segregation,[22, 23] the percentages of credit complaints by poverty rate are nearly the same for ZIP codes with the smallest and largest shares of Black residents (see Figure 5).

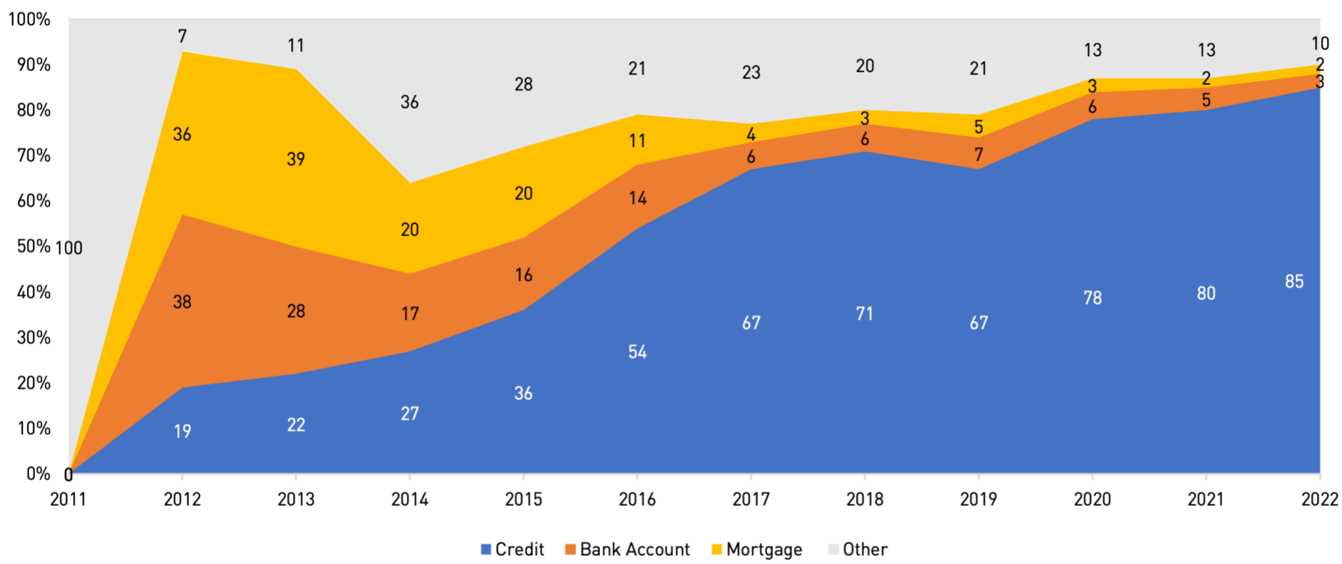
Fifty-one percent of total complaints among ZIP codes with the smallest shares of Black residents have to do with credit, compared to 72% among ZIP codes with the largest shares of Black residents. For ZIP codes with the smallest and largest shares of Native residents, the percentages are respectively 60% and 64%, with more complaints originating from communities with the most Native residents.

These percentages are reversed for ZIP codes with the smallest and largest shares of Asian, Latino, and White residents (see Figure 5). Far fewer complaints about credit originate from ZIP codes with the largest shares of Asian and White populations.

RESIDENTS OF CHICAGO'S MORE AFFLUENT AND WHITER COMMUNITIES SUBMIT A GREATER SHARE OF COMPLAINTS ABOUT BANK ACCOUNTS

A small percentage of complaints (9%) submitted by people in Chicago have to do with bank accounts. The share of overall complaints peaks at 25% in 2012 and declines steadily to 9% in 2021. Generally, fewer percentages of complaints related to bank accounts were submitted by residents of disproportionately poorer and racially marginalized communities. Poor and racially marginalized people tend to report lower rates of bank account ownership compared to their advantaged counterparts.[24] They also tend to keep less money in bank accounts,[25] perhaps making problems and harms from these everyday retail financial products relatively less salient in the lives of poor and marginalized peoples when compared to credit.

