

STRENGTHENING RURAL FAMILIES

The high cost of being poor:

What it takes for
low-income families
to get by and get ahead
in rural America



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The Annie E. Casey Foundation is a private charitable organization dedicated to helping build better futures for disadvantaged children in the United States. It was established in 1948 by Jim Casey, one of the founders of United Parcel Service, and his siblings, who named the Foundation in honor of their mother. The primary mission of the Foundation is to foster public policies, human-service reforms, and community supports that more effectively meet the needs of today's vulnerable children and families. In pursuit of this goal, the Foundation makes grants that help states, cities, and neighborhoods fashion more innovative, cost-effective responses to these needs.

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The High Cost of Being Poor

Introduction

The good news is that today more low-income parents—in rural as well as urban communities—are holding down jobs and bringing home a paycheck than at any other time in recent memory. Like all parents, they hold fast to the belief that their hard work and sacrifice will translate into a better life for themselves and their children.

The bad news is that, despite working hard and playing by the rules, far too many low-income parents in rural communities still find severe obstacles in their path out of poverty. Despite their best efforts to succeed in the workplace, many find it nearly impossible to build the savings and assets that are, for all families, the critical ingredients for achieving genuine economic security. Even though low-income parents are working harder and longer, too many find it difficult to get by and get ahead.

The popular misconception is that poverty in America is mainly an urban phenomenon. In fact, however, almost one in five rural kids is poor (18.9 percent in 2000) and rates of rural child poverty are higher than urban child poverty for all kids and for every minority group. Of the 50 U.S. counties with the highest child poverty rates, 48 are located in rural America.

In many rural communities, employment is only a partial answer to bringing families out of poverty. Too often rural jobs are low-wage jobs. The industries that are located there tend to be low-paying industries, or the low-paying segments of higher-paying industries. It is not solely a matter of better skills, better connections with hiring networks, or more work supports. Rather, the jobs that many rural workers can access simply do not pay enough to raise a family, let alone get ahead.



The popular misconception is that poverty in America is an exclusively urban phenomenon. In fact, almost one in five rural kids is poor.

As if chronically low wages were not enough of a burden, the simple fact is that many low-income families end up paying far too much for life's necessities: food, shelter, transportation, credit, and financial services.



One in four nonmetro workers age 25 and older earns low wages—wages that even when earned on a full-time, full-year basis are less than the poverty threshold for a family of four—and half of these workers are the sole or main wage earner in their family. (In urban communities, this figure is 17 percent.)

And, as if chronically low wages were not enough of a burden, the simple fact is that

many low-income families, and especially those living in high-poverty communities, end up paying far too much for many of life's necessities: food, shelter, transportation, credit, and financial services. Further, the incomes of many low-income families are excessively "taxed" as a result of the loss or reduction of public benefits because of improved job earnings. Combined, these factors make it tough for many low-income parents to translate their increased work efforts into the economic security that they and their kids so desperately need.

For the low-income rural working family it must seem as though they are bringing their hard-earned wages home in a leaky bucket—losing some of it to taxes, some to work-related expenses, some to lost government benefits. And sadly, when they get home with what little is left, they find that the cost of caring for their families is *greater* than it is for everyone else.

At Casey we believe it is vital to address the critical—and largely ignored—issue of the very high cost of being poor in rural America.

How the poor pay more: A closer look at the issues

The high cost of going to work

All working Americans face some built-in costs associated with "going to work"—transportation, child care, payroll taxes, work clothes. But while these costs are incidental

for most workers, they constitute a real employment disincentive for many rural low-wage workers. For the rural working poor, the cost of going to work eats up too much of the wages received.

Simply *getting* to work, for example, can be much more expensive. In rural areas, public transportation is rarely an option while available jobs, especially those paying above the minimum wage, are often located in distant communities. In one study, almost 98 percent of rural working families relied on personal cars for all of their local transportation.¹



But buying and owning a car is expensive for low-income workers—not only because they have less money to pay for a reliable used car, but also because they are likely to incur excessive fees and interest rates to finance their purchase. Many low-wage workers, particularly those transitioning from welfare to work, have poor credit histories and are less attractive to mainstream lenders affiliated with franchise dealers. They are forced to finance their cars from “subprime” financing companies that charge much higher rates. In general, interest rates on subprime finance company car loans are about double or triple the interest of prime-rate new car loans and over the life of a four-year loan, the extra interest totals thousands of dollars.²

The transportation Catch-22 for low-income rural workers seems inescapable: better-paying jobs, when they exist, tend to be in the metro areas or on the fringes of metro areas. To reach them requires a reliable car. To afford a reliable car, including insurance and maintenance, requires a better job. The farther you have to drive, the more gas you use and the more likely you are to break down, which causes you to be late for or absent from work—an unreliable car can make you an unreliable worker.

