# Do the Poor Pay More? An Empirical Investigation

The Honors Program
Senior Capstone Project
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ABSTRACT

Poverty and homelessness are a rising problem in the United States. For the individuals and families that have fallen under such circumstances, it can be very difficult to overcome poverty. This paper shows areas where low-income persons pay more money and how they are additionally disadvantaged. Based on a review of the available literature, there is a summary of the practices causing the low -income to pay more money. These practices include check cashing services, payday lenders, lack of grocery stores, tax preparation services, wire money services, rent-a-center stores and more. Some of these practices exist and are not solved because of the real and perceived risk of doing business in low income areas, lack of choices and knowledge for low-income families, as well as unscrupulous business practices towards the poor.

A closer look is taken of Woonsocket, Rhode Island as another component of this empirical research project which examines how the community's underprivileged people are being affected. A number of mapping methods of the Woonsocket area are included, dividing the area by census tracts. Different neighborhoods are analyzed to identify the location of things like rent-a-centers and check cashing services, as well as the lack of institutions such as grocery stores. The results show that in areas of low income and low education, more of the businesses that prey on the poor exist. Possible solutions are also discussed that could be implemented in Woonsocket.

ACKNOWLEDGEMENT

First and foremost, thanks to Dr. Sandra Enos, without whom this project would never have occurred. Her boundless energy and creative ideas provided passion and structure to a project that might have been even more daunting otherwise. I also thoroughly enjoyed the Sociology course I took with Dr. Enos and found the course a great complement to the Business courses I have taken. I am confident that Dr. Enos will continue to strengthen the impact of the Sociology program and will continue to integrate the two programs in a way that benefits students, Bryant and the larger community.

As the new Honors coordinator, Dr. Kenneth Sousa, has had a significant positive impact in a short amount of time. Not only has he provided strong support for the early parts of the Honors Program by adding structure, he has continued to provide help and assistance for the seniors who are finishing the program. Dr. Sousa's impact will be felt for a long time based on the common guidance and processes he is establishing.

I appreciated Dr. Michael Fraleigh's time and support as the Editorial Reviewer for my project. His comments and insights helped shaped the final project report into a more readable final product that will hopefully benefit future students.

I'd also like to thank a fellow honors student, Kristin Milligan, who was going through the same process at the same time. She provided a sense of balance and direction and the shared experience helped me through this journey.

Special thanks to my family for providing me the opportunity to attend Bryant University and in supporting me through the four years in general and in this Honors project in particular.

One final thanks goes to Nancy Paradee, from Family Resources Community Action in Woonsocket, who took the time to meet with me and help shape the topic and project direction. Also, Andrew Schiller, President of NeighborhoodScout, went above and beyond in helping Bryant University obtain

an educational license. Mr. Schiller was a valuable asset, often providing prompt response to requests for additional information and insights.

AUTHOR'S REFLECTION

For a student majoring in applied actuarial mathematics and minoring in communication, a senior honors project in sociology might seem like an unusual fit. However, a series of events and fluke meetings led me into a very interesting, and powerful, project. Since freshmen year, I have been very involved with Bryant Helps, the community service organization on campus. When the University offered a new community service and service learning (SL) class, it seemed like a perfect fit, and it was. My professor for the class, Dr. Enos, was new to Bryant, but had a background filled with community involvement and teaching. She is a very enthusiastic and passionate professor and it is easy to tell how much she enjoys her work. Throughout the semester in SL class we explored issues both small and large in scope. Much of the work was reflective and involved becoming aware of the multitude of problems that exist in our own country and throughout the world.

I approached Dr. Enos during the semester wondering if she would like to be involved in my senior honors project as my senior advisor. I found all the class material so interesting and thought it held great potential for a possible project. Dr. Enos immediately expressed interest and within no time generated a plethora of project ideas for me. A meeting was arranged with the Deputy Executive Director of Family Resources Community Action (FRCA), Nancy Paradee, based in Woonsocket, RI. FRCA is an organization dedicated to serving low-income families in Woonsocket as well as throughout northern RI. I went into the meeting with an open mind and came out with a promising idea to look at the ways in which lower-income families unknowingly pay more for goods and services in the nation, and specifically in Woonsocket, than middle-income families.

During the past semester I spent a large portion of my time gathering data and researching the topic. There is definitely a large amount of research, but it seems there is so much more to be understood and quantified. After compiling the research, it was time to apply what I had learned to Woonsocket. I visited

Woonsocket's Museum of Work and Culture to get a sense of the city's history. During the Industrial Revolution, the city was a prospering mill town and experienced great prosperity. However the mills began to shut down and the Great Depression swept through the city. Woonsocket is now a thriving city and an area in which much potential exists. Almost twenty percent of individuals in Woonsocket are below the poverty level, compared with twelve percent throughout the nation. My project analysis of Woonsocket involved identifying and mapping businesses in the city that I believed could potentially be charging lower-income families more money. I mapped these businesses and analyzed their locations based on US census bureau data as well as software called NeighborhoodScout (NS).

I came across NS while searching for mapping software. After filling out a web-based form for an educational copy, I quickly got a call from the company president, Andrew Schiller, who was based in Woonsocket. We were able to arrange for Bryant University to use NS for free, offering it to all students and faculty through the Electronic Resources portion of the Bryant Library home page. NS proved to be a valuable tool for separating and characterizing various neighborhoods in Woonsocket. As part of the field portion of this project, I spent time driving through various neighborhoods in Woonsocket. Clear differences existed between the neighborhoods and the mapped locations of the fifty-two stores and services were strikingly reinforced in terms of where they were located and grouped.

After the research and quantitative work in Woonsocket, I validated the general research and found that Woonsocket lower-income families are more susceptible to a general category of businesses which are known to take advantage of lower income persons. Over seventy-five percent of these types of businesses are located in areas of lower income and lower education—those that I identified as problematic areas when categorizing neighborhoods.

Looking back over my experiences with this senior honors project, I'm struck by just how clearly the data held true for Woonsocket. Having grown-up in a comfortable middle-class environment in Saratoga, NY, I must confess to an absolute lack of awareness of such predatory business practices. I also believe that the situation is probably much more predatory in even larger cities with large concentrations of lower income persons. While recognizing that I can't solve these problems as an individual, I do know that the increased awareness will stay with me in my new job and home in the Hartford, CT area. Portions of Hartford are known to be low income and it will be interesting to determine if these predatory practices exist in that larger city. Also, I believe community leaders, such as Bryant, can begin to form important alliances and coalitions to address these problems.

Having this real-world experience will serve as a good balance for the data analysis that I will be doing as an actuary, where I will be involved in setting some of the varying rates based on credit history, income and education level. In retrospect, this project experience and my increased awareness demonstrates, for me, the value of the Bryant University liberal arts education. Without such a balanced education, I might well have never gotten outside the realm of pure business classes and data analysis. The final destination was worth the hard work and long hours invested during the second semester of my senior year.

## PROJECT OVERVIEW

Poverty and homelessness are rising problems in the United States. For the individuals and families that find themselves under such circumstances, it can be very difficult to overcome poverty. Thirteen percent of the American population lives below the poverty line, according to a 2007 Ford Foundation Report, yet over twenty-five percent have insignificant net worth and live paycheck to paycheck (“A Wealth,”). Some of the difficulty faced by the lower income class arises due to barriers beyond the obvious lack of income. Many families turn to government programs, family, and similar options to help survive day-to-day. However, there are additional disadvantages and barriers that underprivileged and low income people must deal with in their every day lives that the middle class does not encounter. For the purposes of this project, a low-income household is defined as those making less than $30,000 a year.

Daily events that may seem simple to the average American, like getting groceries, can be a huge ordeal for those living in poverty. First, they may not be able to afford a car, or if they do, research has shown that a car registered in a lower income area will cost more to insure than the exact same car in another area. Secondly, there may not be a grocery store close to their home and often only convenience stores, usually charging higher prices, are found in lower income neighborhoods. Another difficulty that someone in the lower income class frequently come across is the fact that they do not have a bank account. Without a bank account, individuals need to use check cashing services that charge minimum service fees as well as a percentage of the check in exchange for cash for the individual. This can result in an individual spending two to three percent of their payroll check just to get the money.

This research based and applied project looks further into a variety of obstacles and disadvantages that negatively affect the underprivileged. There are many potential topics, including rent-a-centers, where individuals can end up being charged enormously high prices for being in the situation of paying installments over time. Not only will this project look at the scenarios where the poor are potentially being cheated, but it will also explore ways in which the needy can avoid them, as well as programs set in place for the advantage of the disadvantaged.  A major aspect of this shift to ensuring the disadvantaged are not cheated is simply educating individuals who may not realize how much they are paying.

After reviewing much of the available research, a component of the project will look specifically at how many of the factors reviewed apply within Woonsocket, Rhode Island.  Using census data, including census tracts, and the research discussing national parallels, a deeper analysis of Woonsocket, an area with a great lower income population, will be conducted using a geographical mapping approach.  The project will look at the prevalence of factors such as rent-a-centers and check cashing services, as well as the absence of factors such as grocery stores and the preponderance of convenience stores.

SUMMARY OF PRACTICES LEADING THE LOW INCOME TO PAY MORE

This section is an overview of various factors resulting in low income people to pay more for products and services based on a literature review focused at understanding the issues at a national level. A more detailed literature review is found in Appendix A.

A common instance where lower income individuals pay more money is with check cashing services. If a person does not have a bank account, he or she must use services that routinely charge customers a percentage of the check to cash (commonly a payroll check). According to a 2007 Ford Foundation Report, ten percent of American households have no checking or savings account ("Credit,"). For lower income families, twenty-three percent do not have a checking account (Fellowes, 2006a) and sixty-four percent do not having a savings account (Fellowes, 2006a). In lower income neighborhoods, check-cashing outlets are much more prevalent than banks. In Chicago, for example, check-cashing outlets outnumber banks nearly ten to one ("the High," 2003). The annual incomes of most people using the check cashers, according to a survey by Brookings Institution, is below $30,000 (Fellowes, 2006a) and these workers can spend two to three percent of their earnings merely to obtain their own salary ("The High," 2003). This use of check cashers can occur even when banks are within the same geographical area and access areas, but low income people may be uncomfortable or unfamiliar with banks.

A similar, and just as damaging, practice for the lower income are payday and short term loans. Customers are required to write a post-dated check that will be cashed at the end of the loan term (usually two weeks). A customer who wants a loan for $200 writes a personal check for $230 to include the cost of fees. If the client can not pay the loan back at the end of the two weeks, he or she must pay an additional thirty dollars and extend the loan, or have the check bounce and must face "bad" check charges or prosecution ("The High", 2003). These quick loans may seem like a great opportunity, but customers can start out paying up to fifteen percent over two weeks or much higher if they extend the loan

(Fellowes, 2006a). Countrywide, there are over 22,000 storefronts for payday loan shops, which outnumber McDonald's fast food franchises ("Credit," 2007). Eighty-one percent of payday customers earn less than $50,000 (Fellowes, 2006a) and ninety percent go to repeat borrowers (Grunder, 2007). These alternative check cashing and short term loans were found by Fellowes to have the highest per-capita concentration in lowest income areas (2006a).

These payday or subprime lenders have recently received a lot of publicity. The association that represents nearly half of the payday lending stores, Community Financial Services Association of America, has just started a ten million dollars national advertising campaign. The campaign is due in part to negative media they have received within the last year. The campaign bans ads claiming these loans are a great way to finance and spend for things such as vacations and other luxuries (Grunder, 2007). Also, Congress recently capped the allowable rate charged to military at thirty-six percent (Grunder, 2007). This cap came after the Defense Department released a report showing these loans were being aimed at "financially unsophisticated soldiers" and "were directly harming military families and preparedness" (Pichardo, 2007). Not only are the small payday shops hurting the poor, but with the Federal Reserve increasing short-term rates, families with poor credit are feeling the pressure. With its biggest move since early 1980s, the Fed has increased short-term rates by four percentage points since 2004. For households and corporations with good credit, it is easy to switch to long term loans; for lower income families who generally rely on short-term borrowing, it will be difficult to be able to cope with the increases (Coy, 2007).

Another area where low income families may attempt to get a sizable or immediate amount of money to solve a short-term problem is from Refund Anticipation Loans (RALs) when they file their federal taxes. For an average fee of two hundred dollars, claimants can receive their tax refund earlier; however this is usually only about eight to ten days ("The High," 2003). Even though lower income and higher income consumers are equally as likely to pay for tax preparation services, fifty-seven and sixty-one percent respectively, lower income filers are more likely to file for RALs than higher income families, fifteen versus five percent respectively (Fellowes, 2006a). These tax refunds are essentially a short term loan and can have interest rates between seventy to eighteen-hundred percent which lower income families are more likely to get (Fellowes, 2006a). In New York, sixty Jackson Hewitt tax-preparation outlets were found to be cheating their clients, mainly low-income clients, with a hidden fee that automatically charged customers an additional fifteen percent of the final bill (Edelman, 2006). After this hidden charge was discovered by employees, the company has been forced to pay over five million dollars in the suit. Jackson Hewitt was also found to be portraying the RALs as “money now” instead of loans and misled their consumers (“Attorney,” 2007), another example of the poor unknowingly paying more.

Remittance services, or wiring money, are a common practice for people who want to send money back to their families in foreign countries. According to Fellowes, eighty percent of US persons sending money to Latin America, the most widespread destination, have incomes of less than $30,000, showing that the majority of people using remittance services are low income (2006a). To send money to Mexico, about seven percent of what you wanted to send would be taken out for fees (Fellowes, 2006a).

Purchasing and insuring cars is another problematic area for low-income consumers. Consumers living in low-income neighborhoods will pay on average fifty to five-hundred dollars more than someone from a higher income neighborhood to buy the exact same car (Fellowes, 2006a). In a study by Fiona Scott Morton and colleagues, who analyzed 650,000 car purchases, it was found that the income of the car buyer had a significant effect on the final price of the car (Fellowes, 2006a). Eckholm reports that the 4.5 million low-income customers paid two percentage points more, on average, for their car loans than high-income buyers (2006). Also disadvantaging low-income a consumer is the recent practice of credit scores becoming the basics of receiving loan qualification and financing. Between 35 and 50 million Americans do not have enough information for credit rating companies to calculate a score, making it extremely difficult, if not impossible to become eligible for a market-rate loan ("Credit," 2007). Ten years ago, about twenty-five percent of credit applications needed scores, while today the percentage is about ninety ("Credit," 2007). This trend leads to predatory lending and charging extremely high interest rates to low-income customers who may have no other options. Even though state laws ban car insurance "redlining," research does indicate drivers from inner-city neighborhoods are consistently charged higher rates ("The High," 2003). It is also hard to compute premiums as insurance industry disclosure laws are very restrictive (Fellowes, 2006a).

As discussed earlier, many low income consumers can not qualify for prime loans and must turn to subprime and even predatory lenders. Subprime loans may charge rates at almost double the percentage charged by prime loans. For a $107,500 mortgage loan, the subprime loan at 13% would cost $514 more each payment than a prime loan at 7%. For a thirty year mortgage, this would equate to the subprime loan paying $184,997 more than the prime-rate borrower ("The High," 2003). Predatory lenders rates are even worse and exploit customers with limited knowledge. Fellowes found that across the nation, 4.2 million lower income homeowners pay almost a percentage point higher for interest on their mortgage (2006a). Not only mortgages, but renting can be a major concern for low-income families where, according to the US Department of Housing and Urban Development (HUD), 5.4 million families either spend more than half of their income towards housing or live in "severely distressed housing" (The High," 2003, p. 10). If low-income families are renting, they are missing out on a very important asset that could one day be used to leverage their income and survive a crisis.

Rent-to-own establishments are attractive to low-income consumers because paying weekly or monthly fees seems like a good option when they are not able to afford the item upfront. However, over the course of payments, these customers are paying two to three times what the price would be if they made a single purchase upfront (“The High,” 2003). The poorest forty percent of the nation’s population is the customer base for the rent-to-own stores according to the Better Business Bureau (Lewis, 2001) and almost sixty percent of these customers earn less than $25,000 a year (Fellowes, 2006a) equating to 1.6 million lower income consumers being charged excessively to rent appliances, furniture, and more (Fellowes, 2006a). These businesses escape regulation under usury laws because technically customers are allowed to return merchandise at any point in time (“The High”, 2003), and of course, paying a large portion of the remaining fees, as a penalty.

Buying groceries is one more area where the poor are found to pay more than other income classes. Lower-income families typically spend less on food because they generally buy generic brands and larger packaged sizes (to spend less money). However, for a fixed basket of food, it is found that lower-income neighborhoods have slightly higher prices (Kaufman, MacDonald, Lutz & Smallwood, 1997). Fellowes argues this is because the stores available in low-income neighborhoods are smaller, more expensive to operate, and charge higher prices (Fellowes, 2006a). Higher costs may relate to, “strict urban zoning requirements and the expense of urban land development” (Fellowes, 2006, p. 51), characteristics that large grocery stores are not looking for when scouting out new locations. Some evidence does show there are, “misperceptions driven by inaccurate data assessments of market demand in lower income neighborhoods” (Fellowes, 2006, p. 51). If bigger companies realize this, there could be a huge potential market for them.

## WHY SUCH PRACTICES EXIST OR AREN'T SOLVED

Check cashing practices, insurance costs, and groceries are just some of the areas where lower-income consumers initially face a disadvantage. The following section reviews reasons why these problems may exist or why they are not being solved.

One reason for the higher prices for lower-income consumers is the real and perceived higher cost of doing business in these neighborhoods. Stores in low income neighborhoods do provide goods to residents; however, these businesses function outside the economies of scale that larger businesses benefit from. These businesses in low income neighborhoods accordingly pass on the charges to their customers ("The High," 2003). Fellowes also found that businesses perceive there is a higher cost of doing business in lower income neighborhoods which drives up higher costs as well (2006a). Banks also lose out on profit because low-income customers do not have as much to deposit and a large majority are un-banked without a checking or savings account (23% and 64% respectively) (Fellowes, 2006). With these additional risks, businesses do not find it profitable to move into the lower-income areas. Not only are low income families less aware of banking practices because they do not use them as much, many potential customers often overestimate the costs associated with owning a bank account (Anderson et al., 2004).

Choices are limited for low-income neighborhoods as the amount of check cashers and short-term loan providers is twice as dense in lower income neighborhoods (Fellowes, 2006a) as well as for tax preparation firms, money wiring companies, and rent-to-own establishments. These communities are also more isolated from traditional financial services, including banks and credit unions, which open the doors for subprime and predatory shops to take the business ("The High," 2003). There is also a lack of larger grocery stores and retail food outlets which would typically be able to charge lower prices for the same basket of goods as a smaller convenience store (Kaufman et al., 1997).

As these predatory (pricing) businesses encroach on the low-income neighborhoods, other unscrupulous business practices occur as well. It is shown through research that fourteen to twenty percent of borrowers who purchased high-cost mortgages, could have qualified for a better price. Also, companies are able to charge Annual Percentage Rates (APRs) of 400 to 500 percent for check-cashing, short-term loans unless states have passed laws against this practice.

A common problem that cuts across these justifications is the lack of knowledge for low income consumers to make good decisions. Before buying goods and services, lower income persons are less likely to comparatively shop. Research shows lack of comparison shopping correlates to low consumer income and the less financial knowledge the person is likely to have, or from the fact they may lack access to comparative tools including the internet (Fellowes, 2006a).

Low income neighborhoods are less likely to have conventional financial services; additionally, low-income families are likely to have lower education levels and in turn might need to work harder to benefit from financial training programs. Along with the limited education, low-income persons may be less capable of computing Annual Percentage Rates (APRs) and other comparative tools (Anderson et al., 2004). Also, low income persons are less likely to save and can be unaware of the positive effects of interest compounding and therefore do not realize another benefit of savings (Anderson et al., 2004).

This section reviewed some of the reasons that the poor currently pay more. Next is an overview to Woonsocket, Rhode Island as well as an introduction of its characteristics.

<u>CITY OF WOONSOCKET BACKGROUND AND ANALYSIS</u>

The city of Woonsocket, Rhode Island has 44,654 residents as of the 2003 census (US Census Bureau, 2007). The median age is about thirty-five and eighty-three percent of the population is white. This city grew enormously during the early nineteenth century as a mill town and utilized its location near water to power these mills. Twenty mills were running by 1842 in Woonsocket, producing mostly cotton fabrics. With improved transportation in the middle of the nineteenth century, Woonsocket was able to prosper even more so with the help of the Providence and Worchester Railroad. However, during the 1920's, disputes rose between laborers, management, local labor unrest grew across the country, and with the additional competition from southern mills, Woonsocket started to decline. In 1927 its biggest mill was forced to close. The 1930s did not improve the general state of the city and the Great Depression brought upon much despair for the city (Eckilson, 2006). Woonsocket is characterized today by mostly manufacturing and laborers in the workforce in an urban environment.

