



Examining the Intersection Between Criminal Justice and Financial Services in the Deep South

By Calandra Davis

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Overview

This paper explores the interlocking systems of imprisonment and economic inequality that block people who were formerly incarcerated from reaching sustained levels of financial mobility and thus preventing successful re-entry. Specifically, it examines access to the financial system, from opening bank accounts to getting small business loans. Community Development Financial Institutions (CDFIs) are in a unique position to dismantle structural economic barriers and facilitate transformative justice for both formerly incarcerated people and their communities.

Findings and common themes for this paper are drawn from interviews with staff of Hope Enterprise Corporation / Hope Credit Union (HOPE), a Black-led CDFI in the Deep South, and six people from the region who were previously incarcerated, discussing their experiences with financial institutions, credit access, financial barriers and financial support. Financial support included communal networks, family, or institutional support, such as reentry programs or government assistance. The findings include a presence of family support, financial relationships with local institutions, and criminal justice debt preventing upward economic mobility.

The Costs of Incarceration

There is a long, costly history that binds criminal and economic injustice. The costs and impacts are highly concentrated in communities in the Deep South, a region disproportionately affected by mass incarceration and persistent poverty. In 2019, people in the Deep South were burdened by more than \$4 billion in debt related to their interaction with the federal criminal justice system, more than double what it was 10 years ago.¹ See Table 1. Formerly incarcerated individuals pay their debts to society twice, once by serving out their sentences and again by paying debts upon release. These debts are used to revoke state driver's licenses, re-incarcerate people, prevent people from voting, and create significant barriers to achieving financial security.

Table 1: Federal Criminal Justice Debt Outstanding for Fiscal Year 2019

Location	Total Debt 2009	Total Debt 2019	Percent Increase
Alabama	\$363,942,581	\$640,068,180	76%
Arkansas	\$240,812,563	\$464,146,338	93%
Louisiana	\$546,897,209	\$1,068,849,064	95%
Mississippi	\$234,025,093	\$507,493,716	117%
Tennessee	\$550,808,541	\$1,437,433,828	161%
Deep South Total	\$1,936,485,989	\$4,117,991,128	113%
United States	\$60,627,162,810	\$131,183,442,245	116%

United States Attorneys' Annual Statistical Report. 2019. <https://www.justice.gov/usao/page/file/1285951/download>

Involvement in the criminal justice system creates economic barriers that contribute to high levels of persistent poverty and inequality, afflicting households and communities for generations. Formerly incarcerated persons are often bogged down with debt even before they are released. They carry the burden of paying legal fees, fines, and other debts that result in limited access to housing, employment, and government assistance. Consequently, formerly incarcerated people have trouble accessing credit and financial products like low-interest loans and low cost accounts, making it hard to gain financial stability or build wealth for the future.

As formerly incarcerated people struggle to find solid ground after their release, they are met with diminished economic opportunities and difficulty accessing reentry services while working to manage mounting costs imposed by the justice system itself.² The inability of formerly incarcerated people to pay the debts associated with criminal justice monetary sanctions often leads to re-incarceration. In fact, in Mississippi, there are four restitution centers across the state serving as debtor's prisons as formerly incarcerated individuals work to earn money to pay off court-ordered debts.³ Though half of the people housed at the centers owe less than \$3,500 in debt, they stay four months, on average, and sometimes years working to satisfy debts. Often the families of people who are incarcerated take on the primary task of preventing re-incarceration by bridging the gap where housing services, employment opportunities, and government assistance fall short. This task carries an extra burden for the families in financially distressed communities.

Voices from the Field and The Path to Re-Entry for People Who Were Formerly Incarcerated

HOPE worked with community-based partners to identify six formerly incarcerated individuals in the region with diverse financial experiences. This group of six, while small, provided helpful insight into the financial barriers and opportunities formerly incarcerated people face. Every individual interviewed identified as being financially insecure before incarceration. HOPE conducted one-on-one phone interviews with each person about their experiences. Participants received an honorarium for sharing their experience.