Recognizing that both affordability and reliability are key, **Fannie CLAC**, an innovative program in Lebanon, New Hampshire, is helping to make *new* cars affordable to low- and moderate-income Americans. Fannie CLAC coaches families on

Public transportation to work is rare. In one study, almost 98 percent of rural working families relied on personal cars for all local transportation. But buying and owning a reliable car is expensive.

improving their credit standing so they qualify for lower interest rates and guarantees the loans, which allows lenders to further reduce the interest rate. It also helps families assess their transportation needs and determine the right kind of car to purchase and coaches them on negotiating favorable terms.

The saving achieved through lower interest rates, improved gas mileage, and decreased maintenance costs results in a monthly car payment that is equal to and sometimes less than what families would be spending on a used car. The program is helping families achieve greater financial stability, as evidenced by the fact that the loan failure rate is under 3 percent.

The costs of child care—a necessity for many working single moms and two-earner households—can also be tough to absorb on modest earnings. Child care averages

\$4,000 to \$6,000 per year around the country and families with younger children or with more than one child in care face even greater costs, if infant care is even available.

Low-income working families have the most difficulty covering the costs of child care. Even two-parent families with both parents working full-time find themselves several thousand dollars short of what they need to



afford *average-priced* child care, much less the higher prices charged by many better-quality centers and family child care homes.³

The tradition of child care provided by kin, prominent in many rural areas and low-income communities, is increasingly becoming more difficult as government work requirements and the sheer cost of getting by force nearly all adults into the job market. Although many families qualify for federally funded, state-administered Child Care Development Funds, it is estimated that only one in seven eligible families receives help.⁴ In a 14-state study of low-income rural families with children, although 50 percent of mothers reported they were working, 70 percent of those reported receiving no child care assistance.⁵

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But higher prices for transportation and child care are not the only ways the working poor end up paying more. Many of these workers also confront an “earning tax”: the loss of needs-based assistance (such as TANF, child care help, housing subsidies, and Medicaid) after they reach a certain level of income. Thus, many who have previously benefited from these support programs actually wind up *losing* income by working.



Programs intended to support the working poor are sometimes implemented in ways that have unintended effects: an “earning tax,” barriers to asset building, and excessive transaction costs.

Research on welfare reform indicates that for many families in transition, benefit loss can cancel out the increased earnings derived from salary. For example, MDRC’s six-year evaluation of Connecticut’s **Jobs First** program^{6,7} found that the program group’s higher earnings and EITC gains were largely offset by reduced welfare and food stamps, and increased payroll taxes. As a result, their average income was about the same as when they were fully dependent on welfare.

The poor also face barriers to wealth building due to asset restrictions associated with some government benefits. Limitations on the amount of liquid assets a family can have, on the value of an automobile, and other such limitations can have a negative effect on families trying to get ahead. Complicating this is the fact that programs such as food stamps, Medicaid, child care, energy assistance, and other programs apply different, and sometimes contradictory, asset and income rules.

Finally, in order to participate in the supportive programs for which low-income working families are eligible, they must often endure excessive time burdens and transaction costs resulting from uncoordinated administration of programs and eligibility rules. The high cost of complying with agencies’ requirements can be measured in terms of a family’s time, money, missed opportunities (e.g., to seek or retain employment, to participate in education or training), and physical and personal well-being. In rural areas, the time needed to interact with distant public agencies is magnified.

One promising approach is **WorkCentral**, a call-center based work-support system developed by Connectinc in Battleboro, North Carolina. WorkCentral is achieving

impressive results at very modest cost by offering workers practical help in a way that is convenient, accessible, and timely.

Complicated and fragmented program rules frustrate families and weaken the power of social policy reforms that promote the value of work as the most viable road to economic security.

Paying more for basic needs

Families at every economic level need to meet the costs of basic needs: food, clothing, housing, medical care. Ironically, low-income working families, those with the least ability to pay, often pay the most.

Families in low-income rural communities who lack access to supermarket chains end up paying 17.5 percent more than the USDA-recommended budget for basic food items.