According to the 2000 census statistics, Woonsocket falls below Rhode Island and the nation on many categories. Nineteen percent of Woonsocket's population is living below the poverty level versus twelve percent for the state of Rhode Island and twelve and a half percent for the nation; the median household income is $30,819 for Woonsocket, $42,090 for the state of Rhode Island, and $41,994 for the nation. The percent of persons over the age of twenty five with a high school degree is sixty four percent for Woonsocket, seventy eight percent for Rhode Island and eight and a half percent across the nation. The percentage of persons with a bachelor's degree or higher is ten percent for Woonsocket, almost twenty six percent for Rhode Island and over twenty four percent across the nation. For Woonsocket, only thirty five percent of the homes are owned while sixty fiver percent are rented. For the state of Rhode Island, sixty percent of housing is owned and for the nation, sixty six percent is owned and thirty four percent is rented. These illuminating statistics show at a high level the fact that lower income and education levels exist in Woonsocket (US Census Bureau, 2007; US Census Bureau, 2005). Table 1 summarizes various comparison statistics for Woonsocket, Rhode Island and the United States (US Census Bureau; Fact Finder and QuickFacts).

Table 1 Top Level Comparisons US Census Bureau

| Top-level Comparisons | Woonsocket | Rhode Island | Nation |
|---|---|---|---|
| Population Estimate, 2003 | 44,654 | 1,076,164 | 301,564,949 * |
| Population 25 years and over: high school graduate or higher, 2000 | 64.00% | 78.00% | 80.40% |
| Population 25 years and over: Bachelor's degree or higher, 2000 | 10.10% | 25.60% | 24.40% |
| Occupied housing units: Owner-occupied housing units, 2000 | 35.00% | 66.20% | 60.00% |
| Occupied housing units: Renter-occupied housing units, 2000 | 65.00% | 33.80% | 40.00% |
| Median household income in 1999 (dollars) | $30,819 | $42,090 | $41,994 |
| Persons below poverty, percent, 1999 | 19.40% | 11.90% | 12.40% |
| Persons per square mile, 2000 | 5,608.80 | 1,003.20 | - |

* = 2007 actual population from factfinder.census.gov
Sources: US Census Bureau (2007, 2005)

After developing a sense of Woonsocket as a community, compared to Rhode Island and the nation, my research turns to understanding more details about the store locations within Woonsocket and whether low income persons may be more susceptible to their practices due to their locations.

METHODOLOGY

Based on my literature review (see Appendix A for details), I decided to focus my empirical research in those areas conducive to utilization of a mapping approach to capture locations and demographic differences. I decided to concentrate on a sub-set of propositions that could be validated through empirical field visits and visual mapping.

Woonsocket is broken into fourteen different census tracts according to the 2000 national census (see Figure 1). In order to complete the mapping analysis, I knew that I would have to characterize Woonsocket in various categories. While researching possible software solutions, I came across a web-based software program, NeighborhoodScout. I contacted the owner, Andrew Schiller, who coincidentally had headquartered the company in Woonsocket. The company has an educational outreach component and offers its software to educational institutions with free licensing. After an initial request for a copy on the webbased form, Mr. Schiller quickly contacted me with a high level of interest. I was able to arrange contact with the Bryant Reference Librarian who coordinated the necessary hosting and approval process. NeighborhoodScout is now accessible to all students and faculty from the Bryant Library Electronic Resources page with a login and password provided by the Reference Librarian upon request.

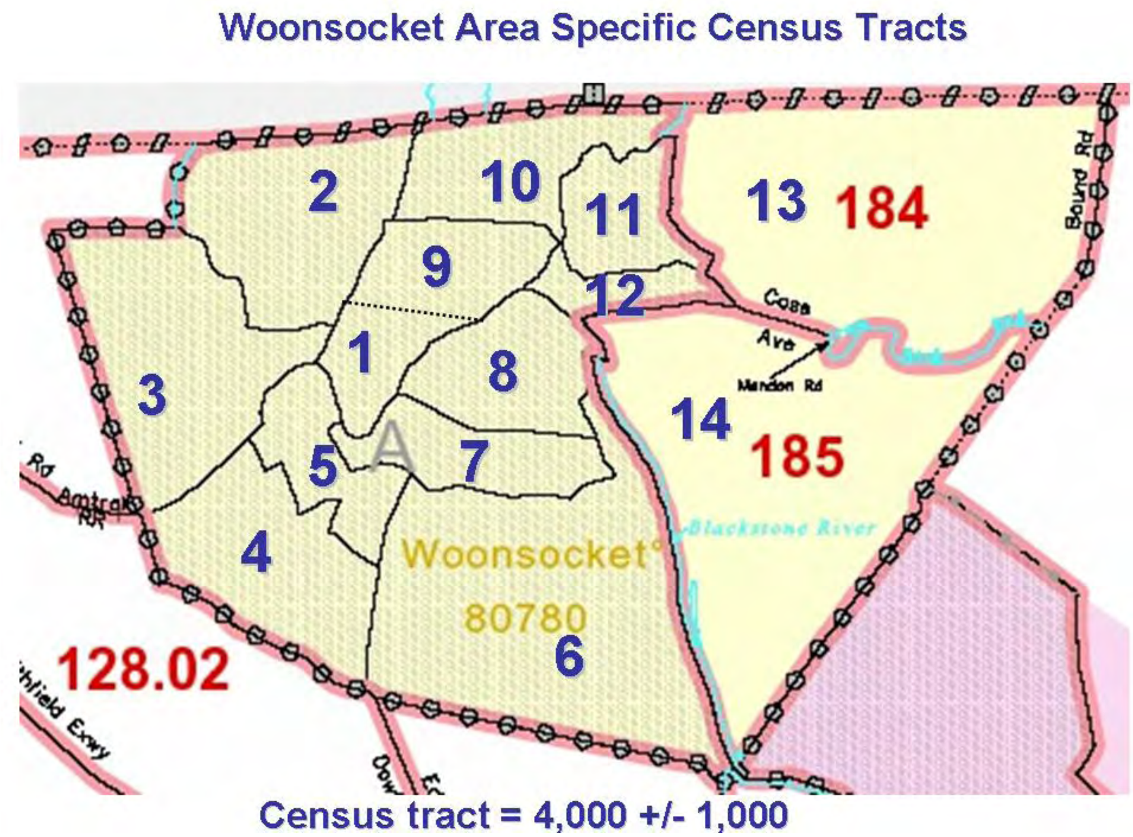
I developed a list of businesses in Woonsocket that I would use to focus my field research in the categories of check-cashing, pawn shops, local convenience stores, furniture and appliance rental stores, tax refund services, credit unions, banks, and pay day loans. Most of the store locations were obtained from YellowPages.com and the final list was developed by visiting locations throughout Woonsocket. Driving past the locations also provided a general sense of the neighborhoods and variations between locations.

After obtaining the addresses, I began to use NeighborhoodScout's "Learn all about a specific neighborhood" feature to identify specific characteristics of the stores and locations. NeighborhoodScout includes the specific census tract number, as well as characteristics, for locations. NeighborhoodScout information is categorized by census tract number. I obtained the 2000 census tract overall map from the US Census Bureau American FactFinder site and correlated the NeighborhoodScout census tract number to the 2000 US Census Bureau tract map for areas 173-185 as shown in Table 2 and Figure 1.

Table 2 Comparisons NeighborhoodScout and Census Bureau

| NeighborhoodScout Tract | 2000 US Census Bureau Tract |
|---|---|
| 1 | 180 |
| 2 | 173 |
| 3 | 174 |
| 4 | 175 |
| 5 | 176 |
| 6 | 177 |
| 7 | 178 |
| 8 | 179 |
| 9 | 180 |
| 10 | 181 |
| 11 | 182 |
| 12 | 183 |
| 13 | 184 |
| 14 | 185 |

Figure 1 Woonsocket Census Tracts




Using NeighborhoodScout software, I was able characterize each of fifty-two service and store locations in each of fourteen census tracts. NeighborhoodScout creates a web page which includes information such as education level, income level, housing value, housing cost relative to Rhode Island, housing cost relative to the nation, rental prices compared to Rhode Island, rental prices relative to the nation, public school ratings, crime rate, neighborhood setting, type of housing, ownership characteristics (rent or own), special character, age, general occupation type, ethnicity, and language, as shown in Figures 2 and 3.

NeighborhoodScout also provides detailed information for each location within a specific census tract as shown below in Figure 2.

Figure 2 Example: Census Tract 1 Data from NeighborhoodScout

Figure 3 Example: NeighborhoodScout Characteristics for Census Tract #1

**Woonsocket, RI census tract #1**

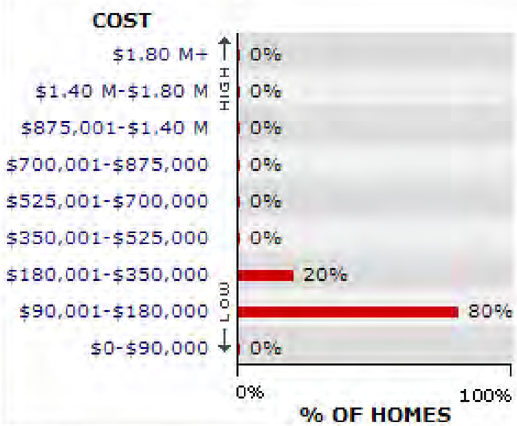
NEIGHBORHOOD COST

COST OF HOMES

**Median house value: $132,727**

- **Low Cost Relative to RI**
- **Medium Cost Relative to the Nation**

**House Value Range**




RENTAL PRICE

- **Very Low Cost Relative to RI**
- **Medium Cost Relative to the Nation**

NEIGHBORHOOD APPRECIATION RATE

**Appreciation rate: +53%**

- **2 Relative to the Nation**
- **2 Relative to RI (10 is highest)**

- Appreciation rate explanation

PUBLIC SCHOOLS
(Data are for the school district. Individual schools may vary.)

**School quality: Relative to the Nation: 4**
**Relative to RI: 2 (10 is best)**

- View school district details
- Public school ratings explanation

CRIME RATE
(Data are for the community. Areas within the community may vary.)

**Crime rate: 7 (10 is least crime)**

| |
|---|
| NEIGHBORHOOD LOOK & FEEL |
| THE SETTING |
| **Urban** |
| THE BUILDINGS |
| • AGE |
| **Mostly Established but not old** , Some Newer Homes |
| • SIZE |
| **Mostly Small dwellings** , Some Medium-sized dwellings , Some Large dwellings |
| • TYPE |
| **Mostly Small apartment buildings** , Some Complexes/high rise apartments |
| • OWNERSHIP |
| **Mostly Renters** |
| SPECIAL CHARACTER |
| **Mostly Artsy/funky** , Walkable |
| THE NEIGHBORS |
| AGE & LIFESTYLE |
| **Mostly Mixed ages** , Some Seniors , Some Young singles-upwardly mobile |
| EDUCATION |
| **Educated: 2 (10 is most educated)** |
| INCOME |
| **Lower middle income** |
| OCCUPATIONS |
| **Mostly Manufacturing & Laborers** , Some Sales & Service workers , Some Executive, managerial & professional , Some Clerical, assistants & technical support , Some Government employees |
| ETHNICITY/ANCESTRY |
| **Mostly White (non-Hispanic)** , Some East Asian , Some Irish ancestry , Some Italian ancestry , Some Hispanic , Some Puerto Rican , Some Black , Some Asian Indian |
| LANGUAGES |
| **Mostly English speaking** , Some French speaking , Some Spanish speaking , Some Italian speaking |

I repeated this process for all fourteen US Census Bureau census tracts and extracted relevant information that best characterizes and distinguishes the neighborhoods. Data for all fourteen census tracts is contained in Appendix B. In looking at the total information developed with the comprehensive table, I decided to use the characteristics of education, income, housing costs, rental price, and ownership type as key discriminators. I also obtained 02895 zip code US Census Bureau census tract maps for varying demographic information to substantiate the NeighborhoodScout findings and differences. See Figure 4 and Figure 5 as examples. Note the strong correlations between the NeighborhoodScout and US Census Bureau maps for Census Tract #1.

Figure 4 Percent of Persons 25 Years and Older with High School Diploma

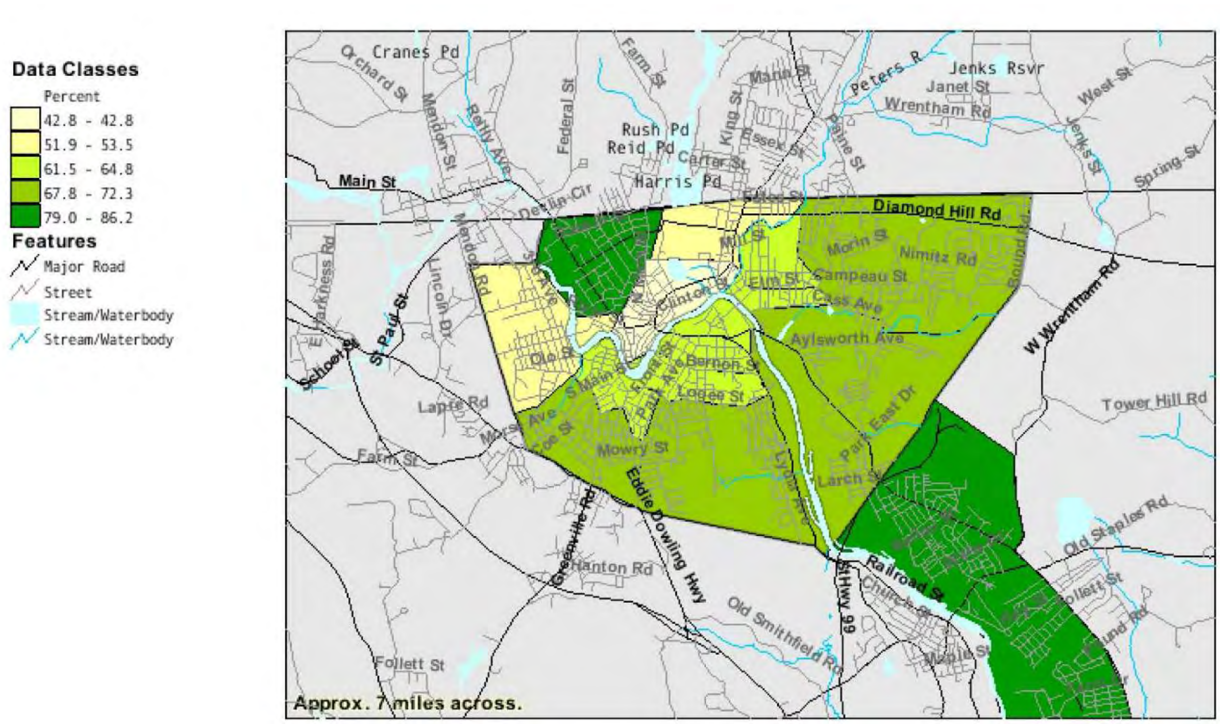
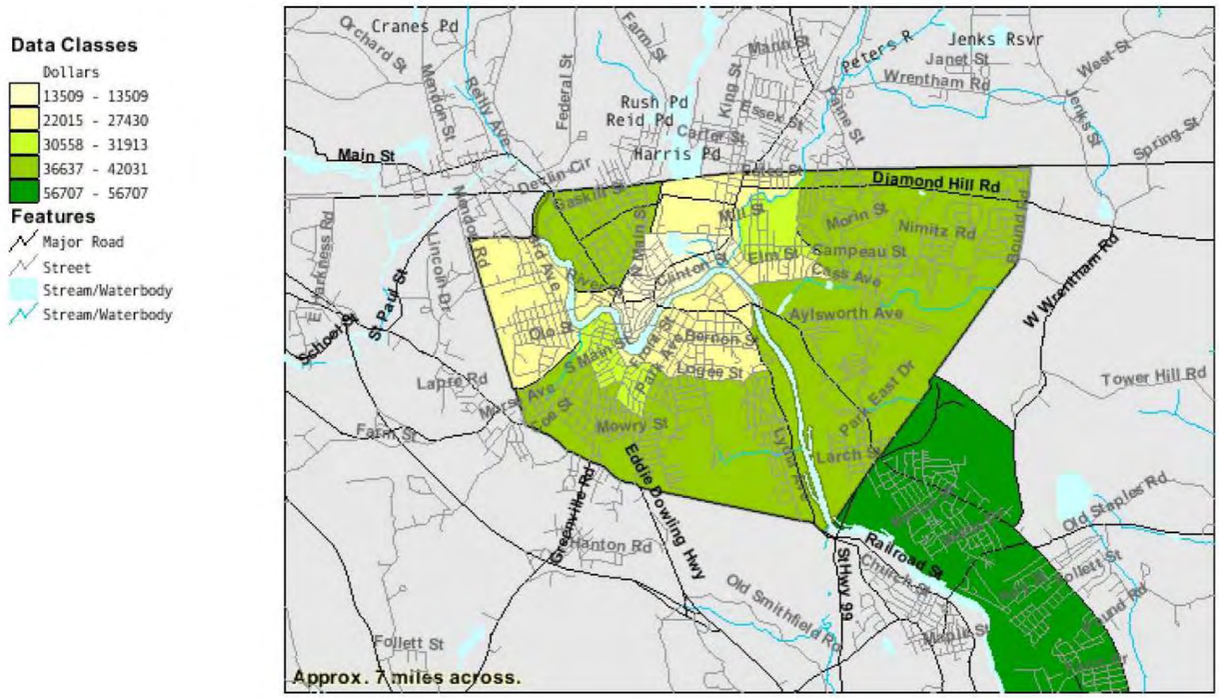


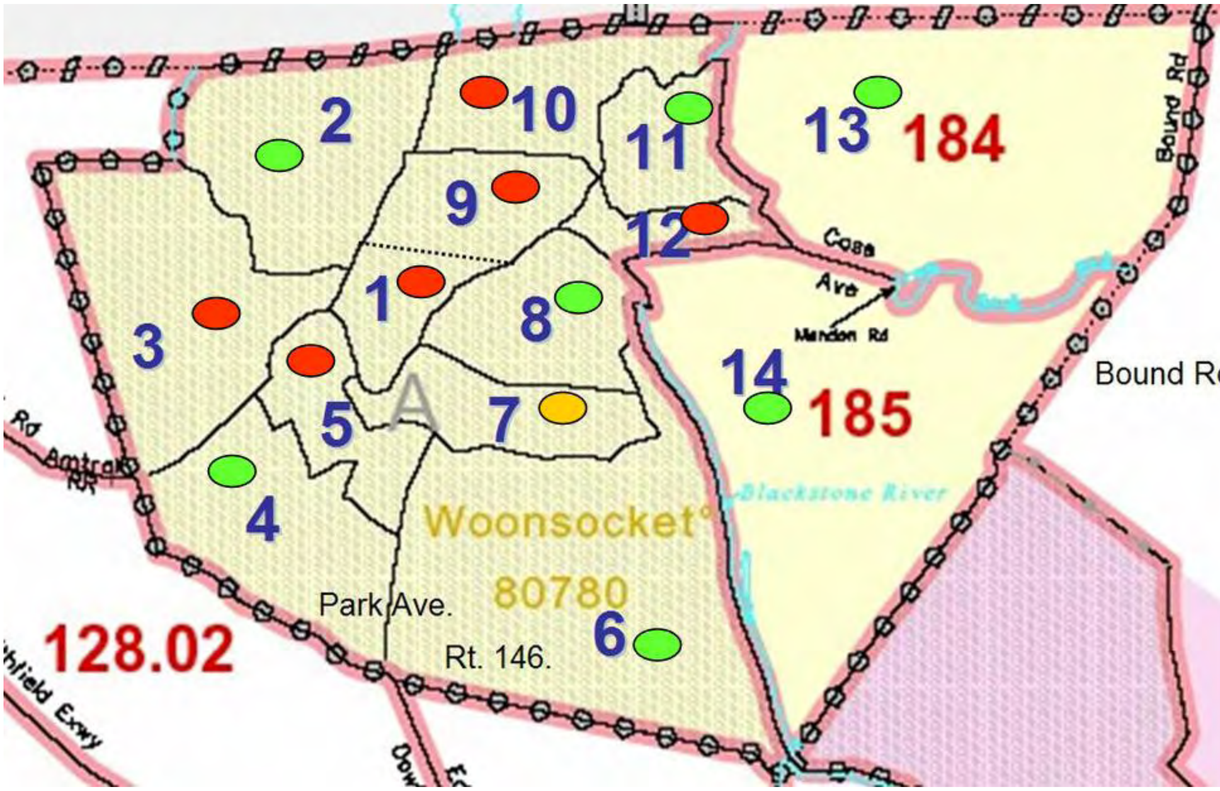
Figure 5 Median Household Income Levels




Comparing Figure 4 and Figure 5, it is evident there are consistent distinctions between the tracts which correlate strongly with the NeighborhoodScout information characteristics.  For example, those tracts with lower education levels consistently have lower income and will be shown to be ‘target’ areas for store locations in a subsequent section.