Debt Accumulation

Each of the interviewees carried more than one debt when leaving prison. Fines, fees and medical debt were the most common debts held by the interviewees. One person, in Mississippi, who served two years in prison shared: "They put pressure on you and try to scare you and say they'll hold you in violation. But the thing is, I'm on good behavior and I pay my supervision fee of \$55 a month for parole... I just found out that I can't get life insurance because I'm on parole." On top of that, "I paid off all my old fines in order to get my driver's license. Three months after that my license was suspended because I was behind on child support and basically I was behind on child support for being in prison for 2 years." He found out his license was suspended through his employer. He had the privilege of working for an employer that gave him the money to pay the fee and get his license.

Another person in Arkansas, who was incarcerated for 32 years, had medical bills that accumulated while she was incarcerated, leaving them unpaid and harming her credit score. During that time, she also was unable to pay into social security to support her during her older years. Now three years out of prison, she ended up in debt after paying her parole fee, and using a credit card to pay for bills and food because she did not have enough money to eat. She expects to be homeless in the future, if nothing changes. Two of the interviewees held \$10,000 to \$25,000 in child support debt. The amount of child support related debt created additional stressors including license suspension and job loss.

Employment Barriers

Further compounding financial instability, when formerly incarcerated individuals return home, the only employment options available tend to be low-paying and unstable jobs.⁴ More than half of the interviewees are underemployed two years after their release and see entrepreneurship as a more viable route to financial stability. Half of the interviewees are now seeking to start their own business, as employment opportunities with living wages are scarce. However, limited credit access puts business ownership further out of reach. When asked about his financial goals in an ideal world, one person spoke of his dreams to start a business, stating that with about \$25,000 to accomplish his financial and business goals, he could get another truck and trailer to haul cars.

"I had a lot of interviews. No one just ever gave me a chance."

– formerly incarcerated person in Little Rock, AR

Photo Identification as a Barrier to Banking

One common barrier is lack of an adequate photo identification that banks will accept for the purposes of opening a bank account. One participant engaged in re-entry work in New Orleans, LA shared challenges encountered by people who were formerly incarcerated accessing financial services. When asked about the level of difficulty associated with opening an account and establishing a relationship with a financial institution, she explained that there was only one bank in the city that accepted federal prison IDs as a valid identification. The lack of financial institutions accepting the identification was a significant roadblock for her and many of the women she worked with in the re-entry program. One Deep South city, Little Rock, Arkansas, has implemented a municipal ID program, which helps address the identification barrier, and assists with decreasing the un- and underbanked rates for formerly incarcerated people.⁵ Other efforts are underway in states like Kentucky where organizations are engaged in a Liberation Identification movement to implement a statewide program providing state-issued photo identification to all people leaving incarceration.⁶

Impact on Families

Finally, families continue to act as organic re-entry programs. One person in Mississippi was able to maintain housing and his bank account due to his brother taking up the financial responsibility during his two-year incarceration. Formerly incarcerated persons with little to no family support carried more debt and lost secure housing and transportation during incarceration. For example, another person in Mississippi, a formerly incarcerated mother with no family support lost her house and custody of her children. She lost track of bills that ultimately went to collections and became delinquent. With few other options, she turned to payday lenders and other high cost lenders in attempt to quickly gain financial stability. However, the opposite happened. Losing her car and her furniture, after making payments to a high-cost lender, she found herself returning to the lenders in an attempt to catch up on missed rent payments from the past four months.