The high cost of food, clothing, and household goods

Because many low-income families in rural communities live in economically and/or geographically isolated areas, shopping near home, when available, may mean paying more for food, clothing, furniture, or any of the many items that all families need. Small-

scale local businesses operate outside the economies of scale that enable larger businesses to offer more and charge less.

Moreover, rural merchants' greater distance from wholesalers entails higher costs, and they must charge more to cover costs and make a modest profit. For example, families in low-income rural communities who lack access to supermarket chains end up paying 17.5 percent more than the USDA-recommended budget for basic food items.⁸ At the same time, smaller local businesses that are unable to compete with regional "big box" stores go out of business, further undermining struggling local economies.

While mainstream and large-volume retailers may steer clear of poor urban neighborhoods and small rural communities, exploiters are often quick to jump into the

void. For example, low-income rural communities in many parts of the country are flooded with “rent-to-own” outlets that have prospered in the market place by targeting families at the bottom third of the economic ladder.

According to a recent Federal Trade Commission survey, there are over 8,000 rent-to-own stores serving an estimated 3 million customers⁹ by offering credit to consumers for a variety of merchandise, such as furniture and home electronics, for weekly or monthly payments that can be applied toward ownership. Lacking any other alternatives, rent-to-own customers routinely pay two to three times what merchandise would cost if they could afford to pay cash and only about one-fourth of rent-to-own customers achieve their goal. Poor families pay a lot to rent, for a long time, but rarely ever own.¹⁰



Low-income rural families may be forced to turn to “rent-to-own” outlets—and so pay much more than furniture, electronics, and other merchandise would cost if they could afford to pay cash.

The high cost of housing

Housing can also carry very high comparative costs for poor families, particularly for those who must rent. While low-income people constitute the majority of renters in this country, most private market rate rents are far higher than these families can afford to pay. Put simply, there is no housing market 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 percent of one’s income toward housing. According to HUD, more than 5.4 million renter families either spend more than half of their income for housing or live in severely distressed housing.¹¹

Despite the fact that housing costs are lower in nonmetro areas, many households find it difficult to meet their basic housing costs. Among the 23 million nonmetro households, approximately 5.5 million, or 24 percent, pay more than 30 percent of their monthly income for housing costs and are therefore considered cost burdened.¹² Of these nonmetro cost-burdened households, over 2.4 million pay more than half of their incomes toward housing costs.¹³

Nearly a quarter of all nonmetro households are cost burdened, paying more than 30 percent of their monthly income for housing costs.



Rural low-income families increasingly are turning to manufactured housing. Because these homes typically are financed as personal property, they are more expensive to finance and they do not appreciate in value. In some rural areas, families seeking more affordable housing find it at greater distances from centers of employment, only

to find that increased commuting costs offset any savings on housing costs.

The high cost of utilities also makes it difficult for low-wage workers to stretch their incomes to meet family needs. In 2000–2001, low-income families spent almost 20 percent of their annual income on energy bills. For all other consumers, the proportion was about 4 percent.

In winter, particularly in regions such as the Northeast and Midwest, the energy burden on poor families is even higher. Despite programs designed to help keep the power on for low-income families, many find themselves simply unable to pay the bill. Most states do not have regulations prohibiting utility shutoffs other than during 24-hour periods where the temperature remains below freezing. In 1997, more than 1.1 million low-income families had their heat shut off for 10 days or more in winter because they could not pay.¹⁴

The high cost of health care

In addition to the high cost of participating in the workforce, low-income workers frequently end up paying a lot more for family health care than higher-paid workers. In a 2002 annual Census Bureau survey, 83 percent of people earning \$75,000 or more reported having health insurance offered by their employers, compared with only 26 percent of those earning \$25,000 or less.¹⁵ Low-income rural workers and their families are particularly likely to be uninsured. Nearly one-quarter of rural people under age 65 were not covered by any type of health insurance.¹⁶

Low-income rural workers—frequently working in seasonal or part-time jobs and in industries such as agriculture, forestry, fishing, or related industries that are less likely

to offer private employer-sponsored health insurance than other industries—are also unlikely to receive sick pay or pay for family health emergencies. Many rural residents have multiple part-time or seasonal jobs, which also lowers the chances of job-related coverage.

Low-income parents who do not have public insurance must often make difficult financial trade-offs between getting health care for themselves and their children and paying for groceries, rent, or car repair. Even workers on Medicaid can find themselves in a quandary, because if they earn too much they no longer qualify for coverage.



