The Price is Wrong

Getting the Market Right for Working Families in Philadelphia

The Brookings Institution
Metropolitan Policy Program

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The responsibility for the contents of this report is ours alone.

Note: The views expressed here do not necessarily reflect those of the trustees, officers, or staff members of the Brookings Institution, the boards or staff of the Annie E. Casey Foundation, or the members of the steering committee.

Executive Summary

The challenges facing major U.S. cities are daunting—population loss, disinvestment, and fiscal difficulty are all too common. But Philadelphia, facing all these trends and then some, has been in the vanguard of combating them.

Targeting schools, its tax code, and its business environment, the city is making great efforts to reverse decades of decline.

And yet, while much of Philadelphia transforms, many of the city's large number of families working toward middle class membership are being left behind.

The statistics are bleak: Over one in five of Philadelphians lives below the poverty line. Over one out of every four households lives off less than the minimum wage. And just one in five adults in the city has a college degree, a lower proportion than nearly 100 other large U.S. cities.

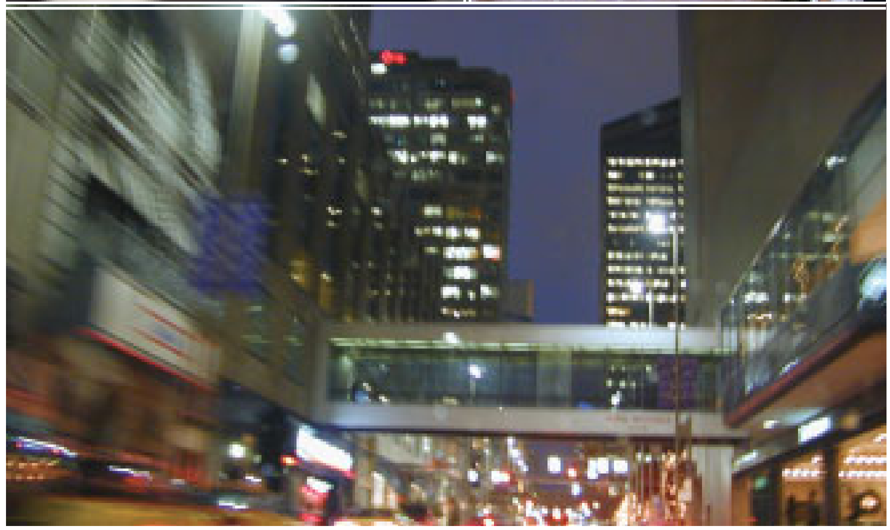
Put simply, Philadelphia must also grow a middle class by making the market work for low-income families.

To move ahead, the city must renew opportunities for its large number of aspiring middle class families. Schools, the economy, city services, neighborhoods—all the major ingredients of city life—are more vigorous when cities have a large and growing middle class.

Certainly, Philadelphia and its state and local leaders should explore a broad, traditional agenda of expanding access for low-income families to jobs, while making sure those jobs pay. But, the city must do more.

Put simply, Philadelphia must make the market work for low-income families. Thousands of dollars are currently drained from the budgets of Philadelphia's working families through higher prices for everyday goods and services. These higher prices—higher than those paid by better off families for the exact same goods and services—hold back all aspiring middle class families, even those who gain access to jobs and benefits that make those jobs pay, draining much-needed family investment dollars and increasing family financial insecurity. Just as Philadelphia has worked to change its schools, economy, and tax code, the city must also transform the market to better price everyday goods and services for low-income families.

This report is about this tremendous, and largely hidden, opportunity Philadelphia has to grow its middle class. We reach several conclusions about the need for state and local leaders to seize this opportunity and pursue avenues for change:



Philadelphia's low-income working families pay higher prices for most everyday goods and services than other households. In general, these families pay more to buy and insure their cars. They pay higher prices to buy groceries in their neighborhoods. They pay higher prices to buy and insure homes. They pay higher prices to buy furniture and appliances. They pay higher real estate taxes. And, they often pay higher prices for utilities. In fact, aside from the lower value of their homes, low-wage families in Philadelphia pay higher prices than other households for nearly every basic necessity. In particular:

- **Car purchases:** Low-income families in Philadelphia can pay over $500 more for the same car bought by a higher-income household.
- **Car loans:** More than half of households with an auto loan that earn less than $30,000 a year pay a higher interest rate than the average borrower.
- **Car insurance:** The annual cost to insure the exact same car and driver in the Philadelphia area is over $400 more in a neighborhood with a median income less than $30,000 than in a neighborhood with a median income more than $70,000.
- **Buying groceries:** Philadelphia's low-income neighborhoods have smaller grocery stores and more convenience stores than other neighborhoods.
- **Cashing checks:** Most of the city's 147 check-cashing establishments are in low-income neighborhoods, which are allowed by state law to charge up to $450 every year to cash checks for a household earning $15,000.
- **Short-term loans:** Although Pennsylvania is often heralded as a state that has banned payday lending, state regulations allow providers of short, two-week loans to charge an annual percentage rate over 450 percent.
- **Establishing utility service:** Current state regulations make low-income families more likely to pay a higher security deposit to use Philadelphia's utilities than other households.
- **Gas prices:** At current rates, it costs the typical family in Philadelphia about $300 more every year to use a typical amount of natural gas than households in the suburbs.
- **Home loans:** Low-income households can pay hundreds, even thousands, more every year for the same mortgage taken-out by a high-income household.
- **Home appliances and furniture:** A survey of Philadelphia's rent-to-own stores, used almost exclusively by low- and moderate-income households, found that the average installment plan mark-up was 90 percent over the purchase price.
- **Real estate taxes:** Homes in Philadelphia's low-income neighborhoods are much more likely than homes in high-income neighborhoods to be assessed at values higher than their worth.

