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Unlocking Opportunities for Workers and Entrepreneurs with a Criminal Record

Remarks by

Michael S. Barr

Member

Board of Governors of the Federal Reserve System

at the

Second-Chance Lending Forum
Developing Evidence-Based Policy on Creditworthiness and Criminal History

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Thank you to the organizers of this important event for the opportunity to be part of it.[1] This conference sits at the intersection of several policy issues that are central, I believe, to the future of the U.S. economy—entrepreneurship, financial inclusion, technological innovation, including artificial intelligence (AI)—and, critically, how to bolster these forces in ways that support employment, lift living standards, and promote an economy that works for everyone.

The Federal Reserve has a stake in all of these outcomes. Realizing full employment depends on a labor market in which everyone can participate productively, including those formerly incarcerated or otherwise with a record of navigating the legal system. Perhaps in part because they face obstacles to employment that others do not, many of these individuals pursue entrepreneurship, so extending options to them includes the opportunity to build a business. For them, financial inclusion is essential, and meeting their banking and financial needs is also critical to a healthy economy.

Before I proceed, I wanted to share a few thoughts about the economy. The labor market is stable, with relatively low unemployment. The economy has been growing solidly, powered in part by the boom in AI-related business investment and the buildout of AI-related capabilities. Productivity and new business formation have been strong for a number of years. Consumer spending to date has been largely resilient.

But inflation remains too high—and has been for over five years.

We made enormous progress from inflation's peak of more than 7 percent in 2022 to a bit above 2 percent in 2024, but that progress stalled in 2025. A series of shocks—from tariffs and then the conflict in the Middle East, as well as from the rapid AI

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[1] The views expressed here are my own and are not necessarily those of my colleagues on the Federal Reserve Board or the Federal Open Market Committee.

buildout—pushed us off course. And core non-housing services inflation remains elevated. With inflation above target for a protracted period, there is a risk of broader price pressures taking hold, a risk I am watching closely. At our September FOMC meeting, we will again discuss the outlook for inflation and our policy stance. If trends in the data give me some confidence that inflation is moderating on a path to 2 percent, then I think we can take a bit more time to assess our policy stance. However, if inflation appears not to be moderating sufficiently, then I think we should act decisively to raise rates.

Now, turning back to the topic at hand, my interest in financial inclusion predates my time at the Federal Reserve and has been an important part of my life's work over the past three decades. During my years at the University of Michigan, I worked with several colleagues to launch the Detroit Neighborhood Entrepreneurs Project to help entrepreneurs start and grow their businesses, helping that city to bounce back from the dire place it was in a dozen years ago. And I have studied how exclusion from basic banking services can make it harder for people to find a stable living situation and employment.[2] I'd like to spend some time today discussing financial well-being and entrepreneurship for those with a criminal or arrest record, encouraging research to enrich our knowledge, and touching on how the emergence of new technologies could improve financial access and business opportunities for this group.

The Challenge

Individuals with criminal records experience high employment barriers that substantially limit their access to formal employment and leave them far less likely to be

[2] See Michael S. Barr, *No Slack: The Financial Lives of Low-Income Americans* (Washington: Brookings Institution Press, 2012).

employed than others.[3] Some of these labor market penalties stem from socioeconomic disadvantages associated with those who have a criminal record, but a large share come from the effects of justice involvement—the incapacitation and human capital loss during incarceration or legal proceedings and the aversion of employers to hiring those with a record.[4]

Research shows that incarceration leads to persistently lower employment rates and reduced earnings trajectories after release.[5] By one measure, employment propensity falls around 7 to 26 percent after an initial criminal charge and remains persistently low even six years later.[6] A 2018 study found unemployment rates among the formerly incarcerated are nearly five times higher than for the general population.[7] Research shows people of color are often disproportionately affected by the existence of criminal records.[8] While there have been large-scale initiatives in recent years to reduce these