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For many uninsured workers and those who have gaps in insurance, medical *care* can quickly become medical *debt*. The Commonwealth Fund’s 2001 Health Insurance Survey found that as many as half of the uninsured have problems paying for medical care, and a significant portion of those have incurred sizable debt and been contacted by collection agencies.¹⁷ For a lot of families, these medical debts become a lifetime obstacle to ever getting any real assets or savings.

Paying more to get ahead: The high cost of credit and financial services

For any family, real financial security is dependent on their ability to build savings and accumulate assets and protect themselves from emergencies and risks. Financial security, and peace of mind, is in part the ability to get beyond the anxiety of a hand-to-mouth, check-to-check financial struggle. All families hope to put money away for a “rainy day” and to save for the special things in life. Yet, for a variety of reasons, low-income families have fewer opportunities to take advantage of the basic financial mechanisms—such as savings plans and reasonable credit—that most Americans take for granted.

One critical factor is that low-income consumers in rural areas are not well-served by the mainstream financial institutions that commonly provide savings and asset-building

Low-income rural areas are not well-served by mainstream financial institutions. Low-income rural families are thus heavily represented among the American households without a checking account or even any bank account at all.



mechanisms. In 2000, almost one in four nonmetropolitan counties was served by two or fewer banks.¹⁸

As a result, low-income rural families are heavily represented among the 12.7 percent of American households who do not own a checking account and the 8.1 percent of American households who have no bank account at all.¹⁹ The demographics of the “unbanked” are striking: they are overwhelmingly young, minority, poorly educated, and extremely low-income. Four out of five of these

families make less than \$25,000 a year, and two out of five families have annual incomes of less than \$10,000.²⁰

Rural communities that are isolated from institutions like banks and credit unions often are served by predatory financial outlets. As mainstream financial institutions pulled out of poor rural communities, check-cashing outlets, payday lenders, and other fringe industries often moved in. Clearly, many unbanked residents appreciate these services because they provide convenient ways to cash paychecks, make payments, and draw cash in an emergency. However, the high fees and business practices of these outlets, which tend to strip rather than build consumer wealth, can counterbalance these conveniences.

As an example of the growth of the alternative financial service industry, the check-cashing industry has exploded in scale and profitability in recent years. In many low-income communities, it’s much easier to find a check-cashing outlet than a bank. One study found that about 11,000 check-cashing stores were in business in 2000, about double the number five years before.²¹ By using check-cashing services a great many low-wage workers spend 2–3 percent or more of their income at the check-cashing site—simply to get their salary. Immigrants who also send significant portions of their income to family abroad incur additional costs in wire and transfer fees, typically around \$15 for \$200 (the typical monthly amount, for example, sent by Latino immigrants who earn less than \$25,000 a year).²²

Another burgeoning wealth-stripping business gaining ground is expensive professional tax-preparation services that help eligible families navigate the Earned Income Tax Credit (EITC) application process and get a quick electronic refund. This expedited refund is actually a “refund anticipation loan” (RAL), a loan product with very high annualized interest rates, ranging from 67 percent to close to 800 percent.²³ The fact is that their average \$200 fee enables claimants to receive their money only about 8–10 days sooner. Overall, at least \$1.75 billion in EITC benefits intended to help poor families were diverted in 1999 toward paying for these preparation and quick-refund services.²⁴

In another example of the high cost of being poor, the absence of available and affordable mainstream credit options, and the real day-to-day challenges of making ends meet, has given rise to the “payday loan” industry. The number of payday lenders has expanded from about 300 stores seven years ago to more than 8,000 stores today.²⁵



By turning to check-cashing and “payday loan” services, many low-wage workers spend more than 2 percent of their income simply to get their salary, and are subject to average annual percentage rates of 470 percent on loans.

Payday loans are small cash advances based on a personal check held by the lender for future deposit. These loans run from \$100 to \$500 and are due in full on the borrower’s next payday or within 14 days.²⁶ When the borrower cannot make the repayment on time—a common scenario, given that these loans are targeted to consumers living paycheck to paycheck, the 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.²⁷

The road to homeownership

Insufficient access to mainstream credit has its most dramatic effect when low-income consumers try to make the type of asset purchases that build long-term equity, such as homes. Homes constitute an important source of wealth for all Americans, including those in lower income brackets. Among homeowners with

incomes under \$20,000, half held nearly 72 percent of their wealth in home equity. Homeownership constitutes an even greater share of personal wealth for minorities than for white Americans: Home equity represents more than 80 percent of the net worth for African-American and Hispanic homeowners. Equity provides homeowners not only with a relatively stable investment, but also with an asset that can be leveraged to survive crises (such as illness or unemployment), or help themselves or their children get ahead (e.g., by financing a college education or buying the car needed to drive to a better job).

