



Building Family Economic Success

FINANCIAL SERVICES

Lacking access to affordable bank accounts, consumer credit, wire transfers, check cashing, bill paying and other financial services, millions of low-income Americans are paying excessive fees to manage their money. They also are losing crucial opportunities to build assets and save for their future. FES is working to fill the financial services gap by supporting an array of innovative strategies and partnerships aimed at lowering the cost of money and increasing opportunities for asset development among low-income families.

The Importance of Affordable Financial Services

Up to 20 percent of American families lack checking or savings accounts. Without a banking relationship, these families often meet their financial transaction needs through check cashers, bill payment and other “fringe” financial services that can eat up a substantial portion of their limited budgets. Also, families without a bank account are far less likely than other families to own homes and acquire savings. Unfortunately, mainstream bank accounts can be expensive for families who cannot maintain a large minimum balance – especially if they bounce checks or incur “bounce protection” fees by overdrawing their debit cards.

In addition, even families with bank accounts may pay exorbitant prices to access consumer credit – either maintaining large balances (and paying high interest rates and costly fees) on credit cards, or resorting to fringe financial outlets such as payday lenders, rent-to-own furniture shops, car title lenders, “refund anticipation loan” marketers (at tax time), or pawn shops. These high-interest loans often trap families in a debilitating debt spiral.

Many families also are paying more than necessary for home loans, auto loans and short-term consumer needs. And families who face costly home repairs, medical emergencies or other unexpected financial needs, but who do not have access to the mainstream lending market, are especially vulnerable to high-cost lenders. Struggling families can easily be ensnared in this trap, as predatory lending is a “push” market, where borrowers who are not actively seeking a loan may be persuaded through aggressive solicitations. Building family economic success requires the careful stewardship of already-scarce resources and the avoidance of unnecessary fees and loan costs so that families can begin to accumulate assets and establish financial stability.

Some important facts about the growing financial pressures on rural and urban low-income families:

- Consumer debt has doubled in the past decade. Credit card debt among very low-income families grew by 184 percent between 1989 and 2001.
- The payday lending industry now operates more than 20,000 outlets across the country, making \$40 billion in loans each year and collecting \$6 billion in fees and interest. A growing number of these payday lenders are operating in rural areas. The average payday loan customer has 13 rollovers, paying interest on the loan for six months. In this common scenario, the borrower will typically end up paying \$520 in fees for a \$200 loan.
- Immigrants living in the U.S. send an estimated \$28 billion per year to their home countries – but 13 to 20 percent of that amount is lost to fees and commissions charged by wire transfer outlets.
- The number of pawn shops nationwide grew 142 percent from 1986 to 2003.

Strategies for Family Economic Success

The Annie E. Casey Foundation believes that the children in greatest trouble in America today are those whose parents lack the earnings, assets, services or social support systems required to consistently meet their families’ needs. Most of these children are growing up in impoverished communities that are disconnected from the economic mainstream. The Foundation is working to help these isolated families secure adequate incomes, accumulate savings and live in stable, economically viable neighborhoods through a combination of workforce development, family economic supports and community investment strategies—an approach known as building *family economic success*, or FES. This fact sheet is one in a series outlining the key strategies of the Foundation’s FES grantmaking agenda.

Centers for Working Families

The Earned Income Tax Credit (EITC)

Financial Planning and Education

Financial Services

The High Cost of Being Poor

Homeownership and Predatory Lending

Individual Development Accounts (IDAs) and Other Savings Tools

Workforce Development

Work Supports

Building Family Economic Success

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Resources

Aspen Institute, Economic Opportunity Program
(www.aspeninstitute.org)

Brookings Institution, "Banking the Poor,"
by Michael Barr, Oct. 2004
(www.brookings.edu)

One Economy Corporation
(www.one-economy.com)

Retail Financial Services Initiative
(www.ncif.org)

FES and Financial Services

For working families, accessing affordable financial services can help save income that can be used to reduce debt, pay for basic necessities, or save for a child's education. In addition, use of mainstream financial services can help a family build a positive credit history and access credit at lower rates. Yet many families cannot use affordable financial services because banks and credit unions are not easily accessible in their neighborhoods, the right mix of products and services are not available, or because they have a poor credit rating or credit history.

Low-income families need affordable financial services to stabilize their finances and build wealth. By preventing income drain, avoiding debt traps and utilizing tools for saving, families may be able to move forward financially.

There are several strategies that can make low-cost financial services more readily available and help low-income families keep more of their hard-earned money. These strategies include:

- Supporting experimental partnerships between check cashing outlets and mainstream banks or credit unions that allow "unbanked" families to deposit funds into saving accounts or debit cards while still benefiting from the convenience of check cashing outlets.
- Investing in innovative services such as stored value cards (usable in multiple countries) to reduce the use of higher priced international wire transfers; low-cost loan products like alternative payday loans; and alternative refund anticipation loans.
- Mobilizing public sector leaders and community coalitions to advocate for policy changes that support low-cost financial services and prevent high-cost lenders from using deceptive trade practices or marketing exploitive financial products.
- Utilizing program-related investments (PRIs) that leverage the resources of financial institutions to make affordable financial services more widely available for low-income families.
- Promoting market research on the financial needs of low-income families—including families' preferences for products, delivery systems and product bundling—to help in designing alternative products that can compete with those offered by slickly marketed fringe financial service providers.

Challenges and Opportunities

- An ongoing challenge is getting mainstream financial institutions involved in reaching low to moderate-income customers. Without the participation of banks and other financial institutions, it will be difficult to achieve scale in the field of alternative financial services.
- There is an inherent tension between the need for the private market to earn a profit and the costs of serving low-income families. Low-income customers are likely to have lower account balances, and financial institutions may have difficulty earning a profit from these accounts without charging significant fees.

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