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[3] See also Wendy Sawyer and Peter Wagner (2025), "Mass Incarceration: The Whole Pie 2025," Prison Policy Initiative, March 11, https://www.prisonpolicy.org/reports/pie2025.html.
[4] See Harry J. Holzer, Diane Whitmore Schanzenbach, Greg J. Duncan, and Jens Ludwig (2007), "The Economic Costs of Poverty in the United States: Subsequent Effects of Children Growing Up Poor," Center for American Progress, January 24, https://cdn.americanprogress.org/wp-content/uploads/issues/2007/01/pdf/poverty_report.pdf; Andrew Jordan, Ezra Karger, and Derek Neal (2024), "Early Predictors of Racial Disparities in Criminal Justice Involvement," NBER Working Paper Series 32428 (Cambridge, Mass.: National Bureau of Economic Research, May; revised June 2026), https://www.nber.org/papers/w32428; Evan K. Rose and Yotam Shem-Tov (2025), "Understanding Criminal Record Penalties in the Labor Market," Center for Economic Studies Working Paper Series 25-39, June, https://www.census.gov/library/working-papers/2025/adrm/CES-WP-25-39.html; Michael Mueller-Smith (2014), "The Criminal and Labor Market Impacts of Incarceration," working paper; and Andrew Garin, Dmitri Koustas, Carl McPherson, Samuel Norris, Matthew Pecenco, Evan K. Rose, Yotam Shem-Tov, and Jeffrey Weaver (2025), "The Impact of Incarceration on Employment, Earnings, and Tax Filing," *Econometrica,* vol. 93 (March), pp. 503–38.
[5] See Jeffrey R. Kling (2006), "Incarceration Length, Employment, and Earnings," *American Economic Review,* vol. 96 (June), pp. 863–76; Mueller-Smith, "The Criminal and Labor Market Impacts of Incarceration" (in note 3); and Garin and others, "The Impact of Incarceration" (in note 3).
[6] See Amanda Agan, Andrew Garin, Dmitri Koustas, Alexandre Mas, and Crystal S. Yang (forthcoming), "Can You Erase the Mark of a Criminal Record? Labor Market Impacts of Criminal Record Remediation," *American Economic Journal: Economic Policy.*
[7] See Lucius Couloute and Daniel Kopf (2018), "Out of Prison & Out of Work: Unemployment among Formerly Incarcerated People," Prison Policy Initiative, July, https://www.prisonpolicy.org/reports/outofwork.html.
[8] See Amanda Agan and Sonja Starr (2018), "Ban the Box, Criminal Records, and Racial Discrimination: A Field Experiment," *Quarterly Journal of Economics,* vol. 133 (February), pp. 191–235; see also Jennifer

disparities, such as "ban the box" and "clean slate" laws, employment gaps persist and criminal records continue to create lasting employment barriers.[9]

Another hurdle that compounds these challenges comes from certain occupational licensing requirements.[10] Nearly one in four jobs in the United States requires a government-issued occupational license.[11] Several states allow licensing boards to disqualify applicants with criminal records, regardless of whether the offense is related to the occupation or poses any substantive risk to public safety.[12] In addition to the financial consequences for these individuals, such barriers reduce available labor in communities.[13] Some research suggests that reducing occupational licensing burdens may help lower recidivism rates and improve employment outcomes for those with a criminal record.[14]

L. Doleac and Benjamin Hansen (2020), "The Unintended Consequences of 'Ban the Box': Statistical Discrimination and Employment Outcomes When Criminal Histories Are Hidden," *Journal of Labor Economics,* vol. 38 (February), pp. 321–74.

[9] See Agan and Starr, "Ban the Box" (in note 7); Doleac and Hansen, "The Unintended Consequences of 'Ban the Box'" (in note 7); and Agan and others, "Can You Erase the Mark of a Criminal Record?" (in note 5).

[10] See Chidi Umez and Rebecca Pirius (2018), "Barriers to Work: Improving Employment in Licensed Occupations for Individuals with Criminal Records," National Conference of State Legislatures, https://documents.ncsl.org/wwwncsl/Criminal-Justice/Barriers-to-Work-People-with-Criminal-Records.pdf.

[11] See further information on the Council of State Governments Justice Center's website at https://csgjusticecenter.org/projects/fair-chance-licensing/the-issue/. Also, see information from the Current Population Survey on the Bureau of Labor Statistics website at https://www.bls.gov/cps/cpsaat53.htm.