Many low-income rural families find the road to homeownership filled with pitfalls—not only because prices in rural areas have soared, but also because of often scandalous credit rates.



A lot of low-income rural families find the road to homeownership filled with pitfalls—not only because real estate prices in rural communities have risen dramatically, but also because of the often-scandalous credit rates they are required to pay. Inner-city and rural markets frequently are dominated by subprime lenders who offer loans that can cost a borrower more in interest costs than conventional loans.

The difference between a prime and subprime loan for the borrower's pocketbook is substantial. For example, a homebuyer paying a subprime 13 percent mortgage interest rate on a loan of \$107,500 will owe \$514 a month more than the homebuyer holding a prime 7 percent mortgage. Over the life of a 30-year mortgage, the holder of the subprime loan will pay \$184,997 more than the prime rate borrower of the same amount.

Particularly since the early 1990s, lenders who take advantage of borrowers, by inducing them to agree to mortgages with terms that they cannot realistically meet, have increasingly targeted low-income homebuyers and refinancers. These lenders differ from the legitimate subprime lenders, who provide access to credit to genuinely high-risk borrowers on honest terms. In contrast, these “predatory lenders”²⁸ exploit the flexibility allowed in the largely unregulated subprime market, and zero-in on customers that have limited information and experience in the area of credit and banking.

These victims, including many borrowers who could actually qualify for prime interest rate loans, are sold high-interest loans hedged with crippling conditions and fees that strip them of cash and equity. These loans are loaded with conditions—including excessive fees and balloon payments—that can turn out to be ruinous to the borrower in the long term.

The supply of affordable housing is limited in rural areas. People buy or rent what they can afford. What is available that they can afford, often, are manufactured homes, which have higher costs to finance and are a depreciating rather than an appreciating asset. Compared with conventionally constructed homes, costs of mobile homes can be higher, despite a lower purchase price, because they are typically financed at higher interest rates (as personal property rather than real estate) over a shorter repayment period.



In rural areas, affordable housing may consist largely of manufactured homes, which cost more to finance and are a depreciating, not appreciating, asset.

The implications of the high cost of being poor

When all is said and done, many rural Americans pay more because they are poor. They pay more to participate in the workforce, more to provide the basics for their families, and more for the basic financial mechanisms that families need to save, build assets, and get ahead. They have less to spend and have to work even harder than most people to get the most value for their money. Most important, they have the most difficulty developing any economic cushion that can help them through tough times.

The modesty of their earnings, combined with the failures of their local markets and public policy, leave low-wage rural workers and their families in a state of asset poverty. They cannot save enough to acquire assets because a disproportionate share of their income goes into paying for subsistence. And, they frequently cannot borrow to acquire assets because the business practices of the credit industry—both

Lack of assets means entrenched, intergenerational poverty for millions of Americans, no matter how hard they work.



mainstream institutions and predatory lenders—work against them. As a result, low-income families are commonly one crisis away from economic catastrophe. Even in the best of times, they cannot leverage their earnings into real, lasting prosperity for themselves and their kids.

Lack of assets means entrenched, intergenerational poverty for millions of Americans, no matter how hard they work. In the end, despite their efforts, far too many low-income workers find themselves with few options that can help them build the economic

security they aspire to and their families desperately need. Given this, it's easy to understand why so many hard-working, low-income Americans feel more vulnerable to crises and less confident of ever getting ahead.

What can be done?

Leveling the playing field for low-income families

Clearly, a range of issues contributes to why the poor pay more to participate in the workforce, provide for their families, and build the assets they need. All play a role in creating an unequal economic playing field for those who require the most help.

Because of this, we believe that it's important to tackle this affordability problem on several fronts. In the following pages, we propose a four-part platform that we hope can serve as a model for stimulating new thinking and action, and provide promising illustrations of efforts that we believe are moving in the right direction.

The four components we cite are:

1. Encourage and assist quality retailers to succeed in rural communities
2. Provide consumers with the tools they need
3. Promote regulatory reforms that protect low-income consumers
4. Reduce the hidden tax on going to work

Encourage and assist quality retailers to succeed in rural communities

If low-income consumers living in economically and geographically isolated places are to make the most of scarce resources, they need greater access to the affordable retail goods and financial services that most American families enjoy.