Figure 4: Distribution of Average Percentage Credit, Bank Account, Mortgage, and Other Complaints by ZIP Code *Highest Quartile Poverty*



Residents of communities with higher incomes submitted more complaints about bank accounts (see Figure 3). Residents of the lowest poverty ZIP codes made 14% of bank account complaints compared to 7% from the highest poverty ZIP codes.

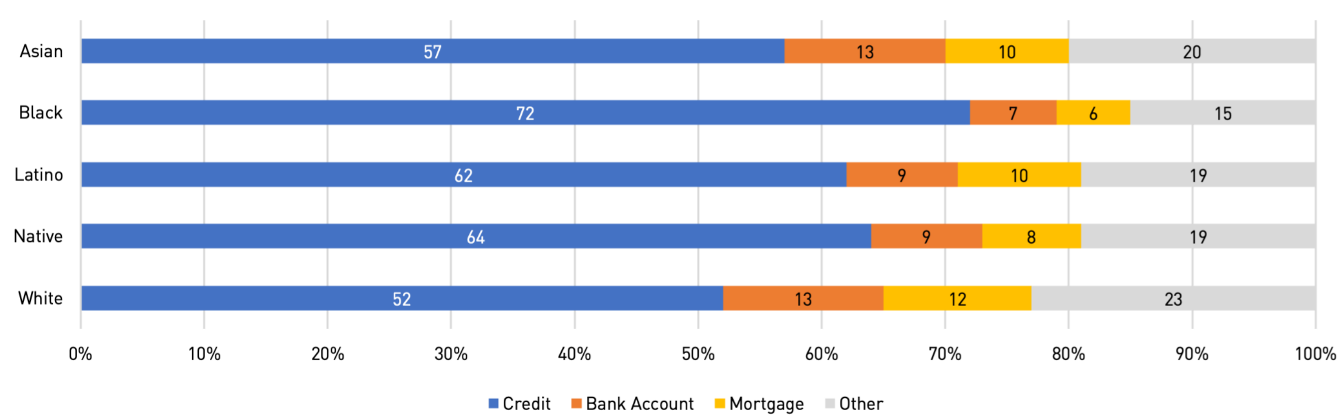
Complaints regarding bank accounts are relatively more common among ZIP codes with larger shares of Asian and White populations. For instance, among the total number of complaints, residents of ZIP codes with the largest shares of Asian and White populations submitted 13% of complaints related to bank accounts. Comparatively, residents of ZIP codes with the largest shares of Black, Latino, and Native populations submitted only 7% to 9% of complaints about bank accounts.

RESIDENTS OF WHITE COMMUNITIES, WHERE HOMEOWNERSHIP RATES ARE HIGHER, SUBMIT MORE MORTGAGE-RELATED COMPLAINTS

Eight percent of the total complaints submitted by people in Chicago have to do with mortgages. The homeownership rate in Chicago has declined during the last decade—a trend that was accelerated by the Great Recession.[26] For instance, the Chicago homeownership rate was 64% in 2010, which dropped to a low of 60% in 2016 before rising to 61% in 2020. The owner-occupied housing rate in Chicago is 45%,[27] meaning that less than half of the city's homes are occupied by people who have paid or are paying a mortgage on the unit. Poor and racially marginalized people tend to report lower homeownership rates, reducing their likelihood of owing a mortgage; yet, when they do have a mortgage, there is an increased likelihood the terms are subprime and predatory.[28]

The share of mortgage-related complaints peaked at 42% in 2012 and declined steadily to 4% in 2021. Fewer percentages

Figure 5: Distribution of Average Percentage Credit, Bank Account, Mortgage, and Other Complaints by ZIP Code *Highest Quartile Race/Ethnicity*



of complaints related to mortgages were submitted by residents of disproportionately poorer and racially marginalized communities (see Figures 3 and 5). Residents of affluent communities, including those more likely to own homes, submitted mortgage complaints at over double the rate of those from the poorest communities (e.g., 12% and 5% for ZIP codes with the highest and lowest poverty rates, respectively).