These higher prices are the consequence of the market not working for low-income families in Philadelphia. Four market characteristics, in particular, cause these higher prices in Philadelphia, which include:

- **Businesses react rationally to the real or perceived higher risks of selling goods and services to low-income households by charging higher prices.** Generally higher loan and bill delinquency rates among low-income families, and higher accident rates in the neighborhoods many of these families live in, drive up the costs of selling many goods and services to low-income households. These higher costs are passed on to low-income consumers through higher prices.

  For instance, low-income households are more likely than other households to fall behind in bill payments. This drives down their credit scores, which drives up the prices they pay for auto, home, and other types of insurance; auto, home, and other types of loans; and security deposits.

  But, low-income households are also often perceived as higher risks because of limitations in current methods used to measure risk, rather than because of a real, higher risk. For instance, market demand data is less reliable in low-income neighborhoods, which can create artificially high risks in these neighborhoods. Similarly, there is evidence that errors in credit scores, which are factored into insurance, loan, and utility security deposit prices, inflate perceptions about the risk of selling goods and services to low-income households.

- **Consumers lack full information about the marketplace.** This particularly hurts low-income households since they generally have less access than other households to information resources, such as the Internet and financial education. This makes them less able to shop for lower prices, recognize inflated prices, and effectively manage their money. In turn, this drives up the prices they pay for basic necessities.

  Lack of basic market information is exacerbated by the increasing complexity associated with buying goods and services. Credit scores, for instance are now used to set prices for auto, home, and other types of insurance; auto, home, and other types of loans; and security deposits. Without knowledge about how to raise these scores, low-income households can end up paying higher prices than they might otherwise qualify for.

- **Weak enforcement, deregulation, and limited regulation have fostered market abuses that take advantage of low-income households.** A perfect marketplace would automatically set the lowest possible price for everyday goods and services. But, markets are often far from perfect and fringe suppliers of these necessities can take advantage of these imperfections by charging excessively high prices.

  For instance, a gap in state regulations allows short-term lenders to charge an annual percentage rate over 450 percent for short-term loans, even though state law caps interest rates at 23.75 percent.

- **And, in Philadelphia, the public supply of goods and services drives up prices for some necessities.** Most households consume public utilities, so this cause of higher prices does not raise prices for just low-income families. But, low-income families do have less room in their budgets, which makes these higher prices particularly difficult to pay for.

  For instance, the typical household in Philadelphia that uses home gas will pay about $300 more for that gas than suburban households pay for the same amount of gas. This takes $300 out of the budget of low-income families every year, a significant hit for families trying to move ahead.

Higher prices undermine the ability of low-income working families in Philadelphia to accumulate wealth, stalling the efforts underway to make the economy truly competitive. The fates of Philadelphia's aspiring middle class families and the city are inextricably linked.

When low-income working families have to pay higher prices for everyday goods and services they have less money to invest in savings, education, homes and home improvements, their retirement, and their children. This holds these families back.

But, higher prices also hold back everybody else in the city from moving forward. Aspiring middle class families that are not getting ahead keep the city's tax base weak, lowering the quality of life for everyone, threatening the promise of a public education, and making it increasingly difficult for the city to attract and retain new families. Unabated crime, low property values, and all of the many consequences of concentrated poverty continue to wear away neighborhoods. In turn, these neighborhoods remain unattractive for mainstream business investment, since the risks of doing business are too high. And, this void in investment is left filled by predatory businesses that take advantage of the everyday needs of Philadelphia's low-income working families.

The city of Philadelphia has a tremendous opportunity to get the market right for low-income working families and move the city farther ahead in reaching its aspirations. State and local government, businesses, and organizations in the city all can contribute to an agenda that lowers the risks of doing business with low-wage families, boosts the amount of information about the market for everyday goods and services, fights market abuses, and lowers the costs of publicly-supplied necessities.

Reduce the risks of doing business with low-wage families by:

- **Investing in financial literacy**
  This will give families the tools to reduce the risks they face when buying goods and services.
- **Reassessing the market demand in low-income neighborhoods**
  This will reduce some of the risks of selling goods and services in more uncertain markets for businesses.
- **Studying how companies measure risk**
  This will help companies measure risk in ways that do not ascribe undue risks to low-income families.
- **Leveraging capital for business investment in low-income neighborhoods**
  This will directly subsidize the costs of doing business in low-income neighborhoods.
- **Reducing neighborhood risks**
  This will lower the risks of selling goods and services in low-income neighborhoods.