Regional approaches to rural economic development should include strategies to encourage and assist local business to offer high-quality, affordable goods and services. The existence of amenities such as this can help low-income families meet their basic needs and can contribute to the overall economy of the community.



If low-income rural consumers are to make the most of scarce resources, they need greater access to the affordable retail goods and financial services that most American families enjoy.

Another strategy is to help outside businesses see the market potential in rural communities and to encourage greater economic growth. For example, some studies have shown that the dense concentration of residents in low-income neighborhoods makes them a more profitable location than might be expected. While similar studies are not available for low-income rural areas, to our knowledge, we believe that a better understanding of how best to market in sparsely populated areas might produce interesting results.

Complementary strategies include providing low-income families with access to reliable, affordable automobiles—to widen their shopping alternatives—and consumer education efforts to help them get smarter about a number of purchasing-related issues, including the cost of credit, buying in bulk, being wary of “bargains,” etc.

Targeted public/private initiatives can help promote business development. An example of this can be found in state initiatives designed to expand Community Development Financial Institutions (CDFIs). CDFIs are financial institutions—community development

banks, credit unions, loan funds, venture capital funds, and microenterprise loan funds, among others—that have community development as a primary mission. CDFIs make loans and provide services to individuals, businesses, and organizations that may be considered risky by conventional industry standards. As of 2001, 12 states had taken steps to promote a state CDFI industry.²⁹

Provide consumers with the tools they need: Financial education, access to basic financial services, and opportunities to build credit

For many low-income consumers, using retail and financial markets that operate on the fringe is commonplace. Many living on the economic edge are induced to accept

It is essential to supply low-income consumers with financial education, greater access to fair financial services, and opportunities to build credit so that they can move beyond the grasp of predators and begin building assets.



excessive fees, credit terms that are burdensome, and unreasonable payment terms—particularly when they're packaged in marketing schemes that make them sound too good to refuse. Given this, it is critically important to supply low-income consumers with tools to succeed: financial education that provides information to help them make sounder decisions; greater access to fair financial services; and opportunities to build credit so that they can move beyond the grasp of predators and begin building assets.

Financial education. There are now a range of good financial literacy programs that help families avoid common and costly mistakes when buying a home, taking out a consumer loan, or starting a savings plan. While financial literacy programs take different approaches and use different curricula, all aim to empower families with good information about how to evaluate the costs and benefits of financial transactions, including those found only in the fine print, and to help them achieve better financial management.

To assure participation, many financial literacy educational programs are tied to the use of a particular financial service. For example, the **Corporation for Enterprise Development (CFED)**, the leading national group in the field of Individual Development

Accounts (IDAs), has found that one key to successful IDA programs is effective and mandatory financial literacy training.

Several community credit unions are now also promoting financial literacy by tying low-cost loans to participation in financial literacy programs, thereby servicing the short-term financial needs of their customers while ensuring that families have improved credit ratings, an active checking account, and a small savings account.



There are now a range of good financial literacy programs that help families avoid costly mistakes when buying a home, taking out a loan, or starting a savings plan.

Government agencies are also encouraging financial institutions to offer financial literacy training, especially to those consumers who've not had a relationship with banks. The Federal Deposit Insurance Corporation runs a national **Money Smart Program** that provides a curriculum and training to collaborative ventures between banks and local nonprofits. Taking part in Money Smart can help banks fulfill part of their Community Reinvestment Act obligations. The **Cooperative Extension Service** often is an excellent resource for promoting financial literacy.

Finally, some employers are incorporating financial literacy into the workplace for the benefit of their employees. In January 2000, **UPS** launched a financial education program. Those eligible for this opportunity include 42,000 full-time managers, specialists, and nonunion administrative employees. The program was designed to deliver more than 1,500 workshops over a period of two years, with employees allowed to attend on company time.

Financial services. While financial literacy training is an effective way to help consumers make more prudent choices, low-income consumers also need practical, wealth-building financial products from which to choose. More mainstream banks need to tailor their fee structures and services to customers who need ready access to cash from their paychecks, are likely to keep very low levels of deposits in their accounts, and are unfamiliar with or distrustful of traditional banking services. Community banks whose mission is service may lead the way in developing technology-enabled, cost-effective services for these customers.