Using this data, I divided the US Census Bureau tracts into “red” and “green” areas.  Red areas are characteristic of low education (one and two out of ten with ten being the highest) and lower middle income.  The characteristics for green areas were education levels of three and better and income levels of middle and upper middle levels.  See Figure 6 for a visual display of the overall red and green tract results.  Appendix C contains data supporting the “red” and “green” distinctions and adds the locations of services to be mapped.

Figure 6 Census Tract Color Coding




With the exception of one tract, lower education always correlated with lower middle income, which is the lowest income designation for the City of Woonsocket, RI. There are six red tracts (one, three, five, nine, ten, and twelve); seven green tracts (two, four, six, eight, eleven, thirteen and fourteen) and one orange tract (seven) because it was split, but note that there are no stores or services of interest located in that orange tract (seven).

If the research and information gathered is correct, I should be able to see a connection between the locations of businesses like check cashing services, payday lenders, absence of grocery stores and banks, and tax refund services.

A total of fifty-two stores were then mapped into NeighborhoodScout to determine the corresponding US Census Bureau census tract number. As shown in Appendix C, when looking at services where the poor fall susceptible to paying more such as check cashing services, local convenience stores, pawn shops, payday lenders, rental stores, and tax refund stores, 76.3% percent (twenty-nine of thirty-seven services) were located in red tracts characterized by low education and low income.  When mapping the locations of good businesses such as banks, credit unions, mortgage companies and large grocery stores, 64.3% of these businesses were located in the green areas characterized by higher education and income compared to the red areas.   These findings are consistent with the research from the literature review as shown in Appendix A.

To further visualize these findings, I then utilized BatchGeoCode.com, http://www.batchgeocode.com/map/?i=73ecc34622ba5512511681214be5f1cd where I inputted the fifty-two addresses to obtain a map with all locations.  I grouped the locations into four groups where:

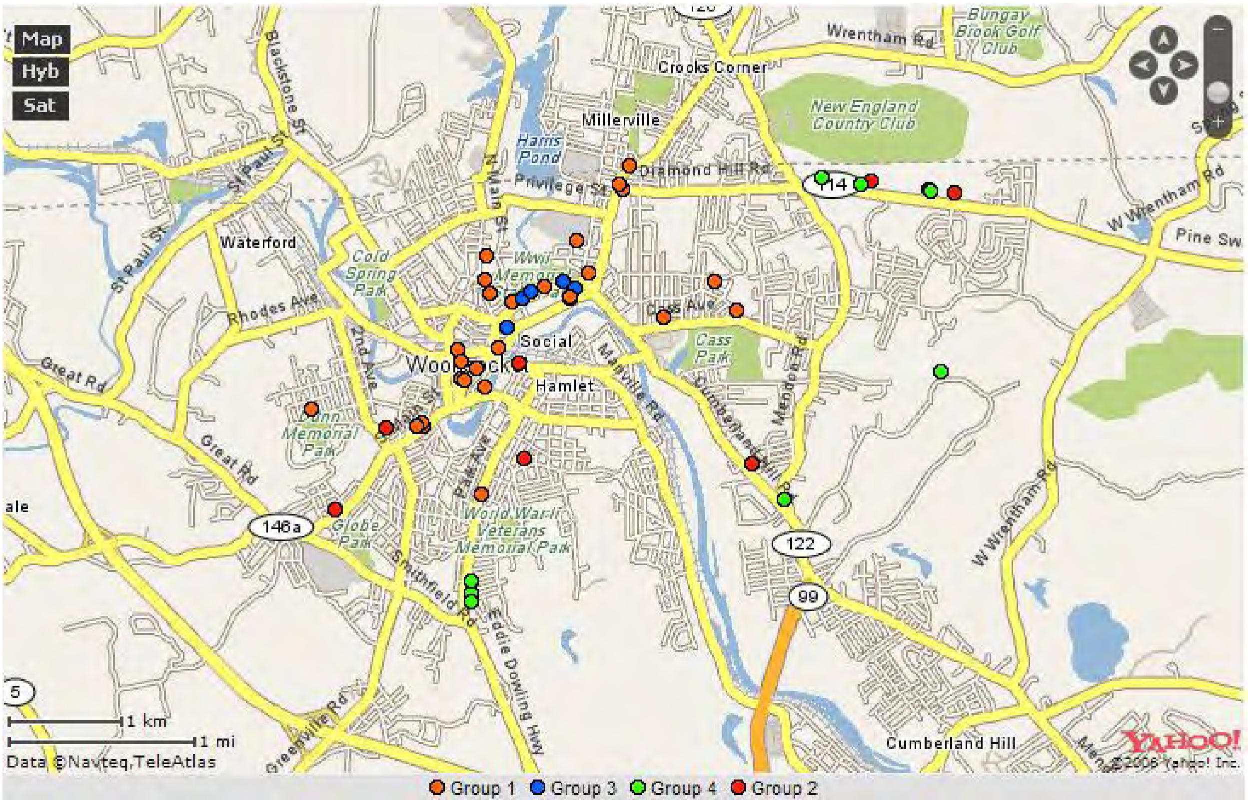
Group 1 is locations that are less desirable services, like pawn brokers, in a red tract,

Group 2 is locations that are less desirable services, like pawn brokers, in a green tract,

Group 3 is locations that are desirable services, like banks, in a red tract, and

Group 4 is locations that are desirable services, like banks, in a green tract.

Figure 7 Service Locations by BatchGeoCode.com




Note the color legend for the four different groups. From this mapping, note that Group 1 (less desirable services, like pawn brokers, in a red tract (low-education, low-income)) contains 56 percent (n=29) of the fifty-two mapped locations in a more densely populated area. This strongly supports Fellowes' (2006a) findings.

From the BatchGeoCode.com software, I was able to populate mapping software, using GoogleEarth, to visualize the results in a different map, satellite earth, and format. Figure 8 shows the GoogleEarth results. Note the different colors used in the legend for the same four groups. GoogleEarth provides the ability to zoom in and get a better feel for the characteristics of the neighborhoods than the straight map like format of BatchGeoCode.com.

Figure 8 Service Locations with GoogleEarth

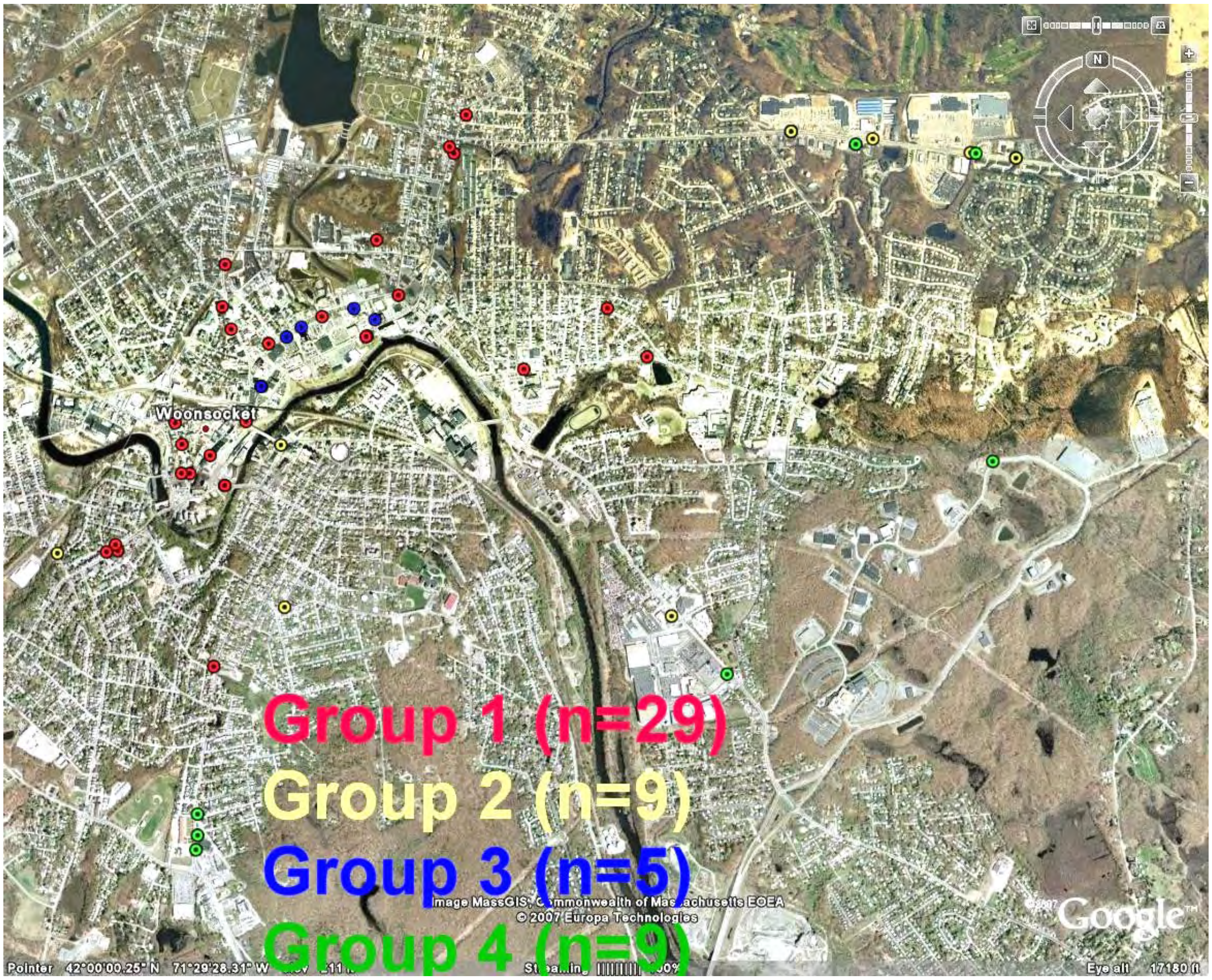



Figure 9 shows the breakup of all fifty two locations in the different tracts. Stores are either designated by either red (those stores that are disadvantageous to the poor such as check cashing, payday lender, convenience stores) or green (those stores that can be beneficial for the poor to utilize such as banks and grocery stores). Stores are also designated by their locations—either red (low income, low education) or green (higher education and higher income).

Figure 9 Grouping Number Percentages

| Grouping Number | Description | Count | % of total | % within similar type of store |
|---|---|---|---|---|
| 1 | Red store within Red location | 29 | 55.77% | 76.32% |
| 2 | Red store within Green location | 9 | 17.31% | 23.68% |
| 3 | Green store within Red location | 5 | 9.62% | 35.71% |
| 4 | Green store within Green location | 9 | 17.31% | 64.29% |

From the multiple-mapping methods and data analysis tables (Appendix B and C), it is evident that most of the services that charge extra for basic services are located in red (low income, low education) tracts.  There is strong correlation for this finding with the literature reviewed in Appendix A.  The following section presents possible approaches and solutions that might lead to different better balance of locations and services.

PROGRAMS TO HELP LOWER-INCOME FAMILIES AND INDIVIDUALS

One program created to help both individuals and families is the Earned Income Tax Credit (EITC) which is a refundable tax credit, controlled through the Internal Revenue Service (IRS) that is currently the largest antipoverty program in the United States (Beverly, 2002). The EITC was developed in 1975 to balance the effects created by Social Security and Medicare payroll taxes for the poor (Beverly, 2002). The credit is divided into three sections and is beneficial in that it encourages participants to work because credits increase as wage increases, to a certain level.

During the initial “phase-in-range”, the credit increases with earnings; during the “plateau range”, credits remain at maximum levels; and during the “phase-out-range” credits are decreased and ultimately removed. In 1990, eighty to eighty-six percent of persons eligible for the credit received it and in 2002, the maximum credit for a family with two children was $4,140 (Beverly, 2002). While this is an excellent participation rate, 2007 rates are still between 75-80% according to testimony to House Ways and Means by Mr. Morgante, Commissioner of Wage and Investment Division, Internal Revenue Service (“House Committee,” 2007). Research has shown that many families use this money for larger ticket items such as car repairs, credit card payments, and education expenses (Beverly, 2002).

There is, however, a disincentive for families who fall around the upper level of the “phase-out-range” because, after a certain point, they will no longer receive any credit and are subject to very high tax rates (Beverly, 2002) and the incremental raise in earnings is counterbalanced by the reduction in EITC and other programs such as food stamps (“The High”, 2003).

Table 3 summarizes the overall benefits and EITC approach and was extracted from the Internal Revenue Services web site.

Table 3 EITC Information from IRS

| EITC Information | | Number of Qualifying Children | | |
|---|---|---|---|---|
| Item | | One | Two or More | None |
| Earned Income Amount | | $8,080 | $11,340 | $5,380 |
| Maximum Amount of Credit | | $2,747 | $4,536 | $412 |
| Threshold Phaseout Amount | (Single, Surviving Spouse, or Head of Household) | $14,810 | $14,810 | $6,740 |
| Completed Phaseout Amount | (Single, Surviving Spouse, or Head of Household) | $32,001 | $36,348 | $12,120 |
| Threshold Phaseout Amount | (Married Filing Jointly) | $16,810 | $16,810 | $8,740 |
| Completed Phaseout Amount | (Married Filing Jointly) | $34,001 | $38,348 | $14,120 |

As another potential solution, Individual Development Accounts (IDAs) are a fairly new, and certainly very powerful, tool for low income persons. These accounts are designed for lower income families to help them save earnings, receive financial counseling, as well as receive matching contributions for their deposits into a savings account. In 2005, there were 20,000 IDA participants in five hundred programs across the nation receiving funding from private sources as well as state and federal governments (“The Power,” 2007). Since 1999, the federal government has provided over $120 million, however, recent tax credits proposals by senate have not been enacted that could provide support for 300,000 IDA accounts nationwide (“The Road,” 2007).

The Financial Links for Low-Income Peoples (FLLIP) program is a statewide program in Illinois aimed at providing twelve hours of training in financial management, for persons with incomes below 200% of the poverty level, (Anderson et al., 2004). The program works with nonprofit organizations to provide training and offers both financial education-only programs as well a program using IDAs.  Anderson et al. (2004) found IDA participants are much more likely to be employed than education only participants (97.8% versus 13.2% respectively) most likely because participants in the IDA programs need to be able to earn money to save.  There was high interest for these programs, although recruiting and retention was difficult (forty percent drop out for education only versus eleven for IDA programs) (Anderson et al., 2004).

In a separate study of fourteen test sites of IDAs over the course of four years, the average participant was able to save about $500 with an additional $1,000 in matching contributions ("The Power," 2007).  At least one dollar was matched, with the stipulation that the money must be used for long-term assets or things like education, while a withdrawal for a bill or other goods would receive no matching funds.  Recruiting for the program was a struggle as well as the issue of individuals withdrawing money for unmatched items.  Two-thirds of participants made unmatched withdrawals and in the end, the net savings rate was nineteen dollars a month—with the program costing sixty-four per month ("The Power," 2007).  While monetarily the program may not have seemed a total success, four out of five participants reported they felt, "more economically secure, confident about the future and in control of their lives" ("The Power," 2007, p. 2).  A significant benefit for a program like this is that it includes an incentive to save money.  FLLIP had difficulty retaining people for the education only account because there was not as much of an incentive, whereas with an IDA account, participants can receive additional funds and see their money grow.

A new idea on the forefront of low-income programs is children's savings accounts.  This program would provide every child across the nation a financial nest egg where, from a very young age, they would be able to begin to learn financial literacy ("The Road," 2007).  The accounts would range from $500 to $6,000 and contributions of less prosperous children would be encouraged.  In a monitoring study as of June 30$^{th}$, 2006, 1,089 accounts with account balances of $1,165,922 are current with about $1,070 for each account balance.  Expansion of this federal program would require a ground swell of support across multiple political spectrums, perhaps led by those states with already active programs.

Fellowes' detailed analysis (2006a) provides a comprehensive approach to potential recommendations to the larger problem by positioning solutions as a general 'market driven' approach which will help improve the overall economy by working the situations associated with the disadvantaged. The following table summarizes Fellowe's overall recommendations in the context of three over-arching goals

Table 4 Potential Recommendations from Literature Review

| | |
|---|---|
| 1 | GOAL ONE: PROMOTE MARKET OPPORTUNITIES IN LOWER INCOME NEIGHBORHOODS |
| 2 | Form Public-Private Partnerships to Bank the Unbanked, |
| 3 | Adopt Innovative, Bi-Partisan Policies, |
| 4 | Help Enroll Lower Income Consumers in Savings Accounts, America Saves |
| 5 | Promote Market Opportunities for Low-Priced Products in Automobile Markets |
| 6 | Promote Low-Cost Alternatives to Car Dealers, Targeted Car-Ownership Programs |
| 7 | Develop Low-Cost Insurance Pools, The California Low-Cost Automobile Insurance Program |
| 8 | Promote Lower Cost Insurance Companies, |
| 9 | Promote Responsible Mortgage Companies, University of Pennsylvania's Guaranteed Mortgage Program |
| 10 | Promote Low-Cost Mortgage Alternatives, the PHIL-Plus and Mini-PHIL Loan Program |
| 11 | Help Finance Large Grocers in Underserved Markets, Pennsylvania's Fresh Food Financing Initiative |
| 12 | Document and Publicize Lower Income Market Demand, Fort Wayne's Southtown Mall Initiative |
| 13 | Streamline Retail Development, Chicago's Zoning Reform Initiative |
| 14 | GOAL TWO: CURB UNSCRUPULOUS BUSINESS PRACTICES IN THE LOWER INCOME MARKETPLACE |
| 15 | Limit Development of High-Priced Businesses, San Francisco's Moratorium on Check Cashers and Payday Lenders |
| 16 | Tighten State Regulations on Prices and Fees Charged by Financial Businesses, Georgia's Amendments to the Industrial Loan Act |
| 17 | Don't Overlook Mainstream Financial Institutions, The Need to Update Regulation Z |
| 18 | Offer a Free Tax Preparation Alternative, California's Ready Return Tax Preparation Initiative |
| 19 | Accelerate the Release of Federal Tax Refunds, The Need for the IRS to Speed-Up Refund Transactions |
| 20 | Curb Abuses by Car Dealers, California's Car Buyer Bill of Rights |
| 21 | Limit the Ability of Prices to Vary With Income, Hawaii's Department of Insurance Credit Score Regulation |
| 22 | Consider Bold Disclosure Rules, Car Price Disclosure Act |
| 23 | Limit Fees and Provide More Information for Mortgage Buyers, New Mexico's Mortgage Lending Law |

POTENTIAL SOLUTIONS AND RECOMMENDATIONS FOR WOONSOCKET

Solution I: Financial Literacy Program:

As mentioned in an earlier literature overview section, education seems to be one of the cornerstones of a potential solution. In a recent New York Times article by Rachel Louise Snyder, Can Poor People Be Taught to Save?, an economics professor John Caskey found “In many cases, people didn’t save--not because they actually couldn’t…but because they believed they couldn’t.” (Snyder, 2007). The executive director of the Consumer Federation of America, Stephen Browbec, concluded that “the only way to get people to save was to reverse the social pressure while trying to effect modest institutional changes…create a network of support for saving.” Snyder goes on to describe various methods to help poor people get in the habit of saving. In particular, she describes Browbec’s program called America Saves. This network, started in 2000, has now enrolled more than 75,000 participants at more than 40 locations across the United States. Banks are asked to set up special accounts with zero minimum accounts and low fees. Large employers offer regular workshops on debt, budgeting, saving and consumerism. A similar approach could certainly be attempted in Woonsocket, if the right coalition were created with local businesses to work the educational component.

As we learned in a number of Bryant business courses, organizations need an overall ‘strategic plan’ with strategies to improve performance or change directions. We also learned the value of strategic alliances in bringing successful products and approaches to markets. I believe a similar approach could be used in Woonsocket as there are over twenty-one members in the Northern Rhode Island Chamber of Commerce “Social and Human Services Section” (“Social,” 2007).

