"What Is the Market Gap for the Provision of Financial Services for Low-Income Communities?"

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Summary and Findings: There is a gap in the provision of mainstream financial services to low-income areas. Gaps exist in long-term lending for housing, commercial real estate, and community facilities; small business lending and microloans; and bank lending for low-income consumers. Over 100 million individuals—33 percent of the U.S. population—are estimated to be low- or moderate-income, living below 80 percent of the area median family income adjusted for metropolitan and nonmetropolitan areas. Only 12 percent of all home mortgage loan originations—a proxy for long-term lending—occur in areas where 100 million low-income households are located. Only 24 percent of Small Business Administration loan originations occur in areas where 100 million low-income households are located. And only 20 percent of bank branches (sample selected from Washington, D.C., Arizona, California, New York, New Jersey, and Texas) are in areas where 100 million low-income households are located.

Implications for Policy and Practice: Community development financial institutions (CDFIs)—primarily nonprofit housing, business, and community development lenders in low-income areas—are stepping into the breach and providing loans and investments for long-term lending for community facilities and housing; small business lending and microloans; and bank lending for low-income consumers. However, the gap is estimated to be in the hundreds of billions of dollars in capital investments, and the CDFI sector is small when compared to the needs of low-income communities.