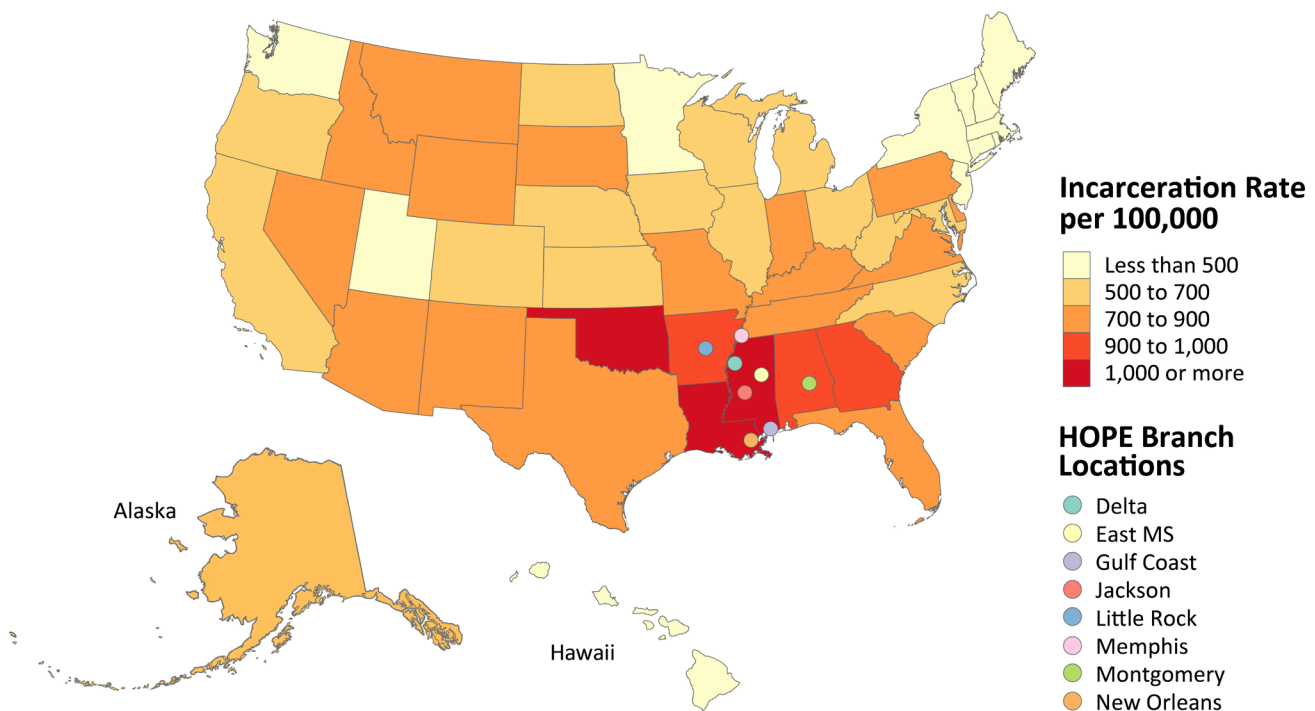
Table 2: Analysis of Interviews with Formerly Incarcerated Persons

Summary of Common Themes			
Difficulty establishing a relationship with a financial institution	The most pressing financial issue since returning to society	Level of difficulty with obtaining employment and its financial impact	Financial experiences during incarceration
<ul style="list-style-type: none">• Lack of proper identification• Payday and title loan lenders	<ul style="list-style-type: none">• Securing housing and employment• Monetary sanctions, debt accumulation and little to no access to credit	<ul style="list-style-type: none">• Background checks and credit both worked as barriers to employment• Entrepreneurship believed to be a more realistic option for financial stability	<ul style="list-style-type: none">• Loss of housing, employment, transportation, and social networks• Default on bills and other obligations, accumulation of new debt; damage to credit score• Family and institutional support were critical to financial security