Appendix D provides a detailed contact list of the twenty-one current members of the Social and Human Services network. Additionally, there are a number of Woonsocket City, and perhaps county and state, agencies that are also involved in services related to low income persons. Perhaps these agencies could be brought together in a 'strategic alliance' brought to bear on the high cost of being low income.

From these two basic ideas of financial literacy and coalitions, I believe a potential solution would be to create an alliance between Bryant University and the Woonsocket community to teach financial literacy. While a program like this would be a major undertaking, I feel that the students at Bryant are fully capable and would be receptive to the challenge. Bryant students and faculty possess both the knowledge of the subject as well as a tremendous amount of capable persons who would work well with the potential strategic alliance partners and with those receiving the training.

To begin a project like this, a committee would need to be formed, including Bryant professors, Bryant students, and members from social and human services groups. The committee could examine other personal financial planning programs. A strong asset to the committee would be finance or accounting professors knowledgeable of the area, as well as determined students willing to coordinate a project of this magnitude.

When all was said and done, I believe the final goal of the committee would be to offer a program to Bryant students (perhaps a few sessions over a month) who would then turn around and teach this course to lower-income persons in Woonsocket through one of the local human service organizations.

<u>Solution II: Regulation</u>

According to the Washington-based Center for Responsible Lending, only two states in New England allow payday lending—and Rhode Island is one of them; the other is New Hampshire (Arditi, 2007). North Carolina and Georgia have both banned payday lending, and recent attempts to get it reinstated in Georgia failed in early April of 2007 ("News from," 2007). South Carolina is currently considering legislation to limit the number of payday loans to five a year. The legislation will also include terms that require each loan is paid off before a new loan is taken out, and a maximum loan of four hundred dollars ("News from," 2007). Nationally, thirteen states have banned payday lending entirely (Arditi, 2007).

Rhode Island needs to take steps towards regulating payday lenders, and luckily, Senator Juan Pichardo agrees. In an editorial in the Providence Journal, Pichardo wrote, "[Rhode Island] should follow the lead of other New England states that have a reasonable usury cap and allow no special exemptions for payday loans" (Pichardo, 2007). Pichardo goes on to recommend that families save and build wealth and take advantage of matching fund programs. In September of 2006, a third Check 'n Go establishment was denied application to build a store in an Olneyville neighborhood. The applicants insisted the location fit their middle class customer profile—however 2000 Census data shows Olneyville is one of Providence's poorest neighborhoods with a median income of under $19,700 while the citywide median is $32,000. With the helpful protest of Olneyville Collaborative, YouthBuild Providence and Rhode Island ACORN, this payday lending establishment was denied permission to build. However, Rhode Island needs to continue efforts such as these to regulate the payday lending business (Arditi, 2007).

<u>Solution III: Managing Change Approach</u>

The general field of 'change management' provides a multitude of potential models for managing change from a 'current state,' through a 'transition state,' and finally to a 'future state.' One such managing change model, referred to as ADKAR (Hiatt, 2006) and "Managing the Human Side of Change,"(Hiatt and Creasey, 2003) was developed by Jeff Hiatt at PROSCI as a stage approach to both individual and organization change. ADKAR research now consists of over 700 organizations as captured in a biennial 'Best Practices Report.' The ADKAR model holds that all individual and organizational change proceeds, in order, through the five stages of:

A= Awareness of the need for change (addresses why a change is necessary)

D= Desire to participate and support the change (Rank or List of the factors or consequences (good and bad) for the person that create a desire to change)

K=Knowledge of how to change (and what the change looks like) (List the skills and knowledge needed for the change, both during and after the transition)

A=Ability to implement the change on a day-to-day basis (Considering the skills and knowledge from above, evaluate the person's ability to perform or act in the new way. Are there any barriers inhibiting the person's ability?)

R=Reinforcement to keep the change in place (List the reinforcement that will help to retain the change. Are incentives in place to make the change stick? Are there incentives to not change?)

For example, if a low-income person lives in a neighborhood with both a check cashing service and a bank, and if that person has never been in a bank, their awareness would be extremely low; in addition, even if they had the desire to go into a bank, they would be lacking the knowledge to even understand what forms to use or who to talk to about accounts and might be missing the ability to use any banking systems. If we wanted to accomplish the change of getting that person to utilize a bank vice the check cashing service, with which he's probably very familiar, we'd have to design an approach that covers all the phases. In the cases where there is a lack of reinforcement, or incentives, additional pressures would come into play. This ADKAR model could be added to any program already offered to the low-income or implemented into another program.

In conclusion, I believe the fundamental approach to help low income families avoid the high cost of being low income comes back to the need to educate low income families about their options and solutions. In addition, consistent with Fellowes and other researchers, there is a strong need to educate all components of the economic institutions that interact with low income families across the spectrum of services they provide. None of this can be accomplished easily or without 'relentless patience' to keep pressure on possible solutions.

# APPENDICES

Appendix A – Literature Review
General Overview for Detailed Literature Review Section

Poverty and homelessness is a rising problem in the United States.  For the individuals and families that have fallen under such circumstances, it can be very difficult to overcome poverty. Some of this difficulty is due to barriers beyond the obvious lack of income.  Many families turn to food pantries, government food stamps, and similar options to help survive.  However, there are additional disadvantages and barriers that underprivileged people must deal with in their every day lives that the middle class do not encounter.

Activities that may seem simple to the average American, like getting groceries, can be a huge ordeal for those living in poverty.  First, they may not be able to afford a car because insurance companies have started to charge higher premiums for cars registered in lower income neighborhoods and also those with low credit scores can be charged more.    Secondly, there may not be a grocery store close their home.  Sometimes only convenience stores are found in lower income neighborhoods, and they usually charge higher prices.  Another difficulty that someone might come across is the fact that they do not have a bank account.  Without a bank account, individuals need to use check cashing services that charge minimum service fee as well as a percentage of the check in exchange for cash for the individual.

This literature review section will provide or discuss:

1. An overview of the literature associated with understanding the particular situation and factors associated with low income persons,
2. Particular problems that result in low income persons paying more for products and services and the impacts of the increased costs.
3. Various reasons many of the problems exist,

4. Current supplementary income assistance programs and
5. Potential solutions and recommendations,
6. Factors selected for further application to the City of Woonsocket situation.

One reference in particular, M. Fellowes' (2006a) From poverty, opportunity: Putting the market to work for lower income families, sponsored by the Brookings Institute, is a striking example of a well-written and documented treatment of the situation involving low income persons and provides a comprehensive framework for analysis and recommendations. While Fellowes concentrates "on just one type of high cost of being poor—the higher prices lower income families pay for basic necessities," (p. 3), the overall report provides a useful approach for further research. Many of the research questions used to research the City of Woonsocket, RI situation were derived from Fellowes (2006a), especially if they were corroborated by additional sources.

Unless otherwise noted, the sections in the following detailed outline are extracted verbatim from the noted source.

Basic Outline:

A. General Information
B. Problems (low income pay more for)
    a. Check cashing
    b. Short term loans / payday loans
    c. Tax refunds
    d. Remittance services (wiring money)
    e. Car prices, loans, insurance
    f. Home loans, insurance
    g. Renting (furniture, appliances, electronics)
    h. Groceries
    i. Child care
    j. Health care
C. Reasons given for the situation affecting low income consumers
    a. Real and perceived higher costs of doing business
    b. No checking accounts. lack of credit or bad credit
    c. Higher priced alternatives densely concentrated in lower income areas
    d. Unscrupulous business practices
    e. Lack of knowledge / access to making good decisions
    f. Language barriers
    g. Fall susceptible to gimmicks, etc
    h. Programs set in place not working

D. Programs—Mostly geared to supplementary income
    a. Temporary Assistance for Needy Families (TANF)
    b. Earned Income Tax Credit (EITC)
    c. Individual Development Accounts (IDA)
    d. Children's Savings Accounts
E. Solutions
    a. Reduce real/perceived market risks—do business in lower income areas
    b. Reduce market abuses that inflate prices
    c. Make lower income consumers more knowledgeable about finances, etc
    d. Microcredit
    e. Training Curricula
    f. General
    g. RI specific

The Works Cited section is at the end of this thesis.

A. General Information
    a. Reducing costs of living for lower income families by just one percent would add up to over $6.5 billion in new spending power for these families (Fellowes, 2006a, p.4)
    b. Lower income families tend to pay higher than average prices for a wide array of basic household necessities—often for the exact same items—than higher income households (Fellowes, 2006a)
    c. Together, lower income households in this country and now collectively worth more than $650 billion in buying power every year. That staggering sum is greater than the budgets of Canada and Mexico combined, and equal to more than 25 percent of the entire US federal budget. To be sure, lower income families need nearly every penny of that total to get by—but not in the way you think. In fact, that $650 billion is potentially one of the most important sources of funding for anti-poverty initiatives today. (Fellowes, 2006a, p. 9)
    d. Where did this poverty opportunity come from? (Fellowes, 2006a, p. 10)
        i. Demand among lower income consumers for many necessities has expanded dramatically over the last decade, while the supply of those necessities also has substantially changed
        ii. Past decade—sweeping economic, market, and policy changes all interacted to create millions of new customers for many basic necessities.
            1. The roaring economy of the late 1990s helped contribute to income growth and the decline of concentrated poverty.
            2. A major wave of new immigration to the US also boosted demand for an array of goods
            3. These factors along with sweeping policy reforms in programs that benefit lower income families, sent millions of lower income adults into labor force in 1990s
        iii. As demand increased for necessities like basic financial services, housing, cars, and insurance, the financial services market was transforming in ways that increased access to credit among lower income households
            1. Burgeoning use of credit scores, which essentially allowed sellers of credit to index prices to reflect lending risk
    e. Analysis may miss (Fellowes, 2006a, p. 13)
        i. Most surveys of consumer finances and expenditures measure sticker costs only
        ii. Result: low-income consumers in surveys appear to spend less on groceries than do high income households

iii. Lower income households more likely buy generic brands
iv. Over time, means they spend considerably less on item than higher income households
v. Misses that per-unit price often varies from one community to another based on median household income
vi. Item may cost more in a low-income neighborhood than in a higher income neighborhood
vii. Pattern of price varying by household income holds true for nearly all basic necessities

f. Measures that reduced the price of essential goods and services for low-income Americans by just 1 percent would put an additional $6.5 billion a year in their hands (Eckholm, 2006, p. 2)
   i. This is roughly 1/3 what families have gained through EITC
   ii. Sheldon H. Danziger says "But I don't see them as competing with things like raising the minimum wage, raising child subsidies and providing health insurance"

g. Wealth inequality in the US is much more pervasive than income inequality (Anderson, Zhan & Scott, 2004, p. 2)
   i. 1998 survey of consumer finances
      1. Households with income of less than $10,000 had median net worth of $3,950 as compared to $24,650 for households with $10,000-$24,999 in income and $152,100 for households with $50,000-$99,999 in income
      2. This lack of net worth impacts potential asset accumulation which might improve credit worthiness

h. US Census Bureau announce the nation's official poverty rate ("A Wealth," 2007)
   i. Poverty figure itself is widely recognized as an outdate, almost haphazard statistic derived from the estimated food budget of a 1950's family and adjusted for inflation ever since ("A Wealth," 2007, p. 1)
   ii. Dr. Nicholas Eberstadt of the American Enterprise Institute calls the poverty figure, "America's worst statistical indicator"
      1. Official rate does not count welfare, Social Security or other government benefits
      2. Measure ignores growing costs for childcare, transportation and housing
      3. Both sides recognize futility of a one-size-fits-all poverty standard that does not distinguish between costs of living in the Mississippi Delta and Midtown Manhattan
   iii. Significant weakness of poverty figure: overlooks the critical question of wealth ("A Wealth," 2007, p. 1)
      1. Deficiency masks the true scope of economic hardship in the United States and the imbalance of

economic opportunity that divides the nation (“A Wealth,” 2007, p. 2)

2. 20% most affluent hold 84% of the wealth
3. 40% least affluent hold 1% of the wealth
4. Fewer than 13% of American households live below the official poverty line, yet more than a quarter live paycheck to paycheck with negligible or nonexistent net worth
5. Between 1983 and 2001, the net worth of the least affluent 40% of American households fell by almost half

i. Simply getting to work can be much more expensive (“The High,” 2003, p. 4)
    i. Inner-city families must now own car

j. jobs moved from city to suburbs (“The High,” 2003, p. 5)
    1. No public transportation (“The High,” 2003, p. 5)
    2. 1998 study of Boston welfare recipients (reference 2) (“The High,” 2003, p. 5)
        a. Nearly all lived within ¼ mile of bus stop/train station
        b. Less than 1/3 of potential employers were located within a ¼ mile of public transportation destination

k. 98% of rural working families relied on personal cars for all local transportation (“The High,” 2003, p. 5) (reference 3)

B. Problems (low income pay more for)
    a. Check cashing
        i. Check cashing and short term loans: on $50 pay $5 to $50 = 81% of customers that buy high priced payday loans earn <50,000 (Fellowes, 2006a, p. 4)
        ii. Low- and moderate-income consumers are more likely to buy high-priced basic financial services than higher income households (Fellow, 2006a, p. 20) for things like: check cashing, short-term loans, tax preparation, and transmitting money
        iii. Depending on where lower income families live and types of services they consumer, costs can range from a few dollars more to over $2000 every year in extra costs (Fellow, 2006a, p. 20) (reference 57)
        iv. Lower-income pay more because of greater reliance upon alternative, high-priced financial service companies, including check cashers, payday lenders, pawnshops, and auto-title lenders (Fellow, 2006a, p. 20)
        v. Survey evidence: most check casher customers earn annual incomes below $30,000 (Fellow, 2006a, p. 20)

1. Most payday-lending customers earn between $15,000 and $60,000 per year
2. Over 65% of pawnshop customers earn under $25,000 (internal reference 58)

vi. Across the 12 metro areas (Fellow, 2006a, p. 20)

1. Maximum check-cashing fees generally range between 1.6% of the face value of check in NY to up to 10% for personal checks cashed in Maryland (End-note 61 notes that most differences are, in part, due to regulatory, or lack of regulation, requirements)
2. Family with net income of $30,000 a year would pay about $18.46 every two weeks to cash a check in New York or $480 over course of a year
3. Same family would pay $1500 in Atlanta
4. In theory, participants would pay nothing if they had a bank account
5. Recent industry reports suggest that a growing number of banks have started offering accounts with no maintenance fees, no minimum balance requirements, and no check-cashing fees (reference 63) (Fellowes, 2006a, p. 22)
6. The banking industry has traditionally lost money on checking accounts (even with monthly maintenance fees), banks and credit unions now widely view these accounts as a gateway to other, more profitable service they offer (reference 64)7.  31 million lower income households have checking accounts (Fellowes, 2006a, p. 23) while 9 million lower income households don’t have a checking account (Fellowes, 2006a, p. 23)
    a. 23% of lower income families do not have a checking account; 64% do not have a savings account (Fellowes, 2006a, p. 34)

vii. “Increasingly two-tier financial services system” says Jennifer Tescher, director of the Center for Financial Services Innovation in Chicago (“Credit,” 2007, p. 2)

1. Growing reliance on credit scores
2. Meteoric rise and spectacular profits of an alternative or “fringe” finance sector catering to less affluent customers
    a. Payday loan shops (barely existed before 1990) now outnumber McDonald’s fast food franchises with 22,000 storefronts nationwide
    b. They now process roughly 180 million checks per year, with estimated face value of $55 billion

c. Nationwide, 10% of households maintain no checking or savings account and instead rely entirely on fringe outlets
d. 2004 survey of low-to-moderate income neighborhoods in Chicago, LA, and Washington DC found 30% of families were 'unbanked'
e. While heavy transaction fee → more significant is a lack of opportunity to save money and establish credit
f. "People with bank accounts are more than twice as likely to hold savings as are people who are unbanked and are more likely to add to their savings on at least a monthly basis" from UNC report in 2002

viii. In many low-income communities, it's much easier to find a check-cashing outlet than a bank ("The High," 2003, p. 12)
1. Chicago's poorest neighborhoods, ratio of check-cashing outlets to banks nearly 10:1

ix. Low-income consumers can cash checks without the maintenance fees and minimum balances required by many banks, they may end up paying much more, piecemeal, than if they had a bank account ("The High," 2003, p. 12)
1. A worker who takes home $16,000 a year, average check-cashing fees (2.34 percent of face value) add up to about $374 a year (reference 36)
2. Low-wage workers spend 2-3% of income simply to get salary

b. Short term loans / payday loans

i. Lower income consumers more likely to pay for higher prices for short-term loans because rely on alternative, high-priced lenders (Fellowes, 2006a, p. 22)
1. 81% of customers that buy high-priced payday loans earn less than $50,000 a year (reference 66)
2. Payday fees (Fellowes, 2006a, p. 23)
a. Range from nothing (because industry banned) to higher than 15% of a loan's value in Colorado, Delaware, South Dakota and other states (reference 68) p. 23 graph on that page too
3. 14,000 pawnshops

ii. 2005 survey measuring 146 different credit card products (Fellowes, 2006a, p. 24)
1. Sold by 47 different companies
2. Found average APR was 12.6%

        3. Industry reports suggest typical APR on a home equity loan even lower (reference 73)
        4. Interest rates are just a fraction of those charged by payday lenders and other alternative loan vendors
    iii. The highest, per-capita concentration of alternative check cashing and short-term loan providers are found in the lowest income neighborhoods of metropolitan areas (reference 86) (Fellowes, 2006a, p. 26)
    iv. Denver—334 core alternative financial providers
        1. Neighborhood median income below $30,000: 1 establishment for every 3,196 residents
        2. As median neighborhood income rises, the number of alternative providers of financial services per person decreases
        3. 30,000-60,000 have 1 for every 4,755 residents (Fellowes, 2006a, p. 27)
        4. 60,000-90,000 have 1 for every 22,957
    v. Alternative check cashing and short-term loan providers are much more highly concentrated in cities' lowest-income neighborhoods, most of the establishments are located in neighborhoods with more moderate incomes
    vi. "Payday advance" industry which California legalized in 1997 is almost a license to print money (Curtis, 2000, p. 1)
        1. California has 1500 and do a million transactions a month
        2. California legislation allows paycheck advance outlets to make eight of those "cash until payday" extensions
    vii. Federal Reserve has boosted short-term rates by more than four percentage points since 2004—biggest move since the early 1980s (Coy, 2007)
        1. Corporations and households with good credit easily switch to long-term loans
        2. "A prime borrower has options," says Robert Moulton, president of Americana Mortgage Group Inc., a Manhasset (NY) mortgage broker
        3. Leaves one group of Americans to absorb the brunt of tight money: families with poor credit
            a. These typically low-to-moderate income families have always relied heavily on short-term borrowing
            b. Even more vulnerable today because so many bought homes during the boom using subprime adjustable-rate mortgage loans (ARMs) tied to short-term interest rates
                i. as rates have gone up, loan payments skyrocketing

c. $265 billion worth of subprime loans are scheduled to have rates adjusted in 2007
   i. May soon be paying 11% or 12% while 30-year fixed-rate loans are a little over 6%

viii. Target poor and low-income individuals with the prospect of quick, hassle-free money (Pichardo, 2007)

ix. Typically require a borrower to endorse a postdated check—traps them into a loan—then rolls over repeatedly (Pichardo, 2007)
   1. In the end these loans can create annual interest rates that can reach as high as 500 percent
   2. An average borrower pays back $827 on $339 loan

x. Loands target young, financially unsophisticated soldiers, and families (Pichardo, 2007)

xi. To help protect soldiers (Pichardo, 2007)
   1. Last year, congress approved and President signed a 36% interest cap on payday loans to military personnel
   2. Resulting from legislation drafted by Sen. Jim Talent, R-Mont and Sen. Bill Nelson, Fla.
   3. Legislation stems from a Defense Department report that revealed payday lenders, through practice of astronomical rolling interest rates, were directly harming military families and preparedness

xii. 90% of payday loans go to repeat borrowers (Grunder, 2007, p. 2)

xiii. Community Financial Services Association of America (Grunder, 2007, p. 1)
   1. Association that represents about half the nation's payday lending stores (p. 1)
   2. Industry promised
   3. More time provided to pay back a loan without financial penalty (Grunder, 2007, p. 2)
      a. $10 million national ad campaign warning that a payday loan is not a financial fix that lasts
      b. There is a ban on ads that say a payday loan is a perfect way to finance

xiv. Military (Grunder, 2007, p. 2)
   1. Congress capped rate charge military at 36% (p. 2)
   2. Loan of $1000
      a. Pay back 12 monthly payments @ 36%
      b. $205.55 interest alone (before fees)
   3. Enforcement left up to Pentagon

xv. Subprime lending: loans (Note: these have been in the news extensively lately) made outside the low-priced so-called prime market that serves consumers who have well-established and unblemished credit histories (“The High,” 2003, p. 5)