[12] See Stephen Slivinski (2016), "Turning Shackles into Bootstraps: Why Occupational Licensing Reform Is the Missing Piece of Criminal Justice Reform," Center for the Study of Economic Liberty, Arizona State University, November, https://csel.asu.edu/research/publications/TurningShacklesintoBootstraps; Umez and Pirius, "Barriers to Work" (in note 9); and Jails to Jobs (2021), "States Continue to Loosen Occupational Licensing Law Restrictions for Those with Criminal Records," July 20, https://jailstojobs.org/states-continue-to-loosen-occupational-licensing-law-restrictions-for-those-with-criminal-records/.

[13] See Joshua Gaines, Jasmine Quinta, and Chidi Umez-Rowley (2024), "Expanding Access to Health Care Jobs for Workers with Criminal Histories," Council of State Governments Justice Center, September, https://csgjusticecenter.org/publications/expanding-access-to-health-care-jobs-for-workers-with-criminal-histories/. See also information on licensing on the Council of State Governments Justice Center's website at https://csgjusticecenter.org/projects/fair-chance-licensing/the-issue/.

[14] See Slivinski, "Turning Shackles into Bootstraps," (in note 11). See also Emily Fetsch (2016), "How Does Occupational Licensing Affect Employment and Recidivism?" Ewing Marion Kauffman Foundation,

Beyond employment outcomes, these individuals experience multiple dimensions of financial vulnerability. A 2022 Consumer Financial Protection Bureau report highlights how people with a record face systemic barriers. Financial obligations and the high cost of essential services—including bail bonds and money transfers—put them at elevated risk of high-cost debt, credit delinquency, and lower credit scores.[15] These credit challenges make it harder to access affordable loans, secure stable housing, and find employment.

The Federal Reserve's 2023–24 Survey of Household Economics and Decisionmaking (SHED) data indicated that those with a record have significantly lower levels of financial well-being, reduced access to credit, and a higher incidence of being unbanked. These gaps persist after accounting for demographic and economic differences, and they widen with longer incarceration and other measures of greater justice system contact.[16] As an example, the SHED found that, among people with no criminal records, 75 percent report doing okay financially or living comfortably, while for those convicted and once incarcerated the rate is 60 percent doing at least okay financially.

Those with a record, especially those with convictions, are also less connected to the financial system. According to the SHED, those who have a previous conviction are less likely to have a bank account or a credit card; instead, they rely more heavily on

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November 19, https://www.kauffman.org/currents/how-does-occupational-licensing-affect-employment-and-recidivism/.

[15] This report, "Justice-Involved Individuals and the Consumer Financial Marketplace," is available on the Consumer Financial Protection Bureau's website at https://files.consumerfinance.gov/f/documents/cfpb_jic_report_2022-01.pdf.

[16] See Kabir Dasgupta, Jennifer Fernandez, and Alicia Lloro (2026), "Financial Well-Being and Inclusion of Justice Involved Populations: Evidence from the SHED," Finance and Economics Discussion Series 2026-024 (Washington: Board of Governors of the Federal Reserve System, May), https://doi.org/10.17016/FEDS.2026.024.

alternative financial services like payday loans and pawnshop loans. This disconnection from traditional credit systems appears to stem from limited credit supply rather than a lack of demand. Those who experience incarceration are 16 percentage points less confident about approval but are 10 percentage points more likely to have applied for credit in the past year. This tells us they face substantial barriers to the mainstream credit that they need. Enhancements to underwriting, like cash flow–based underwriting and the use of alternative financial data, may help expand financial inclusion for a cohort that often has a thin or poor credit history.

Entrepreneurship as a Pathway to Economic Opportunity

People with a record may be an underutilized source of talent and effort. Second-chance hiring initiatives could help these individuals to find pathways into the labor market. Entrepreneurship is another path to better economic outcomes for those with a criminal record. One estimate finds that, among formerly incarcerated individuals, those who have started their own business could earn 24 percent more in annual earnings than those in traditional employment.[17] The same research finds that entrepreneurship may reduce five-year recidivism relative to employment, with a larger decline in reoffending than that associated with traditional paid employment.