Lessons From the Field – The Role of CDFIs in Re-entry

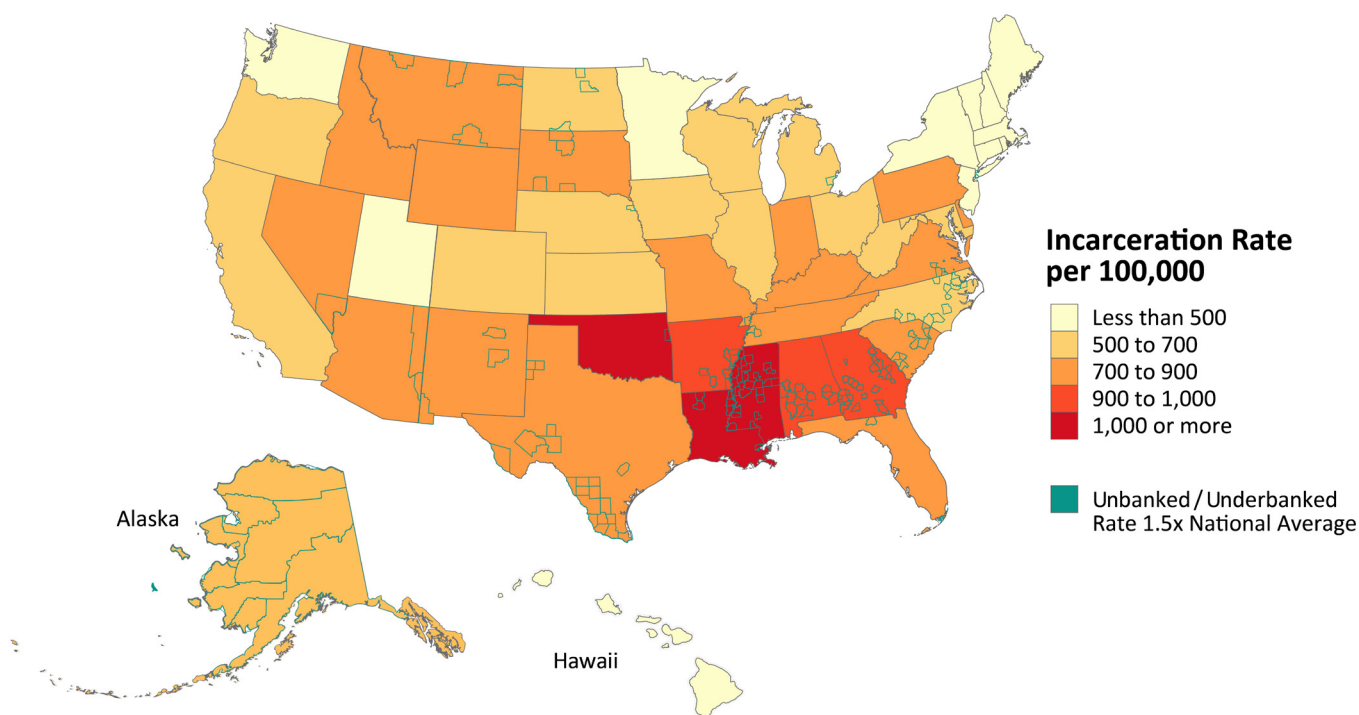
Hope Enterprise Corporation / Hope Credit Union (HOPE) is located in four of the 10 states with the highest incarceration rates in the country.⁷ See Map 1. HOPE serves communities with high rates of removal and return of incarcerated persons that increase the economic disadvantages these communities already face. For example, many of these same communities already experience high rates of unbanked and underbanked households, and people living in the region frequently find themselves trapped in predatory financial products, such as payday or car title loans. According to a FDIC survey, nearly 50% of unbanked respondents said they did not have enough money to put into an account.⁸ For example, the state prison incarceration rate in Jefferson County, Alabama surpasses the state's rate at 627 per 100,000 residents.⁹ The county also holds a high rate of underbanked households at 20.6%.¹⁰ See Map 2. HOPE's location in a region with high incarceration rates and its mission, place HOPE in the pivotal role of easing access to banking, credit, and financial mobility for incarcerated persons, their families, and communities.

Map 1: State Incarceration Rates and Hope Credit Union Locations



SOURCE: Kiyadh Burt, Hope Policy Institute Analysis of Prison Policy Initiative data, "States of Incarceration: The Global Context 2018."

Map 2: State Incarceration Rates and County Un/Underbanked Household Rate



SOURCE: Kiyadh Burt, Hope Policy Institute Analysis of Prison Policy Initiative data, "States of Incarceration: The Global Context 2018," and Prosperity Now Estimates of FDIC National Survey of Unbanked and Underbanked households (2017).