1. Rates on car loans double to triple interest of prime-rate new car loans
2. For example: 5 year loan with initial principal balance of 10,000
    a. Difference between 6% and 20% = $195 vs $265
    b. Over 5 years = $4,200 (“The High,” 2003, p. 5) (reference 4)

xvi. “Buy here/pay here” dealers who sell less costly (and often less reliable) used cars and offer initial financing to their customers at interest rates commonly very high (“The High,” 2003, p. 5)

xvii. Payday loan industry also dominates low-income financial markets by providing services for high fees (“The High,” 2003, p. 13)

1. 1990s: number of payday lenders expanded from about 300 stores to more than 8,000 stores (reference 40)
2. Payday loans are small cash advances based on a personal check held by the lender for future deposit
3. Loans range from $100 to $500—due in full on the borrower’s next payday or within 14 days (reference 41)
4. Problem arises when borrower cannot make the repayment on time
    a. Loan is rolled over again and again, so that the borrower ends up in perpetual debt, sometimes paying an average Annual Percentage Rate of 470 percent (reference 42)
5. Example: (“The High”, 2003, p. 13, 14)
    a. If a borrower takes a loan for $200, the payday lender holds their personal check in the amount of $200 plus fees for a total of $230.
    b. If at end of 2 weeks, the overextended borrower cannot repay the loan, then they are faced with two options:
        i. Allow the check to bounce → threat of “bad” check charges or prosecution
        ii. Pay to extend the loan → cost the borrower an additional fee of $30 each time the loan is carried forward

c. If it takes 3 months to repay the principal, then the borrower will pay a total of $180 in fees for a $200 loan

c. Tax refunds
   i. Tax refund services—want it done faster (3x more likely to buy refund anticipation loans) (Fellowes, 2006a, p. 5)
      1. Advance payments on tax refunds are accompanied by interest rates between 70 percent to more than 1800 percent (Fellowes, 2006a, p. 5)
   ii. Lower income consumers about as likely as higher income consumers to pay for tax preparation services (Fellowes, 2006a, p. 24)
   iii. 57 percent of lower income tax filers used for-profit tax preparation services in 2003—compared to about 61% percent of non lower income tax filers (reference 78) (Fellowes, 2006a, p. 25)
   iv. Refund anticipation Loans (RALs) (Fellowes, 2006a, p. 25)
      1. Advance payments made to filers based on the refund check from the IRS that they expect to receive
      2. When lower income families use for-profit tax preparation firms, they are much more likely than high-income consumers to buy refund anticipation loans
      3. IRS can take several weeks to cut a refund check—loans have a stronger appeal to lower income families
      4. Nationwide, 5% of middle and higher income tax filers take out RALs versus 15% of lower income market (reference 79) page 25
         a. Sample reflects trend
         b. Chart on page 25
      5. Recent study suggests that a major tax preparation firm typically charges about 250 percent (reference 80)
   v. Most densely concentrated in moderate-income neighborhoods with median incomes 30,000 – 60,000 (Fellowes, 2006a, p. 29)
   vi. In 2004, the Corporation for Enterprise Development (CFED), a leading national nonprofit organization, added up the United States' total investment in asset building. Counting both direct spending programs and tax breaks such as the home mortgage deduction and tax-deferred retirement and college savings plans, CFED found that the federal government devoted $335 billion to help households build assets in 2003. Yet less than 5 percent of that amount

benefited families in the bottom 60 percent of taxpayers (“A wealth,” 2007, p. 3)

vii. New York owners of more than 60 Jackson Hewitt tax-preparation outlets have ripped off mainly low-income clients (Edelman, 2006)
    1. Hidden fees
        a. Practices for more than five years
        b. An extra charge of 15% of total bill
        c. Customers were routinely billed $49 for long state tax returns even if they
            i. Had qualified to file short forms for a $40 fee
    2. People who sought “refund anticipation loans” (RAL) or advance checks
        a. Charged undisclosed extra $25 to $50
    3. Owned by Mandeep Sobti and wife, Anjeet
        a. Including 30 in New York City
    4. Issue came to light when employees noticed
        a. Computerized files showed a mysterious “115 percent multiplier” which
        b. Automatically tacked on additional charge and
        c. Lumped into total “tax preparation” charge

viii. Jackson Hewitt, Inc. will pay $5 million, including $4 million in consumer restitution (“Attorney,” 2007)
    1. Alleged that the nation's second largest tax preparation firm violated state and federal laws in marketing high cost refund anticipation loans (RALs) mainly to low income customers.
    2. Complaint alleges Jackson Hewitt violated 13 state and federal laws or rules that
        a. regulate debt collection practices
        b. prohibit unfair business practices, false or deceptive advertising and prevent
        c. unauthorized use or sharing of individuals' tax return information
    3. RAL
        a. Jackson Hewitt's marketing of RALs was deceptive a
            i. Advertisements portrayed RALs as refunds or "Money Now," instead of loans
            ii. Omitted information that would have informed consumers the products actually were loans
            iii. Misled consumers by stating or implying RALs provided a faster way to get

money at tax time than waiting to receive a refund from the IRS

iv. Consumers who filed tax returns electronically could receive a direct deposit refund from the IRS just as quickly as they could get money from Jackson Hewitt through purchasing one of the firm's high cost loan products

4. Targeting the poor
    a. Most of the firm's customers are eligible for the Earned Income Tax Credit (EITC)
        i. EITC was established by the federal government to provide financial help to low income families
        ii. EITC recipients account for just 20 percent of all taxpayers.
        iii. Not only did Jackson Hewitt steer EITC recipients into expensive RAL products, but
        iv. The firm also charged them an additional fee ($10) to buy the products

ix. “Refund Anticipation Loans” (RAL) (“The High,” 2003, p. 13)
    1. High annualized interest rate, ranging from 67% to close to 800%) (reference 38)
    2. Average $200 fee enables claimants to receive their money only about 8 to 10 days sooner
    3. Error rates across these services are about same as when consumers complete application themselves
    4. In 1999, at least $1.75 billion in EITC benefits to poor families were used to pay for these preparation and quick-refund services (reference 39)

d. Remittance services (wiring money)
    i. Lower income consumers are likely to pay fees to wire funds to foreign countries (Fellowes, 2006a, p. 5)
    ii. 80% of remittance clients sending money to Latin America earn an annual income of less than $30,000 and to send $200 every other week to Mexico for one year, a customer would be assessed an additional $320 in fees, on average (Fellowes, 2006a, p. 5)
    iii. Lower income consumers likely to pay fees to wire funds to foreign countries (Fellowes, 2006a, p. 26)
    iv. Lower income consumers more likely to buy remittance products (Fellowes, 2006a, p. 26)
        1. Services allow immigrants to send money back to their country of origin

2. 80% of US buyers who send remittances to Latin America (most common destination) earn annual incomes below $30,000 (reference 82) (analysis by Benedixen and Associates
3. According to recent study, sending remittance to Mexico costs about 7.32% of amount of money sent (reference 84) p. 26
4. To send $200 every other week over year amount to $320 in fees
5. 2002 immigrants
    a. 35% earn less than $20,000
    b. 68% earn less than $35,000

v. Most services are located in neighborhoods with median incomes of less than $60,000 (Fellowes, 2006a, p. 31)
1. 2005—over 84% of establishments located in these neighborhoods
2. Most densely concentrated in the lowest-income neighborhoods of all but two of metropolitan areas in sample
3. As income rises density drops

vi. Immigrants typically send significant portions of income to family abroad incur additional costs in wire and transfer fees (“The High,” 2003, p. 12)
1. Typical costs are around $15 for $200 (usual monthly amount sent by Latino immigrants who earn less than $25,000 a year) reference 36

e. Car prices, loans, insurance
i. 4.5 million lower income households pay higher than average prices for auto loans (Fellowes, 2006a, p.4)
ii. Nationwide, consumers from lower income neighborhoods pay between $50 and $500 more, on average, to buy the exact same car as a consumer from a higher income neighborhood (Fellowes, 2006a, p. 5)
iii. Nationwide, 4.5 million lower income consumers pay, on average, two percentage points more in interest for an auto loan than the average, higher income consumer (Fellowes, 2006a, p. 5)
iv. In 2004, auto-loan customers learning less than $30,000 a year paid an average APR of 9.2 percent for their loan, while the average APR for customers earning $60,000 to $90,000 was 7.2 percent (Fellowes, 2006a, p. 5)
v. Drivers from lower income neighborhoods in the 12 same metropolitan areas pay between $50 to over $1000 more per year in higher premiums for auto insurance than those living in higher income neighborhoods (Fellowes, 2006a, p. 5)

vi. Lower and moderate income consumers are more likely than higher income households to pay higher prices for car-related products (Fellowes, 2006a, p. 35)
    1. On average, lower income households pay between $50 and $500 more in car prices and an extra two percentage points on an auto loan (reference 93) (Fellowes, 2006a, p. 35)

vii. Generally more expensive to insure a car in lower income neighborhoods within metropolitan areas than in higher income neighborhoods (Fellowes, 2006a, p. 35)
    1. Insurance industry disclosure laws are too restrictive to reliable quantify exact value of premium

viii. Study by Fiona Scott Morton and colleagues—analyzed national sample of 650,000 car purchases (Fellowes, 2006a, p. 35) which
    1. Controlled for things that influence car prices (make, model, neighborhood income
    2. Used a proxy for the income of the car buyer which had a significant effect on the final price of a car
    3. Race and number of characteristics associated with household income, like educational attainment and renter status, had a strong effect on the price of a car
    4. Two customers who buy exact same car will pay different prices that vary systematically based on certain characteristics

ix. On average, lower income consumers pay two percentage points more for auto loans than higher income consumers (Fellowes, 2006a, p. 35)
    1. Every year, about 4.5 million lower income consumers pay a higher than average APR for auto loans (reference 96)
    2. 2004—average annualized rate of interest paid by lower income households was about 9.2%
        a. Households 30,000-60,000 was 8.5%; 60,000-90,000 paid average 7.2%

x. Lower income households are much more likely to pay extremely high interest rates for auto loans, rather than just a higher average price (Fellowes, 2006a, p. 36)

xi. Drivers from low-income neighborhoods in NY, Hartford, and Baltimore insuring identical cars and with same driving record as from middle-class neighborhoods, paid $400 more on average for a year’s insurance (Eckholm, 2006, p. 1)

xii. 4.5 million low-income customers, defined as families making less than $30,000 a year, paid an average of two percentage points more for car loans than did middle class buyers (Eckholm, 2006, p. 2)

xiii. There are some 35 million to 50 million Americans, many of them low-income, for whom credit rating companies have too little information to calculate a credit score (“Credit,” 2007, p. 1)
    1. As credit industry has embraced automated loan processing in recent years, credit scores have become an increasingly important factor in the allocation of financing nationwide
        a. 10 years ago, the scores were used in judging one-fourth of all credit application
        b. Today figure is 90% (“Credit,” 2007, p. 2)
    2. Without a credit score people cannot typically qualify for a market-rate mortgage (“Credit,” 2007, p. 1) and
        a. Cannot take out a low-interest car loan
        b. Cannot charge needed purchases on credit cards

xiv. Research indicates that drivers from inner-city neighborhoods are consistently charged higher rates, despite state laws barring car insurance redlining (“The High,” 2003, p. 5)
    1. Based on report from Consumers Union and Public Advocates, Inc., a driver from South Central Los Angeles would pay almost five times more for car insurance than a resident of a suburb such as San Luis Obispo would pay—even if the drivers, driving records, and cars were identical in every other respect (“The High” reference 5)

f. Home loans, insurance
    i. 4.2 million lower income home owners that earn less than 30,000 a year pay higher than average prices for their mortgages (Fellowes, 2006a, p. 4)
    ii. Nationwide, 4.2 million lower income homeowners pay, on average, a percentage point more than higher income households in interest for their mortgage. (Fellowes, 2006a, p. 5)
    iii. In 2004, the average APR on a first mortgage for lower income households was about 6.9 percent versus between 60,000 and 90,000 paid an average rate of about 6.0 percent (Fellowes, 2006a, p. 5)
    iv. Holding all else equal, homeowners in lower income neighborhoods can pay as much as $300 more for home insurance than those in higher income neighborhoods (Fellowes, 2006a, p. 5)
    v. There are no housing markets in the country where a family earning today’s full-time minimum wage can afford a modest two-bedroom rental, without far exceeding the accepted

standard of paying 30% of one's income toward housing ("The High," 2003, p. 10)

1. According to the US Department of Housing and Urban Development (HUD)
    a. More than 5.4 million renter families either spend more than half of their income for housing, or live in severely distressed housing (reference 25)
    b. In growing "expensive" cities like Boston and Oakland
        i. A family would have to earn full-time wage of more than $25/hr to afford a two-bedroom apartment at HUD's 2003 fair market rent (reference 26)
2. ¼ of rural families, 5.5 million, pay more than 30% of their income on housing (reference 27)
3. Only about 4.8 million assisted-housing units currently available for the 13.3 million renter households earning 50% or less of the area median income (reference 28)
4. In 1999, estimated that only 39 available and affordable units for every 100 poor renter households (reference 29)

vi. There is a lack of access to mainstream credit which is bad news for those trying to build long-term equity like home ownership ("The High," 2003, p. 14)

1. Homes are an important source of wealth for all Americans
2. For homeowners with incomes under $20,000, half held nearly 72% of wealth in home equity (reference 43)
3. Equity provides relatively stable investment and gives asset that can be leveraged to survive crisis
4. Lack of equity can be bad for low-income because of often-scandalous credit rates they are required to pay ("The High," 2003, p. 15)
    a. Low income persons are prime target for subprime loans
    b. There are an increasing number of rural low-income families being pushed into mobile homes
        i. These must be financed as personal property—more expensive to finance and do not appreciate in value
5. Key difference between a prime and subprime loan ("The High," 2003, p. 15)

a. Homebuyer paying a subprime 13% mortgage interest rate on a loan of $107,500 will owe $514 more than the homebuyer holding a prime 7% mortgage per month
b. Over life of 30 year mortgage, holder of subprime loan will pay $184,997 more than prime-rate borrower of same amount (internal reference 44)

6. Predatory lenders practices are even worse (“The High,” 2003, p. 15)
    a. They exploit the flexibility allowed in the largely unregulated subprime market and zero-in on customers who have limited information and experience in the area of credit and banking
    b. Consumers with subprime mortgages which were rare 5 years ago, are eight times more likely to lose their home in default than those with prime, conventional mortgages (internal reference 47)

g. Renting (furniture, appliances, electronics)
    i. 1.6 million lower income adults pay excessive fees for furniture, appliances, and electronics (Fellowes, 2006a, p. 4)
    ii. Lower income consumers tend to pay more for furniture and appliances because they are much more likely than higher income households to shop at high priced rent-to-own establishments (Fellowes, 2006a, p. 5)
    iii. Nearly 60 percent of rent-to-own customers earn less than $25,000 a year (Fellowes, 2006a, p. 5)
    iv. Rent-to-own industry that preys on customers who lack the money to buy items like furniture, televisions, refrigerators, washer-dryers and other household goods—even pots, pans and dishes (Lewis, 2001, p. 1)
        1. Attractive come-ons for the poor who can’t amass enough savings to pay cash for big ticket items and who lack access to credit or have flawed credit histories that rule them out as candidates for legitimate installment contracts
        2. If renters miss a payment, the store requires the item to be returned immediately (Lewis, 2001, p. 2)
        3. Consumer can eventually own the merchandise if the payments are made on time over an extended period. But, the rental payments add up astronomically
            a. $13/week payments over 78 weeks, a $250 TV would cost $1,014 (APR of 265 percent)
    v. NYC Department of Consumer Affairs investigated Rent-A-Center in 2001 and found the national rental chain was

charging consumers up to 225 percent over the Manufacturer's Suggested Retail Price (Lewis, 2001, p. 2)

vi. Better Business Bureau says that most of the firms aim their marketing efforts at the poorest 40 percent of the nation's population (Lewis, 2001, p. 2)

vii. In 2000 FTC said (Lewis, 2001, p. 2)

1. 2.3 % of US households used rent-to-own transactions in the last year
2. 4.9% did so in the last five years
3. 31% of the customers were African-American
4. 73% had a high school education or less
5. 59% had household incomes less than 25,000

viii. Rent-to-own industry has launched a well-financed lobbying campaign in Congress in an effort to pass a federal law which would preempt—wipe out—state laws that regulate companies (Lewis, 2001, p. 3)

ix. Low-income neighborhoods are flooded with "rent-to-own" outlets that have prospered in the marketplace by targeting families at the bottom third of the economic ladder ("The High," 2003, p. 9)

1. Federal Trade Commission survey found more than 8,000 rent-to-own stores serving an estimated 3 million customers (reference 21)
2. Rent-to-own customers routinely pay two to three times what merchandise would cost if they could afford to pay cash
3. According to industry's own figures—only about ¼ of customers achieve their goal of ownership (reference 22)
4. These centers avoid regulation under usury laws because the customer always has the option of returning the merchandise, if, after months or even years of keeping up with the inflated rental costs, they find that they can no longer make payments (internal reference 23) ("The High," 2003, pp. 9-10)
5. Alternative to some rent a centers are retail merchant-issued credit card
    a. Cards typically carry interests rates that average 21%, about 3% points higher than bankcards (reference 24) ("The High," 2003, p. 10)

h. Groceries

i. Grocery stores in lower income neighborhoods tend to be smaller and more expensive than in higher income neighborhoods. The average grocery in sample of 2,384 lower income neighborhoods is 2.5 times smaller than the average grocery store in a higher income neighborhood (Fellowes, 2006a, p. 5,6)

ii. Evidence suggests that low-income households spend less for food, on average, compared with all-income households (Kaufman, MacDonald, Lutz, & Smallwood, 1997, p. 2) Note: this analysis does not take into account food pantries & other sources for food for low income
    1. Low-income households appear to select more economical foods, such as store label and generic items, larger package sizes, and lower quality items, in order to spend less on food
    2. In contrast, for a fixed market basket of identical or highly similar foods, analysis of food store prices shows that low-income households would spend more on average due to the slightly higher prices low-income households face

iii. Data based on surveys of store prices show that low-income households likely face slightly higher prices, by nearly 1 percent, than the national average for a given set of food items (Kaufman, MacDonald, Lutz, & Smallwood, 1997, p. 16)
    1. Surveys of household food consumption and expenditures show that within most food categories, low-income households spend less on a per unit basis for the foods that they buy
    2. Detailed supermarket average price data reveal large price differences on a per-unit basis between different package sizes of a given brand and between private-label and branded products
    3. Evidence suggests that low-income households spend less for food, on average, compared with all households.
    4. Low income households select more economical foods such as store label and generic items, larger package sizes, and lower quality items in order to realize lower food costs.
    5. In contrast, analysis of food store prices shows that a fixed market basket of identical or highly similar foods would cost more than foods actually purchased, on average, due to the slightly higher prices low-income households typically face. Although geographic location was the single most important contribution to higher nationwide average prices faced by low-income households, the aggregate results could mask large differences due to individual locations and types of stores utilized.

i. Child care
    i. Child care averages $4,000 to $6,000 per year in cities and states around country (“The High,” 2003, p. 5)
        1. The average annual cost of child care for a 4-year-old in an urban area center is more than the average annual cost of public college tuition in all but one state (reference 6) (“The High,” 2003, p. 7)
        2. Article provided an example of 2 parent family both working full time at minimum wage ($21,400 before taxes) (“The High,” 2003, p. 7)
            a. If managed to budget 10% of income (on average non-poor budget 7%) still several thousand dollars short to afford average-priced child care (internal reference 7)
        3. Many families qualify for subsidy support through the federally funded, state-administered Child Care Development Fund
            a. It is estimated only 1 in 10 eligible families actually receives help (reference 8)

j. Health care
    i. Healthcare (“The High,” 2003, p. 7)
        1. 2002 annual survey by US Census Bureau
        2. 83% of people earning $75,000 or more reported employers offered health insurance
        3. Only 26% of those $25,000 or less were offered (reference 9)
        4. Nearly ¼ of rural people under age 65 were not covered by any type of insurance (internal reference 10)
        5. Out-of-pocket (OOP) costs paid by the uninsured averaged $420 for each uninsured member of family (reference 11)
        6. Medical coverage issues become even more significant for the 54 percent of low-wage parents who have neither paid sick leave nor vacation leave, since these workers also face potential loss of income due to family illness (internal reference 12)
        7. Commonwealth Fund’s 2001 Health Insurance Survey found that half of the uninsured have problems paying for their medical care
            a. Significant portion of those had been contacted by collection agencies (internal reference 13)
            b. Average amount of medical debt was about $9,000

c. Amount owed by those surveyed ranged from less than $1,000 to more than $100,000 (internal reference 14)