And those individuals with a record see this opportunity. Research has found that roughly 20 to 30 percent of people with criminal records report being self-employed business owners.[18] According to research conducted in 2021, approximately 1.1 million

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[17] See Kylie Jiwon Hwang and Damon J. Phillips (2024), "Entrepreneurship as a Response to Labor Market Discrimination for Formerly Incarcerated People," *American Journal of Sociology,* vol. 130 (July), pp. 88–146.

[18] See Keith Finlay, Kylie Jiwon Hwang, Michael Mueller-Smith, and Brittany Street (2025), "Credit Access among Formerly Justice-Involved Entrepreneurs: Regression Discontinuity Evidence from the Paycheck Protection Program," working paper, https://brittanystreet.github.io/website/FinlayHwangMuellerSmithStreet_WP_CreditAccessandCJ.pdf.

small business owners, nearly 4 percent of all small business owners nationally, have a criminal record.[19] Those who pursue business ownership may have the talent and motivation to succeed but are more likely to be disconnected from the networks and support that other entrepreneurs draw on—mentors from larger businesses, peer entrepreneurs, professional contacts—the very channels that often point people toward available credit and financing options as well as business opportunities.

Lending and Support that Makes Entrepreneurship Possible

The difference between a good idea and a lasting, operational business often boils down to three essentials: access to credit, access to business networks and opportunities, and access to missing skills or technical assistance needed to run a business well.[20] Entrepreneurs who have been involved in the criminal justice system face these needs as well, often with fewer opportunities to meet them. Lending is a key input in supporting entrepreneurs with a criminal record, and it is most effective when paired with the training and networks that help a business succeed once its credit needs have been funded.[21]

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[19] See Shawn D. Bushway, Dulani Woods, Denis Agniel, and David Abramson (2021), "The Prevalence of Criminal Records among Small Business Owners," RAND Research Briefs, June 30, https://www.rand.org/pubs/research_briefs/RBA1295-1.html.

[20] See Michael S. Barr (2025), "Opening Remarks," speech delivered at the 2025 Northeast/Mid-Atlantic Small Business Credit Symposium, Federal Reserve Bank of New York, New York, (via pre-recorded video), May 15, https://www.federalreserve.gov/newsevents/speech/barr20250515a.htm; Michael S. Barr (2015), Minority and Women Entrepreneurs: Building capital, networks, and skills, Brookings Institution.

[21] See U.S. Small Business Administration (2021), "Evaluation of Microloan Program Outcomes," November 1, https://legacy.sba.gov/document/report-microloan-program-outcomes-evaluation. The SBA formally evaluated the relationship between the microloan program borrowers' business outcomes and training and technical assistance offered through intermediary lenders covering the fiscal years from 2010 through 2019. Microloan borrowers reported larger growth and better survival outcomes when intermediary lenders provided technical assistance and training and help for borrowers to access other training sources. Additionally, business borrowers with access to one-on-one assistance and training reported better business outcomes.

In 2024, the Small Business Administration (SBA) finalized a rule removing many criminal history bars from the SBA's small business loan and loan guarantee programs. It lifted the barrier that had automatically barred applicants on parole or probation from SBA loan programs—citing research on the prevalence and viability of entrepreneurship among people with a record as part of its justification.[22]

For those who might consider setting up a second-chance lending program, dedicated models already exist. For example, the community development financial institution (CDFI) operating as a lending subsidiary of Texas's Prison Entrepreneurship Program (PEP) was established to provide business loans to entrepreneurs with a record.[23] PEP graduates have launched more than 500 businesses, some generating annual revenues of over $1 million. It's one example, but it demonstrates that this approach works when lending is paired with structured, accessible support.

Beyond second-chance lending programs, there is a broader small business network supporting credit access, and encouraging those with a record to engage with them may be an option. Small Business Development Centers (SBDCs)—a national network of business advisers and technical assistance providers supported by the SBA—don't lend money directly, but they play a direct role in assisting businesses in connecting with lenders and accessing funding. SBDC counselors help entrepreneurs build the business plans, financial projections, and loan packages that lenders require, and they routinely refer clients to SBA-approved lenders, CDFIs, microlenders, and other financial

[22] See U.S. Small Business Administration (2024), "Biden-Harris Administration Announces New Rule to Increase Economic Opportunity for Returning Citizens," news release, May 1, https://legacy.sba.gov/article/2024/05/01/biden-harris-administration-announces-new-rule-increase-economic-opportunity-returning-citizens.