Residents of ZIP codes with the largest shares of White residents submitted a disproportionate share of mortgage complaints (see Figure 5). Residents of ZIP codes with the largest shares of White residents submitted 12% of mortgage complaints, with similar percentages among ZIP codes with the largest shares of Asian (10%) and Latino (10%) residents. ZIP codes with the largest Black and Native populations submitted only 6% and 8% of mortgage complaints. The high percentage of mortgage-related complaints (14%) among ZIP codes with the fewest Black residents (not shown, data available upon request) exemplifies the anti-Black nature of housing in Chicago and homeownership generally. ZIP codes with the fewest Black residents submitted the most mortgage-related complaints.

CONCLUSION

During the last 10 years, Chicago residents have submitted 40,645 complaints to the CFPB about harmful and problematic experiences with financial products and services, most of which have occurred with private banks and lenders. Through their complaints, Chicago residents have documented harms and problems related to credit, debt collection, bank accounts, and mortgages. Residents of Chicago's poor and racially marginalized communities have submitted complaints at substantially higher rates either than city averages or than their Whiter and more affluent counterparts. When these complaints are considered in concert with substantial evidence of historic and contemporary racist lending practices,[29, 30] it is evident that private banks and lenders are not equipped to support Chicago residents' full and equal participation in the economy.

Public banking is one possibility for meeting both the city of Chicago's and residents' needs. In places around the United States, grassroots organizers have presented public banks as an option to challenge private banks' and lenders' concentrated power and to build shared opportunity with poor and marginalized communities.[31] In 2019, organizers in California celebrated the passage of Assembly Bill No. 857 by the state legislature, which authorized public banks despite strong opposition from the well-financed private bank lobby. In 2020, U.S. Representatives Rashida Tlaib and Alexandria Ocasio-Cortez introduced federal legislation in complement with the Green New Deal that would ensure access to affordable banking and enable investments in local economies.[32] Organizers are building on this momentum to advance inclusive, anti-racist visions of finance: creating new, public banks susceptible to democratic oversight, linked with civil rights, and predicated on equal access and shared power.

Taken together, local governments around the country have $7 trillion to $12 trillion of combined public money invested in private banks, such as monies from pension funds and tax revenues.[33] Chicago boasts an annual budget of $16.7 billion. According to 2022 budget appropriations, the city received $1.77 billion in tax revenues from utilities, business, recreation, and transportation taxes. The city reported another $2.9 billion in pension funds.[34] Rather than borrowing expensive debt from private lenders or using a private bank as a fiscal agent that reinvests profits elsewhere, the city could establish a public bank mandated to invest locally and equitably. This kind of public bank could be equipped to support Chicago residents by providing easy-to-access and inexpensive bank accounts, credit cards, home mortgages, and business loans.

There are over 900 public banks worldwide,[35] which means there are many examples and models to learn from in designing and establishing a public bank locally.[36] While public banking is less common in the United States, existing examples include the Federal Reserve, the Bank of North Dakota, and postal banking.[37] The Bank of North Dakota, which has operated at the state level since 1919, is often uplifted as a model for how newly-established public banks could better support local economies through recessions, promote jobs, and lend to small businesses than private banks.[38]

Our report reviews the harms and problems that Chicago residents experience from private banks and lenders and considers the possibility of public banking as one solution. Chicago residents would need to be interested in and supportive of a public bank as well as lead its design. It would be important to fully evaluate promises and pitfalls before moving forward to establish or implement a public bank. Yet in any case, if the CFPB complaints database is an indication, private banks and lenders will continue to fail Chicago's residents without further intervention.

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Ameya Pawar is a fellow with the Open Society Foundations and the Economic Security Project.

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