C. Reasons given for the situation affecting low income consumers
   a. Real and perceived higher costs of doing business
      i. A combination of real and perceived market risks, market abuses, and uneven consumer access to market information contribute to these additional costs incurred by lower income consumers (Fellowes, 2006a, p. 6)
      ii. Lower income borrowers are much more likely than higher income borrowers to fall behind on their payments, declare bankruptcy, and have low credit scores. Within a metro area, they are also more likely to live in urban areas, where car or home insurance is more expensive. Given these risks, businesses will rationally pass on those risks in the form of higher costs to lower income consumers. The existence of these higher costs will also drive perceptions of higher costs, even when there may not be data available to support or properly measure perceived risks. This also drives up prices (Fellowes, 2006a, p. 6)
      iii. Over 23% of lower income households do not have a checking account (Fellowes, 2006a, p. 34)
         1. 64% do not have a savings account (Fellowes, 2006a, p. 34)
         2. Banks need to offer no, or very low, minimum balance requirements, an affordable overdraft protection plan, no or very low, maintenance fees (Fellowes, 2006a, p. 34)
         3. Not all banks offer checking accounts and if they don't, face product development and marketing costs to bring products into market (Fellowes, 2006a, p. 34) Note: credit unions are probably more generous in banks in this respect, but information was not included.
      iv. Insurers study credit history in all areas to help judge the likelihood that a customer will file insurance claims; those with worse credit records are charged higher premiums, because, insurers say, the industry has found a correlation between poor ratings and the filing of claims (Eckholm, 2006, p. 2)
         1. Approach is not transparent and consistent and their method is likely to increase prices unfairly to poor people and minorities
         2. Insurance industry argues
            a. New approach benefits many low-income consumers

b. “We think the use of credit scoring has allowed us to better serve urban areas” David F. Snyder, VP of American Insurance Association
c. Note: while this is probably contested by consumer advocates, Eckholm did not address.

v. Banking and an Untapped Market (“Credit,” 2007, p. 3)
1. “Recently there has been a surge of interest in the market potential for mainstream financial service firms to serve un-banked and marginally banked consumers” reports Christopher Berry, research assistant
2. In California, Union Bank has opened 30 "Cash & Save" outlets offering check-cashing and bill-payment services, as well as traditional banking
   a. It has teamed up with a local community development organization to provide financial literacy instruction and counseling
   b. Union Bank reports that more than 40 percent of repeat Cash & Save customers become regular account holders
3. In Cleveland, Keybank opened five storefronts in early 2004 to provide both check-cashing and account services, plus financial counseling,
   a. Their aim is to move unbanked customers into accounts,
   b. Their program has since expanded to 20 branches
4. Research demonstrates that low-wage immigrants are highly aware of lower-cost, mainstream financial services but are reluctant to utilize them without the recommendation of a trusted family member or community institution
5. Many banks have a strategy to focus on electronic banking
   a. ATM cost 36 cents per transaction
   b. Teller transaction average $1.06
6. University Bank in St. Paul and Central Bank of Kansas City
   a. Is developing multifunction prepaid debit cards that can be reloaded through direct deposit or electronic funds transfer, while providing all the purchasing convenience of a bank debit card

vi. Also reflect the real higher costs that businesses face (Fellowes, 2006b, p. 2)

1. Compton, CA residents have less money to deposit in interest-bearing accounts (ones banks make money on)
2. Banks cannot profitably (and responsibly) operate branches in some of neighborhoods
3. Lower-income families miss more bill payments than higher-income families
    a. Therefore look like riskier customers for loans and insurance
    b. Costs of higher risks are passed on in form of higher prices

vii. Small-scale local businesses do have goods available to residents of low income neighborhoods but operate outside the economies of scale that enable larger mainstream businesses to offer more and charge less ("The High," 2003, p. 9)

viii. Low-income communities are more isolated from institutions like banks and credit unions and more likely to be served by subprime and predatory financial outlets ("The High," 2003, p. 12)

1. Between 1985 and 1995
    a. Number of bank branches per capita declined slightly nationwide
    b. Branches in low-and moderate-income communities accounted for most of decline (reference 31) ("The High," 2003, p. 12)
2. 2000
    a. Almost one in four of non-metropolitan counties was served by two or fewer banks ("The High," 2003, p. 12)
3. Federal Reserve estimates
    a. 13.2% of American households don't have a checking account
    b. 9.5% of American households don't have any type of bank account
4. Un-banked are disproportionately poor, minority, younger, and less educated than the general population (reference 33)

b. No checking accounts

i. Over 23% of lower income households do not have a checking account, and another 64% do not have a savings account (Fellowes, 2006, p. 6)

ii. These millions of lower income consumers represent an unmet market demand.  However, if these businesses that fill that void are primarily those that tend to charge high fees or interest rates, then lower income consumers are not being exposed to a broader array of mainstream, competitively-priced products (Fellowes, 2006, p. 6)

iii. Low-income persons are less likely to have bank accounts than those with higher incomes, and thus may lack knowledge about basic banking practices (Anderson, Zhan & Scott, 2004, p. 2)

1. 1995 about 85% of unbanked households had incomes of less than $25,000 (Anderson, Zhan & Scott, 2004, p. 2) referencing (Jacob, Hudson, and Bush 2000)
2. Lack of money is the primary reason given; households without accounts also may overestimate the cost of owning an account or underestimate the costs of using alternative financial services such as check cashing exchanges or pawn brokers (Anderson, Zhan & Scott, 2004, p. 2) referencing Hogarth and Lee 2000)

c. Higher priced alternatives densely concentrated in lower income areas

i. Nearly all of the high-priced, basic financial service companies—alternative check cashers and short-term loan providers, tax preparation firms, and wiring companies—tend to be much more densely concentrated in lower income neighborhoods than higher income neighborhoods (Fellowes, 2006a, p. 6)

ii. The number of check cashers and short-term loan providers, in particular, is twice as dense in lower income neighborhoods as they are in other neighborhoods. (true for remittance and rent-to-own establishments) (Fellowes, 2006a, p. 6)

iii. There is a dense concentration of businesses that sell high-priced financial services in lower income neighborhoods can serve to limit the choices of poorer consumers (Fellowes, 2006a, p. 26)

iv. Access to larger retail food outlets, such as supermarkets, most likely provides the greatest benefit to low-income households. Not only do they often have lower prices, larger stores typically offer the greatest range of choices that partly determine household food costs. Research is needed to assess the extent to which low-income households lack access to supermarkets and other sources offering wide assortment and availability of foods (Kaufman, MacDonald, Lutz, & Smallwood, 1997, p. 16)

d. Unscrupulous business practices

i. Research on mortgage pricing suggests that between 14 and 20 percent of all borrowers who purchased a high-cost mortgage could have qualified for a better priced mortgage product (Fellowes, 2006a, p. 6)

ii. In some cases—the market abuses arise from lax regulatory protections that enable companies to charge Annual Percentage Rates (APRs) of over 400 percent for check-cashing services, short-term loans, and refund anticipation loans in some states (Fellowes, 2006a, p. 6)

iii. Companies can charge APRs of 400 to 500 percent for check-cashing service, short-term loans, and RALs (Fellowes, 2006a, p. 34)
    1. States that pass laws allowing those astronomical rates keep high-priced providers in business
    2. Regulatory complacency is reflected by the insufficiency of information given to regulated institutions
        a. There is widespread misunderstanding in banking community about the paperwork requirements required for opening accounts

iv. Comparative shopping (Fellowes, 2006b, p. 2)
    1. According to surveys by Federal Reserve, Government Accountability Office and Consumer Federation of America, lower-income consumers do less comparative shopping than higher-income consumers
    2. This lack of comparative shopping opens the door for unscrupulous businesses

e. Lack of knowledge / access to making good decisions

i. Lower income consumers are generally much less likely than other consumers to compare prices before buying goods and services, making them more susceptible to bad deals. Also, less likely (Fellowes, 2006a, p. 7) to have access to the Internet and its price-comparison tools.

ii. Studies also show that the lower a consumer's income, the less financial knowledge he or she is likely to have (Fellowes, 2006a, p. 7)

iii. Another trend: majority of alternative, high-priced check cashing and short—term loan businesses are meeting the demand for basic financial services among lower income households are literally down the street from mainstream banks and credit unions (Fellowes, 2006a, p. 31)

iv. In sample of 3,278 neighborhoods that included an alternative checking and short-term loan provider
    1. 49% had a bank or a credit union
    2. 80% adjacent to neighborhood with a bank or credit union (Fellowes, 2006a, p. 31)

v. Poor communities often suffer from a lack of banks or other financial institutions (Anderson, Zhan & Scott, 2004, p. 2)
    1. This lack can create susceptibility to predatory financial practices in many low-income neighborhoods
    2. Ironically, because low-income persons are more likely to have limited education or to have experienced school failure, they may be less likely to benefit from financial management training programs increasingly being offered through school systems

vi. Low-income persons also are especially susceptible to predatory lending practices (Anderson, Zhan & Scott, 2004, p. 2)
    1. Low-income status is highly correlated with limited education
    2. Many persons with poor educations lack the mathematical skills needed to make or understand percentage calculations related to loans
    3. Research has demonstrated that consumers with low incomes and poor educations are least likely to make use of the annual percentage rate (APR) which is critical in comparing lending costs (Anderson, Zhan & Scott, 2004, p. 2) referencing (Brobeck 2002)
    4. Lack of access to mainstream financial institutions
        a. All equal primary candidates for growing predatory practices such as refund anticipation loans and payday loans, which carry triple digit annual percentage rates
    5. By 1995, 57% of households with incomes below 150% of the poverty level had at least one credit card (Anderson, Zhan & Scott, 2004, p. 2)
    6. Low-income households are more likely than higher income households to have high credit card debt to income ratios (Anderson, Zhan & Scott, 2004, p. 3)

vii. Low income consumers are much less likely to save and invest than higher income consumers (Anderson, Zhan & Scott, 2004, p. 3) from (Princeton Research Associates 2002) because:
    1. Lower available incomes
    2. Low-income persons also may misunderstand how relatively small amounts of monthly savings can accumulate through compounding of interest over time
    3. Low income people are less likely to prepare financial plans and budgets

f. Language barriers

        i. Language barriers, along with cultural obstacles, can steer lower income families toward high-priced financial services (Fellowes, 2006a, p. 7)
    g. Falling for or susceptible to gimmicks, etc
        i. Homeowners with sub prime loans are not able as most can't switch to long term loans (Coy, 2007)
            1. Few seemed to understand their exposure to Federal Reserve rate policy when they took out their mortgages
            2. Most popular are hybrids whose rates stay fixed for two years
                a. Rates then adjust periodically over the next 28 years based on a set percentage over a short-term benchmark
                b. Opponents call them "exploding" loans because the rates stay artificially low during the two-year teaser period, then leap….in industry known as 2/28s
                c. Default rates are increasing over historical values
            3. Escape Route closed
                a. When loans made, 70% or 80% of two-year hybrids were paid off in first two years—rising home values would reduce the loan-to-value ratio, qualifying the borrowers to refinance at lower rates
    h. Many state and federal programs set in place are not working
        i. The reduction of needs-based assistance—such as Temporary Assistance for Needy Families (TANF), child-care help, housing subsidies, and Medicaid—after they reach a certain level of income ("The High," 2003, p. 8)
        ii. For many families in transition, benefit loss can cancel out the increased earnings derived from salaries ("The High," 2003, p. 8)
            1. MDRC's 6-year evaluation of Connecticut's Jobs First program (internal reference 15) found that the program (internal reference 16) group's higher earnings and gains from the EITC were largely offset by reduced welfare and Food Stamps, and increased pay roll taxes
            2. Result: average income was about the same as when they were fully dependent on welfare
            3. Similar findings emerged from MDRC's 6-year evaluation of Florida's Family Transition Program (FTP) ( internal reference 17)
    i. Bad Credit by Mark Sargent (May 20, 2005)

i. Welfare Queens
    1. Absurd image of black, inner-city, unwed mothers- purposely popping out illegitimate babies so that they could dine on filet mignon purchased with food stamps
    2. Never an accurate description of the women actually on welfare
    3. Embodies type of simple-minded morality tale that too often drives social policy in this country

ii. Bankruptcy Abuse Prevention and Consumer Protection Act of 2005
    1. President George W. Bush signed on April 20th, 2005
        a. Proponents: banks and large credit-card companies
        b. Conjured up image of families of “mall rats”, middle-class moms, dads, and kids hitting malls en masse and maxing out credit cards
        c. Knowing participants could dodge the resulting debt simply by declaring personal bankruptcy and starting afresh with a new credit card
    2. Act’s remedy is to make it more difficult for individuals to declare bankruptcy under Chapter 7 of the Bankruptcy Code
        a. Under which all eligible assets are sold to pay off debt
        b. Whatever amount can’t be repaid is discharged (especially if debtor’s income higher than state median)
        c. Require debtors to pay higher legal fees
            i. Have to agree to court-ordered repayment plan under Chapter 13 rather than discharged non-judicially

iii. Facts
    1. Between 1980 and 2004, total consumer debt grew from $288 billion to more than $2 trillion (p. 2)
    2. Revolving consumer debt (mostly on credit cards) expanded from $58 billion to $800 billion
    3. Personal bankruptcies zoomed 1.6 million people filed in 2004, versus fewer than 300,000 in 1980 and about 800,000 in 1990
    4. Nationally, every 1 in 72.8 households has declared personal bankruptcy

iv. How happen?
    1. 1970s
        a. State law made it difficult for companies to offer credit cards to higher-risk borrowers

b. Usury limits prohibited charging the high interest rates lenders needed to charge such borrowers to compensate risk of lending to them

2. Late 1970s
    a. Combination of high inflation and judicial decisions questioning the enforceability led to the demise of the state usury laws and a revolution in consumer debt
    b. Banks and credit-card companies were freed to charge higher interest rates
    c. Now able to turn profit from consumers who previously had been shut out of credit market
    d. Big companies (like MBNA) most profitable
        i. Had economies of scale needed for national marketing, processing, and risk-bearing
3. 2003
    a. Just 10 credit card lenders controlled 80% of market
    b. They became ever more aggressive and efficient in making credit available to middle-and-lower income borrowers
    c. Practices led to predatory lending and huge increase in so-called "sub-prime" debt (debt incurred by people least able to repay it)

v. Targeted at wrong people? (p. 3)
1. 92 bankruptcy-law professors sent letter to congress
    a. Proposed act "seeks to shoot a mosquito with a shotgun"
    b. "Focusing on the opportunistic use of the bankruptcy system by relatively few 'deadbeats' rather than fashioning a tailored remedy…would cripple an already overburdened system"
2. Real issue not addressed by the Act is how the credit-card industry shamelessly pushes credit on people who shouldn't have it
    a. Seduces people into late payments and defaults because, even if some borrowers default, profits still accrue through escalating late fees, penalties and other charges
    b. Industry can absorb defaults because it can extract so much money from those still paying
3. New problem

a. Debtors forced into the Chapter 13 repayment plan from Chapter 7 will have to pay higher legal fees
    i. Typically $1,500 in contrast to $500
b. Debtors required to take counseling before they file

4. Data published
    a. Debtor population not made up of opportunists gaming the system
        i. Composed of elderly, sick, recently unemployed, and poor all surviving razor-thin credit margins
    b. More than 1/3 of personal bankruptcies are filed by individuals in families already below the federal poverty standard
    c. More than 85% of filers cite job loss or medical expenses as reason for entering bankruptcy

D. Programs
    a. Temporary Assistance for Needy Families (TANF)
        i. Established strict work requirements and lifetime time limits on welfare receipt (Anderson, Zhan & Scott, 2004, p. 1)
        ii. Accompanied by growth in public supports for working low-income persons, such as Earned Income Tax Credit (EITC), child care subsidies, and Children's Health Insurance Programs (CHIP) (Anderson, Zhan & Scott, 2004, p. 1)
        iii.
    b. Earned Income Tax Credit (EITC)
        i. In the past decade EITC was the largest antipoverty program in US (Beverly, 2002, p. 1)
            1. 2002 tax year—working families with children can receive as much as $4,140 in EITC benefits
                a. Research suggests many families use the credit to purchase big-ticket items, to move, to pay for educational expenses, or to set aside savings
                b. Credit may promote long-term household development as well as help families with basic expenses
                c. Encourages work among single-parents families
        ii. For the past several years—US welfare was characterized by an increasing emphasis on employment as the pathway to self-sufficiency (Beverly, 2002, p. 1)
            1. Conservatives—want to increase work incentives and decrease welfare "dependence" powered this trend

2. Liberals—responded by arguing that low-wage work may not increase economic well-being if work-related costs increase expenses, or if working families become ineligible for in-kind benefits such as food stamps, housing subsidies, and public health insurance
3. EITC offers to both: the provision of a substantial wage supplement to low-income working families should encourage work (over non-work) and help families pay for work-related expenses

iii. EITC program (Beverly, 2002, p. 2)
   1. A tax credit administered through the Internal Revenue Service (IRS)
   2. Refundable—means that eligible individuals and families receive payments even if they do not owe federal income taxes
   3. Credit increases the incomes of families who have low wages and limited work hours-families typically considered "working poor"
   4. Credit also can increase the incomes of families who have earned fairly high wages but who have lost earnings because of injury or illness—and not adequate unemployment or disability benefits
   5. In 1975—EITC created to offset the burden of social security and Medicare payroll taxes for low-income working people with children
      a. At that time—credit equaled 10 percent of earned income (max was $400 or $1,239 in 1999 dollars)
      b. 1978 credit made permanent, and an advance payment option was added, which allows EITC-eligible individuals to receive a portion of their credits through their paychecks
   6. In 1986, EITC was increased and indexed to inflation, 1990 gave families with 2 or more children larger credit, 1993 increased one child maximum credit by 9% and multiple children by 69%
   7. Has a "phase-in range" a "plateau range" and a "phase-out range"
      a. Phase-in: occurs at low levels of earnings, and the value of the credit increases with earnings
      b. Plateau range: EITC benefits remain at their maximum values, despite increases in come
      c. Phase out range: benefits are reduced and ultimately eliminated

iv. Knowledge of and Participation in EITC (Beverly, 2002, p. 2)

1. Families receive EITC by filing their regular tax returns and completing the seven-line Schedule EIC
2. IRS sends a notice to non-claimants who appear to be eligible encouraging them to file an amended return
    a. Some may not understand notices or may not know how to file
    b. In 1990—80 to 86% of EITC eligible taxpayers received credit in 1990; Note: while this is an excellent participation rate, 2007 participation rates are still between 75-80% according to testimony to House Ways and Means testimony by Mr. Morgante ("House Committee," 2007)
3. Data from National Survey of America's Families (NSAF)
    a. Philips (2001) estimated that almost two-thirds of all low-income parents (incomes 200% below federal poverty line) knew about EITC
    b. Subgroups of low-income parents were less likely to know about EITC—including very poor parents (least likely to worked recently) and welfare and food stamp participants
    c. Low-income Hispanic parents not born in US especially likely to not know of EITC

v. Workers with children may use an advance payment option to receive credit incrementally (must fill out forms) (Beverly, 2002, p. 3)
1. Some might prefer lump-sum payments (Smeeding, Phillips, and O'Connor (2000)) (Beverly, 2002, p. 3)
    a. Employers may discourage employees from choosing advance payment
    b. Workers may not want to reveal EITC eligibility to employers
    c. Variability in earnings through year increase likelihood individuals have to repay advance payments
    d. Individuals may prefer receiving lump sum to purchase big ticket item
2. Two small studies suggest few workers know about the advance payment option (Beverly, 2002, p. 3) referencing (Olson & Davis, 1994; Romich & Weisner, 2000)
3. IRS (1997) estimated that 26 percent of EITC benefits claimed on 1995 tax returns were erroneous

a. Some portion due to fraud, some reflects innocent mistakes

vi. Effects of EITC (Beverly, 2002, p. 3)
  1. Effects of Income and Poverty (Beverly, 2002, p. 3)
    a. Average benefit in 1998 was $1500 for families with one child and $2300 for families with multiple children
    b. Max 2002 credit was $4,140/year = $80/week
    c. Higher-income families who do not qualify for many other means-tested assistance programs may receive EITC, numerous calculations suggest that the credit benefits poor families
      i. Scholz and Levine (2000) estimated about 60 percent of EITC payments go to taxpayers who would be poor in absence of credit
      ii. Hotz, Mullin, and Scholz (2001) estimated that 40% of EITC payments are paid to taxpayers with wages in the both 25th percentile of all workers with children
        1. More than 80% of benefits go to workers with below-median wages
    d. Working families with children with incomes below the poverty line receive the largest EITC benefit (Beverly, 2002, p. 3)
      i. Targeting makes EITC very effective in reducing poverty among children
      ii. Johnson (2000) estimated that in 1998, 2.6 million children (and 2.2 million adults) were above the poverty level because of EITC benefits
      iii. Porter, Primus, Rawlings, and Rosenbaum (1998) showed that EITC brings more children out of poverty than any other public assistance program
  2. Effects on Consumption (Beverly, 2002, p. 4)
    a. Families use tax refunds which may include over-withholding as well as EITC payments to catch up on bills and purchase small items for children
      i. 1998 study of 650 EITC recipients with children in Chicago, Smeeding et al. (2000) found that 37 percent of respondents planned to use their tax

refunds to pay utility bills, 34% to pay rent, 22% to purchase clothing, 21% to purchase food