More mainstream banks need to follow the example of Union Bank of California and tailor their fee structures and services to customers who need ready access to cash from their paychecks, are likely to keep very low levels of deposits in their accounts, and are unfamiliar with or distrustful of traditional banking services.



For example, **Union Bank of California** has pioneered such an approach with their 12 “Cash & Save” outlets, which began operating in 1993. They offer a creative combination of check-cashing and banking services in the same location. Among the banking services offered are low-cost, modified savings accounts designed to help check-cashing customers build savings.³⁰

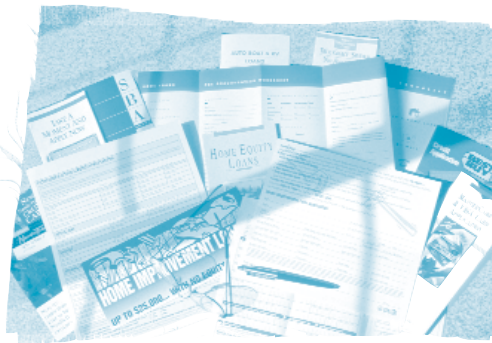
Credit unions are also devising alternatives to high-cost financial services for low-income families. The **Latino Credit Union**, a partner of the Center for Community Self-Help in North

Carolina, is a unique financial institution that has designed services that meet the needs of low-income working families. They helped pioneer the use of ATM cards to streamline and reduce the cost that immigrants must pay to send money home to remaining family members.

Credit building. While financial literacy and a greater range of available mainstream financial services can help low-income families spend and save more shrewdly, real asset development will be dependent on their ability to build a positive credit history and access fair and affordable borrowing opportunities. Without this, their chances to invest in homes, transportation, business, and education—investments with the asset-building potential that can truly advance family economic security and help halt the spiral of intergenerational poverty that permeates so many communities—will be severely compromised.

Currently, credit-reporting systems focus almost exclusively on the failures of low-income families trying to pay their bills; they ignore other evidence of regular, responsible payment. Thus, a delinquent utilities fee can permanently damage the credit rating of a family who falls badly behind, but no amount of consistent, timely payment can be recorded as positive credit behavior in the existing system. This is increasingly important because credit scores are being used to determine prices for insurance and a growing array of financial transactions.

One promising idea to address this is the **Pay Rent, Build Credit Data Network**, which will function as a consumer reporting agency under the Fair Credit Reporting Act and make rental payment data available to authorized subscribers.



Real asset development will rest on low-income rural families' ability to build a positive credit history and access fair and affordable borrowing opportunities.

Another approach, which also helps guard against potential discrimination toward low-income borrowers, is the use of advanced, computerized risk-assessment technology called “automated underwriting.” While not totally eliminating income and racial bias, technological advances in mortgage lending have demonstrated that the risk of default among low-income borrowers is nowhere near so widespread as lenders have traditionally supposed.³¹

Promote regulatory reforms that protect low-income consumers

In addition to promoting financial literacy and access to quality financial products, it's also clear that stronger regulatory reforms are required to combat predatory practices that strip wealth and prevent asset development, especially in high-poverty communities.

The Community Reinvestment Act (CRA), passed in 1977, has been the nation's most important regulatory tool for ensuring that financial institutions fairly serve the credit needs of low- and moderate-income families. However, since the '70s, the business of banking and mortgage lending has evolved dramatically, and currently less than 30 percent of home purchase loans are subject to intensive review under CRA.³²

Fortunately, a number of states and cities around the country have responded to the growing problems in federal regulations by passing their own, more effective ordinances to curb exploitive practices in their jurisdictions. For example, **North Carolina**—with the support of a broad coalition of banks, credit unions, mortgage industry representatives, and consumer advocates—has enacted the nation's first state law to curb predatory lending. The law was driven by research indicating that more than one-third

More than a third of all subprime home loans actually strip equity or impose hidden costs.

Because predatory lenders operate outside the bounds of individual jurisdictions, national reform is needed.



of all subprime home loans had predatory features that actually stripped equity or imposed hidden costs on borrowers.³³ In 1999, the reform saved the state's homeowners an estimated \$232 million by prohibiting predatory practices and ensuring that borrowers have relevant information.

While state and local reforms provide strong examples of ways to improve the functioning of credit markets, it must be

remembered that predatory lenders operate outside the bounds of individual jurisdictions. Therefore, national reform is necessary to control and eradicate predatory lending—provided that these reforms strengthen rather than override local ordinances geared to local practices and conditions.