[23] See Initiative for a Competitive Inner City (2018), "Impact Analysis of the Prison Entrepreneurship Program: Reducing Recidivism and Creating Economic Opportunity," July, https://icic.org/wp-content/uploads/2018/07/ICIC_PEP-Impact-Analysis_final_post.pdf.

institutions suited to their credit profile. CDFIs and state, regional, or local economic development organizations often play key roles. Local chambers of commerce support and help build business networks and local relationships that can lead to loan referrals, vendor relationships, and informal credit references, filling the need for access to business networks. These resources, as well as others that provide technical assistance and business support, should be as accessible to entrepreneurs with a record as they are to any small business owner.

Along with Texas's PEP, there are other effective programs, such as multistate organizations, that have supported thousands of entrepreneurs in training through mentorship and small business coaching, helping launch businesses. Similarly, other nonprofits deliver entrepreneurial coaching and business fundamentals with high rates of program completions.[24] The businesses started by graduates from these programs have gone on to hire employees that often include others with a record, extending the effect beyond the original participant.

Looking Forward

I am hoping this conference can find ways to make progress on how entrepreneurship programs can better serve people with a record and, therefore, promote a labor market in which everyone can participate productively.

Evidence from programs related to entrepreneurship among those with a record shows it reduces recidivism. We also need more data to show the broader economic effects on individuals and the savings and other benefits to society. Expanded use of pilot programs can help build data on what leads to small business success. We also need

[24] For example, see information on the nonprofit Inmates to Entrepreneurs at https://inmatestoentrepreneurs.org/.

data that show the creditworthiness of these individuals and their businesses to support credit underwriting decisions. We need long-term program evaluations to assess which entrepreneurship training and development programs are proving most successful. Evaluations can help identify scalable best practices and drive continuous improvement of these programs. Rigorous evaluation can also help attract the funding and support needed to expand these programs.

Technology can help support entrepreneurship and improve financial inclusion for all underserved individuals, including those with a record. Technological change—most recently including AI—always poses risks and offers opportunities, but technology has expanded the availability of business expertise and knowledge, which could be especially important for those who have been involved in the justice system. While the effect of this technology is yet to be measured, there are some promising examples of how it can improve financial inclusion.

AI-powered cash flow underwriting or alternative financial data underwriting can help consumers access credit and financial products. This is particularly important for those who have been incarcerated and who may have thin credit files or low traditional credit scores. Alternative data can support the provisioning of “second look” initiatives for the second-chance population.

AI has also been used to provide financial advice and to answer common questions that consumers have. This is a useful tool, as it can provide information quickly in a “judgement free” environment. Of course, it is important to ensure that advice is provided accurately and complies with consumer and investor protection laws.

In terms of business support, AI can help entrepreneurs with a record both start and manage their firms. AI can act as a writing partner for entrepreneurs drafting business plans—guiding them through a structured template, helping them think through their business's legal structure, developing market analysis, and asking and answering other key questions. AI tools can review industry reports and market data to give entrepreneurs a data-backed snapshot of their market and competitors—work that would otherwise require paid research or expert consultation. Of course, AI is not a substitute for actually thinking about and implementing a business plan, and it should be thought of as a useful way to augment entrepreneurial skills, rather than a way to replace them.

Many small businesses are using AI to automate tasks, improve customer experience, and identify growth opportunities. AI is effectively serving as a marketer, social media manager, or financial planner for owners who cannot afford to hire separately for each role. If democratized through ready access, affordable pricing, and safety protocols, AI could help bolster small business formation and growth for those with a record and, indeed, for other small businesses throughout our economy.

Conclusion

One of the great promises of technology and innovation is that they help us tackle longstanding challenges and unlock opportunities. "Unlocking" is a good word to use in extending opportunity to individuals whose challenges do not end when their imprisonment or other engagement with the legal system is over. Financial inclusion could help them to succeed as workers, consumers, and entrepreneurs. Removing hinderances for them can give them the opportunity to make the most of their talents, which will benefit them and help build a stronger U.S. economy. Helping those with a record to build a better future for themselves and their loved ones could help to build a better future for all of us.

Thank you.