3. Effects on Household Development (Beverly, 2002, p. 4)
    a. Use tax refunds to save, to purchase or repair cars and homes, to make credit card and other debt payments, and to pay for education expenses
    b. Using data from the Consumer Expenditure Survey, Barrow and McGranahan (2000) showed that low-income families are likely to use tax refunds to purchase consumer durables
4. Effects on Employment (Beverly, 2002, p. 4)
    a. A wage supplement may encourage non-workers to enter the labor force (and thus increase work hours)
    b. However, it may also lead individuals who are already working to reduce their work hours because they can obtain the same income with fewer house of work
        i. Work incentives created by EITC are even more complex because benefits are reduced in the phase-out range
        ii. Credit should encourage individuals to enter the labor market because families must have earnings to qualify for benefits
        iii. In the phase-in range, benefits increase as earnings increase, so the credit provides an incentive for families to increase hours of work
        iv. In phase-out range, families are subject to very high tax rates
            1. Those with one child lose 16 cents of EITC for every additional dollar they earn, and those with multiple children lose 21 cents per dollar
    c. Hotz and Scholz (2001) concluded that EITC encourages individuals in single-parent families to begin working
        i. Credit also appears to reduce hours worked by people already in the labor force and to reduce labor force

participation among secondary workers in two-earner families, net EITC appears to increase aggregate hours worked

c. Individual Development Account (IDA)is a federal tax supported program
    i. Program couples financial management training with matched savings accounts to be used for specified purposes such as a first-time home purchase or educational expenses (Anderson, Zhan & Scott, 2004, pg. 3)
    ii. Financial Links for Low-Income People (FLLIP) Illinois state program provides 12 hours of financial management training for persons with incomes below 200% of the poverty level (Anderson, Zhan & Scott, 2004, pg. 3)
        1. Training provided through contracts with non-profit community agencies (also responsible for recruiting)
        2. Program is unique in that it is utilizing either IDA or financial education-only program approaches
        3. At financial education-only sites—participants receive few if any tangible participation incentives
        4. At IDA sites, training accompanied by IDA accounts that provide up to $2 in matched savings for every $1 the participant saves, up to a maximum of $2000 in program matching funds.
            a. Must complete the training in order to receive the matched savings account
        5. Administered pre-training knowledge test to document improvement
    iii. Overall Knowledge Levels and Differences Between IDA and Education-Only Training (Anderson, Zhan & Scott, 2004, pg. 3
        1. Of the 298 participants studied, average 63.4% (Anderson, Zhan & Scott, 2004, pg. 4)
        2. Lacked knowledge especially about public and work related benefits and about savings and investing
        3. Knowledge w/ IDA participants had significantly higher average knowledge than education-only participants
    iv. Who attends (Anderson, Zhan & Scott, 2004, pg. 4)
        1. IDA participants are much more likely to be employed than education only (97.8% versus 13.2%)
            a. Partially because participant savings for the IDA must be from earnings
        2. IDA participants are much less likely to be TANF recipients (1.5% versus 69.1%)
        3. IDA more likely to have checking account (75.6 vs. 22.8%)

4. Staff at IDA sites stressed the need to recruit persons with reasonable prospects of saving, so that participants were likely to earn the matching IDA funds

v. Despite initiating the financial management programs with considerable enthusiasm and high expectations, staff found recruiting and retention of participants to be difficult (Anderson, Zhan & Scott, 2004, pg. 4)
    1. Education only especially true with lack of incentives
    2. Drop-out rates at education only about 40% vs. 11% at IDA
    3. Issues:
        a. Transportation, sporadic work schedules, child care issues

vi. Individual Development Accounts have received about $120 million in federal funding since 1999 (“The road,” 2007, p.1)
    1. Enough to support roughly 20,000 accounts nationwide
    2. In 1999 and 2000, President Clinton proposed for a $30 to $50 billion asset-building program which was not adopted by Congress
    3. In 2003, Senate approved a tax credit large enough to support 300,000 IDA accounts nationwide
        a. President Bush proposed a credit three times larger in 2005
        b. Neither proposal has been enacted

vii. Individual Development Account (IDA) (“The Power,” 2007, p. 1)
    1. Provides matching contributions and financial counseling to help less affluent workers accrue savings and begin investing for the future
    2. By 2005, more than 20,000 IDA participants were enrolled in 500 programs nationwide
        a. Funding from the federal government, states and private sources (“The Power,” 2007, p. 1)

viii. 14-site test of IDAs with 2,364 participants over four years (“The Power,” 2007, p. 2)
    1. Each site offered a matching contribution (at least one dollar, up to 7) for every dollar participants deposited into their IDA accounts
        a. As long as they used the money to acquire long-term assets like higher education, investment in a small business or homeownership
    2. Withdrawals for other purposes (to pay bills or buy goods) received no match (“The Power,” 2007, p. 2)

            a. Also provided financial literacy
        3. While not a quick cure for poverty or substitute for existing social safety net programs—many low-income families are capable of saving and derive both material and psychological benefits from IDA programs
            a. On average, participants saved about $500—plus an additional $1,000 in matching contributions
            b. 1/3 made matched withdrawals to purchase assets during the four-year demonstration period (investing almost $2000 each)
        4. Difficulties ("The Power," 2007, p. 2)
            a. Recruiting participants posed a challenge
            b. 2/3 of participants made unmatched withdraws
                i. Sacrificing promised matching funds to meet their immediate financial needs
            c. Overall net savings rate--$19 per month per participant
                i. Costs of operating the IDA programs--$64 per month
        5. Experience ("The Power," 2007, p. 2)
            a. Participants reported experience with IDAs changed their financial expectations and attitudes
                i. Because of program, more likely to work and to seek further education for themselves and their children
            b. More than 4 in 5 said that because of the program, they feel more economically secure, confident about the future and in control of lives
        6. Message: many low-income people can save and will invest in productive assets when provided appropriate incentives
            a. Many IDA program participants were able to succeed only because of the support services they received—services that drove up the "per-participant" cost of programs

d. Children's Savings Accounts
    i. Model currently generating the greatest interest ("The Road," 2007, p. 1)
        1. Provide a nest egg for every child nationwide, with the largest contributions to those from poorer families ("The Road," 2007, p. 2)

ii. Nest Egg for Kids: Children's Savings Accounts ("The Power," 2007, p. 4)
    1. Accounts would provide a financial nest egg (anywhere from $500 to $6,000, depending on the proposal) to every child nationwide
    2. The accounts would encourage additional savings by matching contributions to the accounts of less affluent children
    3. Children's Savings Accounts are potentially even more powerful than IDAs
        a. Owning the accounts could encourage children to develop financial literacy
        b. Matched saving opportunities may motivate parents to begin saving for their children's futures
    4. The Corporation for Enterprise Development (CFED) asserts on its Web site that:
        a. Starting the accounts at birth gives children the benefits of compound interest as their accounts grow throughout childhood
        b. "Could exert their particular power to inspire, discipline, guide and grow with children in their early and most impressionable years" CFED is currently overseeing a 12-site, $30 million demonstration project to test those accounts
    5. As of June 30, 2006, 1,089 accounts were counted in the monitoring study for a total of $1,165,922 in account balances, including initial deposits, participant savings and match
        a. This works out to an average balance of $1,070 for each participant

E. Solutions
   a. Reduce real/perceived market risks—do business in lower income areas
      i. NYS Banking Department has drawn major banks into underserved neighborhoods by placing deposits of government money, sometimes at below-market interest, in the new branches (Eckholm, 2006, p. 2)
      ii. Pennsylvania—used state and private financing for construction of supermarkets in areas where residents had previously had to rely on costly small stores or drive long distances for groceries (Eckholm, 2006, p. 2)
      iii. New York (Fellowes, 2006b, p. 2)
         1. Opened 26 new bank branches in lower-income neighborhoods by supplementing consumer deposits with state treasury deposits

iv. Encourage Quality Retailers to Locate in Low-Income Communities ("The High," 2003, p. 19)
    1. Low-income consumers need greater access to the affordable retail goods that most American families enjoy
    2. Mainstream businesses need to see market potential in low-income neighborhoods
        a. At least 3 major studies in past few years suggest low-income urban markets remain underserved because retailers base their business decisions on research that significantly underestimates the potential profitability of inner-city customer base ( internal reference 50) ("The High," 2003, p. 19)
    3. Usual commercial marketing analysis was driven by average individual household income
        a. Recently number of tools use new data compilation and forecasting models to paint more accurate picture
    4. Targeted public/private initiatives also can help promote inner-city business development ("The High," 2003, p. 19)
        a. Community Development Financial Institutions (CDFI)
            i. Financial institutions—community development banks, credit unions, loan funds, venture capital funds, and microenterprise loan funds—that have community development as a primary mission
            ii. To accomplish—CDFIs make loans and provide services to individuals, businesses, and organizations that may be considered risky by conventional industry standards
            iii. As of 2001, 12 states had taken steps to promote a state CDFI industry

b. Reduce market abuses that inflate prices
    i. Leaders can use their licensing and zoning authority to curb the development of these businesses in lower income neighborhoods (Fellowes, 2006a, p. 7)

c. Make lower income consumers more knowledgeable about finances, etc
    i. Reduce by consumer education and some combination of incentives to lure banks and stores into poor neighborhoods

and tighter regulation on things like the fees of storefront lenders (Eckholm, 2006, p. 2)

ii. Start at young age and tutor children (Farkas, 2000)
    1. Low-income children, particularly African-American and Mexican-American children in central city and rural school districts typically begin first grade significantly below middle-class children in reading and oral language skills reference (Farkas, 1996; Duncan and Brooks-Gunn, 1997; Jencks and Phillips, 1998) (Farkas, 2000, p. 1)
    2. By fourth grade, the combination of being relatively far behind and feeling discouraged makes it almost impossible for them to catch up (Farkas, 2000, p. 1)
    3. The most powerful intervention is one on one tutoring by a trained and monitored professional using research-based instructional techniques (Farkas, 2000, p. 1)
    4. Provide tutoring vouchers to the parents of these children
    5. Only parents are focused solely on the needs of these low-income children (Farkas, 2000, p. 2)
        a. Parents receive a voucher that can be used only to hire tutors certified in the use of research-based methods
    6. Research shows that if the tutors are well trained and the program is properly implemented, this would produce reading gains of approximately 0.7 grade equivalent over a calendar year (Farkas, 2000, p. 2) reference [Farkas, 1998]
    7. Tutors paid $10 per hour, train high-performing high school students in low-income neighborhoods to keep money there (Farkas, 2000, p. 2)

iii. Payday loan companies tougher restrictions
    1. Trade group representing payday loan companies launched consumer education campaign on Feb 22 (Monies, 2007, p. 1)
        a. In part to head off further state and federal scrutiny of their industry
    2. Now required to offer customers an “extended payment plan”
        a. If can’t repay loan by due date
        b. For members of the Community Financial Services Association of America
        c. Limited to once per year
        d. Provided with no additional fees or charges

3. Payday loan companies are limited in advertising and marketing materials (Monies, 2007, p. 1)
    a. Forbidden from advertising for so-called frivolous purposes (vacations, gambling, nightclubs and entertainment)
    b. Need to put disclaimers on all advertising stating that loans should be used for "short-term financial needs only, not as long-term financial solutions"
4. Payday loan industry is under fire from consumer groups (Monies, 2007, p. 2)
    a. Charge that loans target elderly, military and low-income workers
    b. Lawmakers in 30 states have introduced bills that would step up regulation or put other limits on payday loans
        i. According to National Council on State Legislatures
    c. Bills under consideration
        i. To lengthen waiting periods for multiple loans and payback times under current law
            1. Oklahoma Sen. Andrew Rice—Senate Bill 807
            2. Died after 4-4 tie in Senate committee
        ii. Prohibit payday loan companies from cashing the loan checks of customers who have died with outstanding loans
            1. Senate Bill 693 by Sen. Jay Paul Gumm
            2. Passed Senate 47-0 and moves to House
5. Pentagon report last year (Monies, 2007, p. 2)
    a. Blasted payday lending and rent-to-own loans
    b. Called them "predatory loans" that seek out young and inexperienced borrowers
    c. Found that military personnel were twice as likely as civilians to take out payday loans
    d. Report led to a new federal law that limited the total interest rates, fees and charges of certain consumer loans to military personnel
    e. Rates differ by state and range from being prohibited to over fifteen percent (Fellowes, 2006a, p.23)

6. Community Financial Services Association (Monies, 2007, p. 2)
    a. Require members to comply with its new guidelines by July 31
    b. Association spend $10 million on its consumer education campaign and financial literacy programs
    c. Budget includes TV commercials and full-page newspaper advertisements

iv. Provide consumers with the tools they need: financial education, access to basic financial services, and opportunities to build credit (“The High,” 2003, p. 20)

1. Financial Education (“The High,” 2003, p. 20)
    a. Aim to empower families with good information about how to evaluate the costs and benefits of financial transactions and to help them achieve better financial management
    b. Tie participation to the conditions of using a particular financial service
    c. Corporation for Enterprise Development (CFED) (“The High,” 2003, p. 22)
        i. Leading national group in the field of Individual Development Accounts (IDAs)
            1. Savings plans in which consumer contributions are matched and used for expenditures such as education and home purchases
            2. Strong motivation to learn to save in order to maximize the benefit of the matching dollars deposited in accounts for enrolling families (“The High,” 2003, p. 22)
            3. Curriculum that provides each new enrolling family with credit counseling and credit repair
            4. Require families to commit to a reasonable spending plan and set up savings accounts outside IDA
    d. Community credit unions—promoting financial literacy
        i. Tying low-cost loans (that serve as alternatives to payday loans) to participation in financial literacy programs

e. Government agencies are encouraging financial institutions to offer financial literacy training

2. Financial Services ("The High," 2003, p. 22)
    a. Low-income consumers need practical, wealth-building financial products from which to choose
    b. Banks need to tailor fee structures and services to customers who need ready access to cash from their paychecks, likely to keep very low levels of deposits in accounts, are unfamiliar with or distrustful of traditional banking services
    c. Union Bank of California
        i. Opened 12 "Cash & Save" outlets
        ii. Offer combination of check-cashing and banking services in same location
    d. Banking services: low-cost, modified savings accounts designed to help check-cashing customers build savings
3. Career Building ("The High," 2003, p. 25)

d. Microcredit
    i. United Nations designated 2005 as the International Year of Microcredit (Yunus, 2005, p.1)
        1. Professor Muhammad Yunus of Bangladesh first proponent of microcredit
        2. 1976 he founded the Grameen Bank
            a. Result: millions of poor people are changing their lives
    ii. Grameen Bank (Yunus, 2005, p.1)
        1. Started to lend money to the poor in Bangladesh
        2. Struggled to convince the world that what it was doing was not only a serious business by itself, but it also opened up endless possibilities for the poor by creating self-employment opportunities
        3. Considers that it is absolutely wrong of the financial institutions to reject the poor by assuming that they are not creditworthy
            a. Demonstrated that in many countries poor are more creditworthy than rich
        4. Banking can be done without collateral, without legal instruments, without group guarantee or joint-liability
        5. Grameen not only lends money to the poor it is also owned by the borrowers themselves
            a. Bank has 3.5 million borrowers, 95% are women

b. Lends out nearly half a billion US dollars a year
c. Repayment rate is 99%
d. Financially self reliant → doesn't take any loan or grant from any source (Yunus, 2005, pp. 1-2)
e. All its funds come from the deposits it collects from the borrowers and non-borrowers → it routinely makes a profit

6. To encourage the children of the borrowers to stay in school and perform well, the bank offers over 6,000 scholarships each year to these children (Yunus, 2005, p.2)
    a. Also gives loans to students who are in professional schools to become doctors, engineers, lawyers, scientists, etc.

iii. Beggars can turn to business (Yunus, 2005, p.2)

1. Many claiming to be microcredit experts argue that while microcredit is a good intervention for the top layer of the poor, it is of no use to those at the bottom
    a. Bank argues that credit is a human right, even for those at the bottom
    b. Encourages and supports every conceivable intervention which can help the poor fight poverty
2. In 2003 Grameen Bank launched a program to give loans exclusively to beggars (Yunus, 2005, p.2)
    a. Starts with the bank making a loan in the form of popular consumer items, which beggar takes when they go out to beg from the rural households (can both beg and sell as they wish)
    b. If selling activity picks up, they may quit begging and focus on selling
    c. Over 25,000 beggars have joined the program, taking, on average, a US$10 loan
3. New idea (Yunus, 2005, p. 3)
    a. Give telephone loans to some beggars so that they can run a payphone service
4. Businesses supported (Yunus, 2005, p. 3)
    a. Businesses that make money → conventional business
    b. Business that does good to people → social business
        i. Social business enterprises are a new kind of non-loss organizations which aim at solving social, health, and

environmental problems by utilizing the market

ii. "Social stock market" → to bring social business entrepreneurs and social investors together so that they can solve the problem of finding investment money for this new type of business

5. Role of ICT (Information and communication technology) to help poor (Yunus, 2005, p. 3)
   a. Integrating the poor into the mainstream economy by expanding their market, eliminating the middlemen in their business, and creating international job opportunities through service out-sourcing
   b. Bringing information, educational programs, skills training, and healthcare services, etc, all in a very user friendly way, even to the most remote villages
   c. Empowering the poor, particularly poor women, with a stronger voice that can be heard behind the borders of their village, with better access to information, and an improvement in the democratic process

iv. Microfinance institutions (MFIs) emerged over the past three decades to address market failure and provide financial services to low-income clients (Littlefield & Rosenbero, 2004, p. 2)
   1. Early pioneers operated as nonprofit
      a. Developed new credit techniques: requiring collateral, reduced risk through group guarantees, appraisal of household cash flow, and small initial loans to test clients
      b. Poor repay uncollateralized loans reliably and are willing to pay the full cost of providing them
         i. Access is more important to them than cost
   2. Experience has shown that the poor can be served profitably, on a long term basis and/or large scale
      a. Well-run MFIs can outperform mainstream commercial banks in portfolio quality

v. Today (Littlefield & Rosenbero, 2004, p. 2)
   1. Microfinance reaching only a small fraction of estimated demand for financial services by poor households
   2. Most institutions are weak, heavily donor-dependent, unlikely to reach scale or independence