Reinforce the financial benefits of work. If low-income families—like all families—are to simultaneously provide basic necessities, respond to emergencies, and still build a nest egg for the future, we must, in addition to leveling the consumer playing field, help them bolster and stretch their income and earnings.

One way to do this is through refundable tax credits, which have historically provided relief to businesses and upper-income taxpayers, as well as to workers whose earnings are so low that they currently have little or no income tax liability. The Earned Income Tax Credit (EITC), for example, has lifted millions of children out of poverty. Given this success, it makes sense to protect and expand EITC and other important tax credits such as the Child Tax Credit and the Child and Dependent Care Tax Credit. One way of doing this is to simplify and consolidate the credit for EITC, the Child Tax Credit, the Additional Child Credit, and other family tax benefits to encourage more eligible workers to apply, help discourage reliance on professional tax services, and minimize errors that potentially delay refunds.³⁴

Help working parents get needed child care. In recent years, there has been an increased need and demand for low-cost, high-quality child care, particularly as

greater numbers of low-income parents have moved from welfare to work. The number of children served through federal programs, primarily TANF funds along with the Child Care Development Fund (CCDF), has risen from 1 million in FY 1996 to an estimated 2.45 million in FY 2000.

Despite increases in funding for subsidies, demand has always outstripped supply and states have been faced with many unmet needs for affordable, quality child care, even at the height of economic boom. In 2004, states are less able to address the funding gap, as both TANF caseloads and CCDF funding have leveled out, and states face budget deficits. Increasingly, states are wait-listing families, raising income eligibility restrictions for assistance, raising parent fees, and reducing investments in quality.³⁵

Nonetheless, it is essential that states keep their commitment to low-income working families by ensuring that all eligible parents make use of CCDF subsidies. Many parents are unaware of their eligibility or are overwhelmed by the complex application process. Outreach and assistance to these parents is more crucial than ever, as it becomes even more essential to make maximum use of scarce funds.

Reduce the hidden tax on going to work

While subsidies can help make the difference between getting by and getting ahead, their impact is often undermined by government rules and regulations. For example, former welfare recipients that may have depended on housing subsidies, Medicaid health insurance, child care assistance, and food stamps can actually end up more financially disadvantaged when they become employed, because their increased job earnings are cancelled out by the reduction of program benefits. In effect, we are financially punishing some low-income families who turn to work rather than welfare to meet their needs, because their overall income drops even though their work hours and employment earnings rise.

One strategy for reducing the high cost of compliance is to “package” supports for working-poor families. A few states have begun to address this issue by implementing



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an application process that reduces the previously mentioned costs to working families by allowing them to apply or recertify for the food stamp program, Medicaid/SCHIP, and other programs at the same time. These strategies become increasingly possible as states realign their eligibility criteria and lengthen their certification periods (sometimes for up to 12 months) for a number of these programs. Helping more states to adopt this strategy would also help to reverse the trend in declining participation rates for these programs.

Conclusion

Clearly, if we are to level the “affordability” playing field for our most vulnerable families, much needs to be done. The good news, as indicated by the range of efforts taking place nationally, is that many are recognizing that paying more simply because you’re poor is a practice that is out of sync with our country’s core values. At the same time, we believe the complex issues behind this problem require responses that go beyond anything currently being done.

While the federal government, individual states, cities, and local communities are all addressing dimensions of this issue, none to date have put into action the comprehensive responses required. If we are to truly deliver on the fundamental promise that hard work, self-sacrifice, and prudent investment are the building blocks of economic security, we must promote approaches that demonstrate a new national seriousness about leveling the cost of living for the poor. None of the platforms advanced in this essay are themselves strong enough to help America’s most vulnerable working families become

economically self-sufficient. Taken together, however, we believe they offer a more powerful, realistic, and rational approach to addressing this critical national goal.

Doing this, of course, will require unprecedented public *and* private commitment; national, state, and local collaboration; and policies, programs, and resource allocations that are both complementary and

In the last decade, our nation mustered the will, policies, and resources to move millions of parents into the workforce. Now let’s apply the same level of determination and focus to the challenge of moving them—and their kids—out of poverty and closer to real financial security.



reinforcing. Though difficult, we believe it can be done. In the last decade, our nation mustered the will, policies, and resources to move millions of parents into the workforce. Now let's apply the same level of determination and focus to the challenge of moving them—and their kids—out of poverty and closer to real financial security.

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