Interviews with HOPE staff identified strengths and gaps in financial service access among people who were formerly incarcerated. HOPE expands access to financial security through accessible credit, financial literacy and providing depository accounts to members who were mostly un- and underbanked before coming to HOPE. This pathway to financial security reduces the costs returning citizens face when they are unbanked. Without a relationship with a financial institution, formerly incarcerated individuals may find themselves paying high fees at a check-cashing store or taking a loan from a high cost lender.

Partnerships to Expand Economic Opportunity for Formerly Incarcerated People

HOPE helps members who were formerly incarcerated avoid costly debt traps by offering financial education pre-release at state correctional facilities, partnering with re-entry programs and using non-traditional forms of credit in its lending practices.

As one example, HOPE works with a Memphis, Tennessee, partner to teach financial education classes and offer formerly incarcerated people the opportunity to open checking or savings accounts.

"I saw that as a golden opportunity," one participant recalls. "A classy person from a financial institution was coming to me and a room full of felons, saying we want you?"

"People who haven't been in prison don't know what an important step an account is toward becoming a productive citizen."

Financial Products Enhancing Economic Mobility

In another example of supporting economic opportunity for formerly incarcerated individuals, HOPE's small business lending supports second-chance employers. Recently, HOPE closed a loan with a minority-owned janitorial and landscaping company in Mississippi. Owned by a father and son team, it operates as a second-chance employer, providing job opportunities to people who were formerly incarcerated. HOPE was able to help the borrower escape a high-interest predatory small business loan with a 55% annual percentage rate (APR) and replace it with a small business loan with an 8% APR. This saves the small business \$3,900 a month in loan payments, money that is now free to support and expand the business.

Policies and Procedures

Finally, while the intent of federal banking regulations is to ensure financial institutions operate safely, the regulations can create structural barriers for formerly incarcerated individuals looking to move along a path towards financial security through the opening of a savings or checking account. Most credit unions and banks will require one or more forms of picture identification to open a new account. If the ID does not meet the institutions' guidelines, the account cannot be opened. HOPE works within the boundaries of federal regulations for financial institutions by accepting alternatives to federal identification, such as municipal IDs.

Formerly incarcerated individuals deserve a chance at economic mobility and financial stability for themselves and their families, and HOPE, through its daily work as a CDFI, is committed to providing those chances. Table 3 summarizes HOPE's strategies for working with people who were formerly incarcerated.

Table 3: Analysis of Hope Credit Union Interviews: Access to Financial Services

Summary of Common Themes	
How HOPE is meeting the needs of formerly incarcerated members	<ul style="list-style-type: none">• HOPE members with formerly incarcerated family are able to open an account on their behalf establishing a relationship before their release• Highlighting entrepreneurship in financial education
Ways HOPE is breaking down structural financial barriers	<ul style="list-style-type: none">• Accepting alternative identification to open accounts• Use of non-traditional forms of credit in lending practices
HOPE is building relationship with formerly incarcerated people	<ul style="list-style-type: none">• HOPE seeks out referrals from organizations that work directly with formerly incarcerated people• Branch staff are trained to treat all members with equal respect

Discussion

There are more than 44,000 local, state, and federal restrictions placed on people leaving prison and re-entering society.¹⁰ Among the collateral consequences of these restrictions are heightened barriers to financial inclusion. The structural barriers identified through research highlighted in this paper include lack of employment, debt accumulation, and limited credit access.

Of people interviewed for this paper, the majority leaving prison had no jobs. Only one interviewee was able to maintain his employment situation. Nationally, those who were able to find employment after incarceration only earned a median annual income of \$10,000 per year.¹¹ Low wages and job denials due to the stigma associated with incarceration lead many formerly incarcerated individuals to pursue entrepreneurship.

Entrepreneurship can place formerly incarcerated individuals on the path to upward economic mobility. Yet, there are barriers formerly incarcerated individuals who achieve business ownership still face, in addition to incarceration-induced debt and credit score damage. For example, COVID-19 brought on new challenges for small business owners everywhere but assistance was not accessible to everyone. The federal Small Business Administration Paycheck Protection Program (PPP), a forgivable loan created by the CARES ACT offered to businesses through financial institutions, excluded any business owner who was convicted of a felony within the past five years from getting the loan.¹² The application process also excluded any person charged and put in pretrial diversion, parole, or probation without yet being convicted or spending any time in prison. This exclusion from the PPP program was significant, as \$525 billion flowed through the program to small businesses, but largely bypassed those owned by formerly incarcerated people even though small businesses are critical sources of employment for the owners and the people who work for them.