                3. To achieve full potential: microfinance must become a fully integrated part of a developing country's mainstream financial system
        vi. Socially oriented financial institutions (SOFIs) (Littlefield & Rosenbero, 2004, p.3)
                1. MFIs part of
                2. Include state-owned development, postal, agricultural, and savings banks
                3. And smaller entities like savings and loan cooperatives
                4. Created to reach clients who were not being well served by the commercial banking system
                5. Significant limitations
                    a. Many state-owned ones provide inferior services
                    b. Highly inefficient
                    c. Generate large, continuing losses
e. Training curricula
    i. Need to develop training curricula that specifically addresses both eligibility rules and the procedures for accessing public benefits (Anderson, Zhan & Scott, 2004, p. 2)
        1. Several studies have found that income-targeted benefits such as the EITC, child care subsidies, food stamps, and Medicaid are underused, in part due to lack of knowledge
    ii. Developing Training for Low-Income Audiences: Policy and Management Implications (Anderson, Zhan & Scott, 2004, p. 4)
        1. Content on public and work related benefits and predatory lending practices are particularly important and may require special curriculum development
            a. May differ by area
            b. But presenting such material at a basic level is advisable with most low-income groups (Anderson, Zhan & Scott, 2004, p. 5)
        2. Must be sensitive to the resources typically available to low-income households
        3. Low-income audiences can be quite diverse, so assessment of training needs at beginning of sessions is advisable
        4. Try and create incentives and at least limited participation incentives
    iii. Policy and Practice Implications (Beverly, 2002, p. 4)
        1. Help Working Families Claim EITC Benefits

a. Individuals must file a federal tax return—including Schedule EIC—to receive EITC benefits
b. Social workers can also encourage individuals to use free tax preparation services for low-income workers, through the IRS-sponsored volunteer income tax assistance (VITA) program
    i. Available in communities around country
    ii. Advantages
        1. Individuals receive tax preparation services without having to pay $25 to $65 to a commercial tax preparer
        2. Number of VITA sites that can file tax forms electronically is increasing, and electronic filing enables individuals to receive funds more quickly and without paying additional money

iv. Reinforce the Financial Benefits of Work (“The High,” 2003, p. 30)
v. Promote greater use of food subsidiaries (“The High,” 2003, p. 32)
    1. Put affordable housing within reach (“The High,” 2003, p. 32)
    2. Help working parents get needed child care (“The High,” 2003, p. 33)
    3. Reduce the hidden tax on going to work (“The High,” 2003, p. 35)

f. General
    i. Guideposts from past 10 years (“The Road,” 2007)
        1. Marketing asset-building strategies to low-income families in ways that reflect their economic realities and potential (“The Road,” 2007, p. 2)
        2. Offering incentives to would-be participants and financial institutions
        3. Balancing the contributions of government, private businesses and community-based organizations
        4. America today lacks the infrastructure needed to ensure that all families, especially the less affluent, have opportunities and encouragement to build wealth to strengthen their long-term financial prospects
        5. Challenge remains to capture the imagination of business and government so that smaller-scale

partnerships currently underway can attain a scale that reaches the millions of Americans left out of the ownership society

g. RI specific
    i. Ocean State Food Stamps (Mayerwitz, 2007, p. A1)
        1. 140,000 residents of RI qualify for food stamps
        2. Only 52% of those eligible actually receive the benefits
            a. Only four states have lower participation rates
        3. Reasons don't sign up
            a. Think don't qualify
            b. Application process too cumbersome
            c. Simply can't make it to state offices to enroll because hours conflict with jobs
        4. Food stamp paid for by federal government
        5. Last year government gave out nearly $81 million in food stamps to RI
        6. Adding just 1000 more people would bring in additional $1.1 million
            a. Henry Shelton, coordinator of George Wiley Center in Pawtucket said this is essentially free money that would boost the state's economy
        7. Food stamps accepted at large grocery stores, many corner stores and even some farmers markets
        8. Participants pay for food with a debit card
        9. If millions of dollars coming into Rhode Island, this will create many new jobs (Mayerwitz, 2007, p. A4)
        10. Elderly group hardest to sign up
            a. According to Bob McDonough, who runs program for state
        11. To qualify
            a. Income of less than 130% of federal poverty level
                i. Little more than $27,000 for family of four
                ii. $18,000 for a family of two
            b. Less than $2,000 in liquid assets
                i. $3,000 for more elderly or disabled
        12. On average, Rhode Islanders get $92 a month from program
        13. Process according to Bill Flynn, director of community programs
            a. Many think they earn too much already
            b. Application process and a recertification every six months = cumbersome
                i. For most part involve interviews with state officials

c. Small group, who don't seek help because of a stigma they have attached to it
d. Thinks state should streamline the process for applying and hire more staff to process the applications

14. Department now offers publications in 5 languages (English, Spanish, Portuguese, Khmer, Lao)
    a. translators during some hours
15. Past five years number of people on food stamps grow 1.75% to 73,195
    a. One of slowest growth rates in the nation
    b. Hawaii is lowest
    c. Nationally number of people on food stamps grew by 40%
16. RI ranked 5th lowest percentage enrollment at 52
    a. NJ, MA, Wyoming, CA lower (50,49,48,46)
    b. Northeast low ranking
    c. Maine 77%

## Appendix B—Woonsocket Data Matrix by Census Tract

| Tract # | Education (10 is most educated) | Income | House-Value | Housing Cost to RI | Housing Cost to Nation | Rental Price to RI | Neighborhood Setting | Type of Housing | Ownership | Tract Location (Red vs. Green) |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 2 | lower middle income | 132,727 | low cost relative to RI | medium cost relative to nation | very low cost relative to RI | Urban | Mostly small apartment buildings | mostly renters | Red |
| 2 | 7 | upper middle income | 238,562 | medium cost relative to RI | high cost relative to Nation | low cost relative to RI | Urban | Mostly small apartment buildings | Mixed owners & renters | Green |
| 3 | 1 | lower middle income | 167,774 | low cost relative to RI | medium cost relative to nation | very low cost relative to RI | Urban | Mostly small apartment buildings | mostly renters | Red |
| 4 | 3 | upper middle income | 191,543 | medium cost relative to RI | high cost relative to Nation | low cost relative to RI | Urban | Mostly small apartment buildings | Mixed owners & renters | Green |
| 5 | 2 | lower middle income | 180,439 | low cost relative to RI | medium cost relative to nation | very low cost relative to RI | densely urban | Mostly small apartment buildings | mostly renters | Red |
| 6 | 4 | Middle Income | 192,758 | medium cost relative to RI | high cost relative to Nation | low cost relative to RI | Urban | Mostly small apartment buildings | Mixed owners & renters | Green |
| 7 | 2 | Middle Income | 179,572 | low cost relative to RI | medium cost relative to nation | very low cost relative to RI | densely urban | Mostly small apartment buildings | mostly renters | Orange |
| 8 | 4 | Middle Income | 165,692 | low cost relative to RI | medium cost relative to nation | very low cost relative to RI | densely urban | Mostly small apartment buildings | mostly renters | Green |
| 9 | 1 | lower middle income | 132,727 | low cost relative to RI | medium cost relative to nation | very low cost relative to RI | Urban | Mostly complexes / high rise apartments | mostly renters | Red |
| 10 | 1 | lower middle income | 159,446 | low cost relative to RI | medium cost relative to nation | low cost relative to RI | urban | Mostly small apartment buildings | mostly renters | Red |
| 11 | 3 | Middle Income | 169,162 | low cost relative to RI | medium cost relative to nation | low cost relative to RI | Urban | Mostly small apartment buildings | mostly renters | Green |
| 12 | 2 | lower middle income | 153,894 | low cost relative to RI | medium cost relative to nation | very low cost relative to RI | densely urban | Mostly small apartment buildings | mostly renters | Red |
| 13 | 6 | Middle Income | 205,770 | medium cost relative to RI | high cost relative to Nation | very low cost relative to RI | Urban | Mostly Single-family homes | Mixed owners & renters | Green |
| 14 | 3 | upper middle income | 189,461 | medium cost relative to RI | high cost relative to Nation | low cost relative to RI | suburban | Mostly small apartment buildings | Mixed owners & renters | Green |

*Some characteristics are the same for all tracts:

- Rental price is high cost relative to nation
- Public schools are rated 2 out of 10 relative to  (10 best)
- Public schools are rated 4 out of 10 relative to nation (10 best)
- Crime rate is rated 7 out of 10 (10 is least crime)
- Occupation mostly manufacturing and laborers
- Most White (non-Hispanic)
- Mostly English Speaking (with exception of tract 7--mostly french speaking)
- Mostly mixed ages

## Appendix C—Service Locations by Census Tract

| | Name | Address | Category | Tract # | Education (10 is most educated) | Income | Tract Location (Red vs. Green) | Store Type (Red vs. Green) | Group Number |
|---|---|---|---|---|---|---|---|---|---|
| 1 | A B A L Check Cashing Inc | 100 Bernon St | Check Cashing | 1 | 2 | lower middle income | red | red | 1 |
| 2 | Mr Pawn Pawnbrokers & Check Cashers | 100 Bernon St | Pawn / Check Cashing | 1 | 2 | lower middle income | red | red | 1 |
| 3 | Vong Phanith Oriental Market | 46 Arnold Street | market | 1 | 2 | lower middle income | red | red | 1 |
| 4 | Alex Market | 215 Arnold Street | market | 1 | 2 | lower middle income | red | red | 1 |
| 5 | Dilone Market | 123 Arnold Street | market | 1 | 2 | lower middle income | red | red | 1 |
| 6 | First Choice Rentals | 1 Clinton St | rental | 1 | 2 | lower middle income | red | red | 1 |
| 7 | Rent A Center | 56 Social St | rental | 1 | 2 | lower middle income | red | red | 1 |
| 8 | Fast Tax Refund | 28 Main Street | tax refund | 1 | 2 | lower middle income | red | red | 1 |
| 9 | Monument Tax Service | 2 Monument Sq | tax refund | 1 | 2 | lower middle income | red | red | 1 |
| 10 | blackstone river federal credit union | 10 monument sq | credit union | 1 | 2 | lower middle income | red | *green* | 3 |
| 11 | Providence Postal Federal Credit union | 127 social street | credit union | 1 | 2 | lower middle income | red | *green* | 3 |
| 12 | R & C Variety Incorporated | 575 Mason St | market | 3 | 1 | lower middle income | red | red | 1 |
| 13 | Beneficial Mortgage | 1354 Park Ave | big loan | 4 | 3 | upper middle income | *green* | *green* | 4 |
| 14 | Credit Union Central Falls | 1280 Park Ave | credit union | 4 | 3 | upper middle income | *green* | *green* | 4 |
| 15 | Quick Mart | 85 Mason Street | market | 4 | 3 | upper middle income | *green* | red | 2 |
| 16 | woonsocket express convenience | 575 s main street | market | 4 | 3 | upper middle income | *green* | red | 2 |
| 17 | Bank of America | 1416 park ave | bank | 4 | 3 | upper middle income | *green* | *green* | 4 |
| 18 | Woonsocket Oriental Food Market | 268 S Main Street | market | 5 | 2 | lower middle income | red | red | 1 |
| 19 | Liberty Market | 95 Main Street | market | 5 | 2 | lower middle income | red | red | 1 |
| 20 | cumberland farms | 261 s main street | market | 5 | 2 | lower middle income | red | red | 1 |
| 21 | sams food and smoke shop | 805 park ave | market | 5 | 2 | lower middle income | red | red | 1 |
| 22 | Jacket Hewitt Tax Service | 285 S main street | tax refund | 5 | 2 | lower middle income | red | red | 1 |
| 23 | convenience store | 256 logee street | market | 6 | 4 | Middle Income | *green* | red | 2 |
| 24 | Milford Federal Savings & Loan | 191 Social Street | credit union | 9 | 1 | lower middle income | red | *green* | 3 |
| 25 | Woonsocket Tax Service | 17 Front Street | tax refund | 8 | 4 | Middle Income | *green* | red | 2 |
| 26 | Asian Market | 475 Clinton St | market | 9 | 1 | lower middle income | red | red | 1 |
| 27 | Asian American Market | 122 N Main Street | market | 9 | 1 | lower middle income | red | red | 1 |
| 28 | Rent A Center | 277 Social St | rental | 9 | 1 | lower middle income | red | red | 1 |
| 29 | north main convenience street | 212 n main street | market | 9 | 1 | lower middle income | red | red | 1 |
| 30 | Bank of America | 25 John A Cummings Way | bank | 9 | 1 | lower middle income | red | *green* | 3 |
| 31 | Sovereign Bank | 411 Social Street | bank | 9 | 1 | lower middle income | red | *green* | 3 |
| 32 | Champeau Norman G | 345 N Main St | tax refund | 9 | 1 | lower middle income | red | red | 1 |
| 33 | H & R Block | 479 clinton st | tax refund | 9 | 1 | lower middle income | red | red | 1 |
| 34 | Jackson Hewitt | 1 Cumberland St | tax refund | 9 | 1 | lower middle income | red | red | 1 |
| 35 | A B A L Check Cashing Inc | 1173 Social St | Check Cashing | 10 | 1 | lower middle income | red | red | 1 |
| 36 | Asian Market and Video | 154 Hazel St #156 | market | 10 | 1 | lower middle income | red | red | 1 |
| 37 | el Tesoro Escondido | 1047 Social Street | market | 10 | 1 | lower middle income | red | red | 1 |
| 38 | Refunds Now | 1078 Social St | tax refund | 10 | 1 | lower middle income | red | red | 1 |
| 39 | Cass Ave Food Mart | 562 Cass Ave | market | 12 | 2 | lower middle income | red | red | 1 |
| 40 | korner store incorporated | 146 cass ave | market | 12 | 2 | lower middle income | red | red | 1 |
| 41 | Quick Mart | 710 elm street | market | 12 | 2 | lower middle income | red | red | 1 |
| 42 | Advance America | 1700 Diamond Hill Rd | Payday Loan | 13 | 6 | Middle Income | *green* | red | 2 |
| 43 | Check N Go | 1500 Diamond Hill Rd | Payday Loan | 13 | 6 | Middle Income | *green* | red | 2 |
| 44 | American General Financial Services | 2168 Diamond Hill Rd | big loan | 13 | 6 | Middle Income | *green* | *green* | 4 |
| 45 | Shaw Supermarket | 1500 Diamond Hill Rd | shaw | 13 | 6 | Middle Income | *green* | *green* | 4 |
| 46 | Citizens Bank | 1675 Diamond Hill Rd | bank | 13 | 6 | Middle Income | *green* | *green* | 4 |
| 47 | Rent A Center | 2000 Diamond Hill Rd | rental | 13 | 6 | Middle Income | *green* | red | 2 |
| 48 | Bank of America | 2020 diamond hill rd | bank | 13 | 6 | Middle Income | *green* | *green* | 4 |
| 49 | H & R Block | 2168 Diamond Hill Rd | tax refund | 13 | 6 | Middle Income | *green* | red | 2 |
| 50 | Rhode Island Bank | 1175 Cumberland Hill Rd | bank | 14 | 3 | upper middle income | *green* | *green* | 4 |
| 51 | Boston Trust & Investment | 1026 Park East Dr | bank | 14 | 3 | upper middle income | *green* | *green* | 4 |
| 52 | Girard C M Tax Service | 849 Cumberland Hill Rd | tax refund | 14 | 3 | upper middle income | *green* | red | 2 |

## Appendix D—Northern Rhode Island Social and Human Services Members

| Directory from Northern Rhode Island Chamber of Commerce Web-site | | |
|---|---|---|
| | | |
| | Social & Human Services Members | |
| 1 | Spurwink/RI | |
| | Ms. Dawn Arpin | |
| | 935 Park Avenue | |
| | Cranston, RI 02910 | |
| | Phone: (401) 781-4380 | |
| | Fax: (401) 781-4396 | |
| 2 | United Way of Rhode Island | |
| | Mr. Anthony Maione | |
| | 229 Waterman Street | |
| | Providence, RI 02906 | |
| | Phone: (401) 444-0600 | |
| | Fax: (401) 444-0635 | |
| | Fundraising, funding of programs delivered by affiliated not for profit organizations and assistance to other agencies | |
| 3 | Westwood YMCA | |
| | Mr. Don Thomassen | |
| | 2093 Harkney Hill Road | |
| | Coventry, RI 02816 | |
| | Phone: (401) 397-7779 | |
| | Fax: (401) 397-3930 | |
| 4 | Woonsocket Housing Authority | |
| | Mr. Duncan Speel | |
| | 679 Social Street | |
| | Woonsocket, RI 02895 | |
| | Phone: (401) 767-8000 | |
| | Fax: (401) 767-8088 | |
| | Housing authority | |
| 5 | YMCA of Pawtucket, Inc. | |
| | Mr. Esselton McNulty | |
| | 660 Roosevelt Avenue | |
| | Pawtucket, RI 02860 | |
| | Phone: (401) 727-7515 | |
| | Fax: (401) 723-9329 | |
| | Family, youth & adult; social, aquatic, fitness & eductional programs. | |
| 6 | Blackstone Valley Community Action Program, Inc. | |
| | Mr. Vincent Ceglie | |
| | 32 Goff Avenue | |
| | Pawtucket, RI 02860 | |
| | Phone: (401) 723-4520 | |
| | Fax: (401) 725-6550 | |
| | Social service agency. | |
| 7 | Boys & Girls Club of Cumberland-Lincoln | |
| | Mr. Craig Bloomer | |

| | | |
|---|---|---|
| | 1 James J. McKee Way | |
| | Cumberland, RI 02864 | |
| | Phone: (401) 333-4850 | |
| | Fax: (401) 333-4852 | |
| | Non profit organization | |
| 8 | Boys & Girls Club of Pawtucket | |
| | Mr. James Hoyt | |
| | One Moeller Place | |
| | Pawtucket, RI 02860 | |
| | Phone: (401) 722-8840 | |
| | Fax: (401) 727-4733 | |
| | Youth agency - non-profit serving boys & girls of Pawtucket area | |
| 9 | Central Falls Family Self Sufficiency Foundation | |
| | Mr. Robert Girouard | |
| | 30 Washington Street | |
| | Central Falls, RI 02863 | |
| | Phone: (401) 727-9090 | |
| | Fax: (401) 728-0291 | |
| 10 | Children's Shelter of Blackstone Valley, Inc. | |
| | Ms. Eileen Hernandez | |
| | 15 Gates Street | |
| | Pawtucket, RI 02861 | |
| | Phone: (401) 722-4626 | |
| | Fax: (401) 727-2967 | |
| | Residential care for abused & neglected children | |
| 11 | Community Crusade for Children Inc. | |
| | Mr. Robert Unsworth | |
| | 7 Dunnell Lane | |
| | Pawtucket, RI 02860 | |
| | Phone: (401) 721-0934 | |
| | Fax: (401) 475-3315 | |
| 12 | Connecting for Children and Families, Inc. | |
| | Ms. Terry Curtin | |
| | 28 First Avenue | |
| | Woonsocket, RI 02895 | |
| | Phone: (401) 766-3384 | |
| | Fax: (401) 762-2324 | |
| | Collaborative/family & ind. services | |
| 13 | Family Resources Community Action | |
| | Mr. Benedict Lessing | |
| | 245 Main Street | |
| | Woonsocket, RI 02895 | |
| | Phone: (401) 766-0900 | |
| | Fax: (401) 767-4075 | |
| | Multi-social service organization. | |
| 14 | Heritage Park YMCA - A Division of | |
| | Ms. Sharon Freedman | |
| | 333 Roosevelt Avenue | |

| | | |
|---|---|---|
| | Pawtucket, RI 02860 | |
| | Phone: (401) 727-7050 | |
| | Fax: (401) 727-7757 | |
| 15 | House of Compassion | |
| | Ms. Colleen Scanlan | |
| | 2510 Mendon Road | |
| | Cumberland, RI 02864 | |
| | Phone: (401) 658-3992 | |
| | Fax: (401) 658-3992 | |
| 16 | The Housing Authority of the City of Pawtucket | |
| | Mr. Patrick Morganelli | |
| | 214 Roosevelt Avenue | |
| | Pawtucket, RI 02860 | |
| | Phone: (401) 725-9113 | |
| | Fax: (401) 723-3970 | |
| 17 | Pawtucket Family YMCA | |
| | 20 Summer Street | |
| | Pawtucket, RI 02860 | |
| | Phone: (401) 727-7900 | |
| | Fax: (401) 727-7907 | |
| 18 | Progreso Latino | |
| | Mr. Ramon Martinez | |
| | 626 Broad Street | |
| | Central Falls, RI 02863 | |
| | Phone: (401) 728-5920 | |
| 19 | Senior Services, Inc. | |
| | Ms. Jill Anderson | |
| | 84 Social Street | |
| | Woonsocket, RI 02895 | |
| | Phone: (401) 766-3734 | |
| | Fax: (401) 765-5578 | |
| 20 | Woonsocket Boys & Girls Club | |
| | Dan Grabowski | |
| | 72 Kendrick Avenue | |
| | Woonsocket, RI 02895 | |
| | Phone: (401) 766-9242 | |
| | Fax: (401) 356-0897 | |
| 21 | Caritas House | |
| | Mr. Henry Coutu | |
| | Pawtucket Avenue | |
| | Pawtucket, RI 02860 | |
| | Phone: 401-722-4644 | |

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