Additionally, unpaid criminal justice debt often results in the revocation of a driver's license and further limits employment opportunities. Whether the debts are accumulated before or during incarceration, they follow individuals after adjudication, in many instances bringing them back into the criminal justice system. One example of debt accumulation while incarcerated can be seen by taking a closer look at multiple Alabama counties. People in prison are personally billed for their healthcare needs, and their bills can end up with collection agencies while they have no source of income, wreaking havoc on their credit.¹³ Family members often take up the burden of paying the debt to ensure the health care needs of their loved ones continue.

Debt acts as a barrier to financial opportunities in more than one way. Even if people who were formerly incarcerated make consistent payments on debt, the amount of debt, including monetary sanctions, still affects their debt to income ratio when trying to apply for a business, home, or car loan. Additionally, if the debt becomes delinquent, it damages credit scores, driving up the cost of credit, potential employment opportunities, housing, and other opportunities needed for re-establishing a strong financial foundation. These challenges are particularly acute in the Black community. For example, a study in Baltimore found that the credit scores of Black households with a formerly incarcerated family member was 219 points lower than white households with no incarceration history. Yet, Black households with no incarceration history held similar credit scores as white households with a formerly incarcerated family member.¹⁴ Low credit scores become barriers to accessing the non-predatory financial resources needed for formerly incarcerated individuals seeking to gain financial stability.

Recommendations

To advance economic opportunity for people who were formerly incarcerated, financial institutions and policy makers must understand the injustices that contribute to the accumulation of debt and damaged credit scores formerly incarcerated individuals may have. The following recommendations outline the steps both public policy makers and financial institutions can take to prevent or mitigate the damage.

Public Policy Makers

- Policy makers must consider economic equality in their decision making to ensure the criminal justice system is less punitive and more equitable. Policies that champion debt reduction, identification, accessibility, and CDFI support are particularly important for formerly incarcerated persons who are more likely to encounter predatory lending practices and lack access to credit.
- Support CDFIs that are uniquely placed to provide financial education, small business loans, and other financial services to financially vulnerable communities, such as formerly incarcerated people.
- Policy makers should ease debt collection practices and prevent the accumulation of debt during incarceration. When returning to society, formerly incarcerated persons should not have to face the barrier of paying a mountain of bills presented at release.
- Local, state, and federal governments should set caps on criminal justice debt and allow courts to waive fees and fines of low-income individuals involved in the justice system.
- Federal Small Business Administration loan programs should be open to people who were formerly incarcerated.
- Prohibit the revocation of driver's licenses for unpaid fines and fees. Particularly in the Deep South, access to a driver's license is a critical lifeline to employment, starting a business, or meeting other basic needs.
- Local governments should adopt municipal identification or similar programs and provide access to photo identification to people who are incarcerated two months before their release.

Financial Institutions

Financial service access is crucial for the financial stability and economic mobility of returning citizens. CDFIs must strengthen their relationship with people who were formerly incarcerated, meeting people where they are in the community and where they are in their financial journey. Banks, credit unions and community development loan funds should:

- Manually underwrite loans and include non-traditional credit in the decision making process, and offer affordable, safe products that are accessible to formerly incarcerated people.
- Accept federal prison identification and other forms of alternative identification to open depository accounts.
- Join in partnership with people and families directly impacted by the criminal justice system in supporting reforms to reduce incarceration and its collateral consequences.

Conclusion

Hope Policy Institute advocates for removing policies and regulations that act as barriers to opportunity so that returning citizens can *flourish*. CDFIs can offer the dignity of financial service access to people who were formerly incarcerated. The true costs of our criminal justice system are complex, deeply rooted, and demand a closer look at the financial impacts on individuals and communities.

Citations

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