Boost the amount of information low-wage families have about the market by:

- **Developing and distributing a roadmap for families to improve credit scores**
  This will give families an important tool to lower the prices they pay for everyday goods and services.
- **Rethinking and reinvesting in financial education**
  This will give consumers the know-how to recognize inflated prices, shop for good deals, and manage their money effectively.
- **Giving low-income families a catalog of programs designed to lower prices**
  This will give families access to the numerous existing programs designed to lower their costs of living.

Fight market abuses by:

- **Fortifying efforts underway to curb market abuses in the city**
  This will create a safety net to protect consumers from market abuses
- **Strengthening regulations governing the short-term loan industry**
  This curbs a major gap in state regulations that allows annual percentage rates to soar well above interest rate caps.
- **Publicizing the names of companies that take advantage of low-income families**
  This creates a strong incentive for market abusers to change their behavior.
- **Investigating and developing policy to curb predatory tort lawyers.**
  This will directly drive down the prices that low-wage families pay for insurance.

Lower the prices of publicly supplied goods and services by:

- **Expanding support for home efficiency**
  This will lower the amount of high-priced gas that families consume.
- **Reform state regulations to expand resources for Philadelphia Gas Works**
  This will reduce the pressure Philadelphia's gas company faces to raise rates.

Contents

Introduction: The importance of growing a middle class in Philadelphia

Like many large cities, Philadelphia faces the daunting challenges of population loss, outmigration of young and talented workers, a stressed revenue base, business disinvestment, racial tensions, and high concentrations of poor neighborhoods.[1]

But, the city has set itself apart from its peers with the innovations responding to these challenges. A recently completed reform of the city's tax code will fundamentally improve the climate for business investment if implemented. The Neighborhood Transformation Initiative, undertaken in 2001 to revitalize the city's many blighted neighborhoods, has already cleaned 31,000 vacant lots, removed 200,000 abandoned cars, and developed 5,000 new affordable housing units.[2] And, Philadelphia has a vibrant community of organizations developing new market products and collaborative partnerships to grow the assets and incomes of low-income working families.

And yet, for all of the concrete poured, ribbons cut, and goals set, there is an important trend eating away at this progress: Philadelphia's middle class is shrinking.

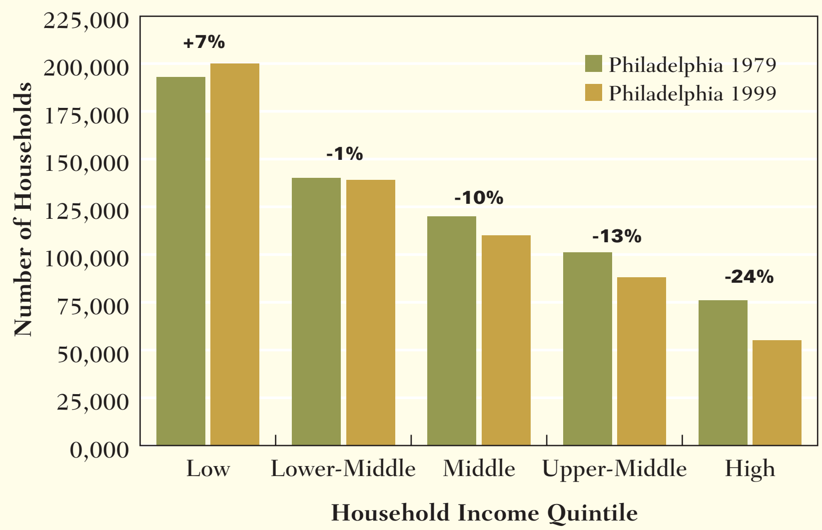
In fact, households in the bottom quintile of income were the

only group to grow in Philadelphia between 1979 and 1999.[3] In contrast, every other income quintile lost households between 1979 and 1999. The middle three income quintiles lost between 1 and 13 percent of its households between 1979 and 1999 and the highest income quintile lost 24 percent of its households during this period. The result: by 2003 one out of every five individuals in Philadelphia lived below the poverty line, nearly the same level in 1999.[4]

Shrinking numbers of middle class households in Philadelphia erode the city's effort to become competitive again. Without a middle class tax base, the city has less money to spend on schools and services, which lowers the quality of living for everyone, threatens the promise of a public education, and makes it increasingly difficult for the city to attract and retain new families. Crime rates, property values, and all of the many consequences of concentrated poverty also continue to wear away neighborhoods.[5]

But, the city is not alone among its peers in struggling to grow, attract, and retain a middle class. Nor, is the city alone in its struggle to attract and retain middle- and higher-income households. One-fourth of households in the 100 largest cities have incomes that are in the bottom one-fifth nationally. The proportion of households with high incomes declined in 79 of the 100 largest cities between 1979 and 1999. And, almost half of the 100 largest cities saw the size of their middle class shrink during this period.

Philadelphia's middle and upper classes shrank over the last two decades



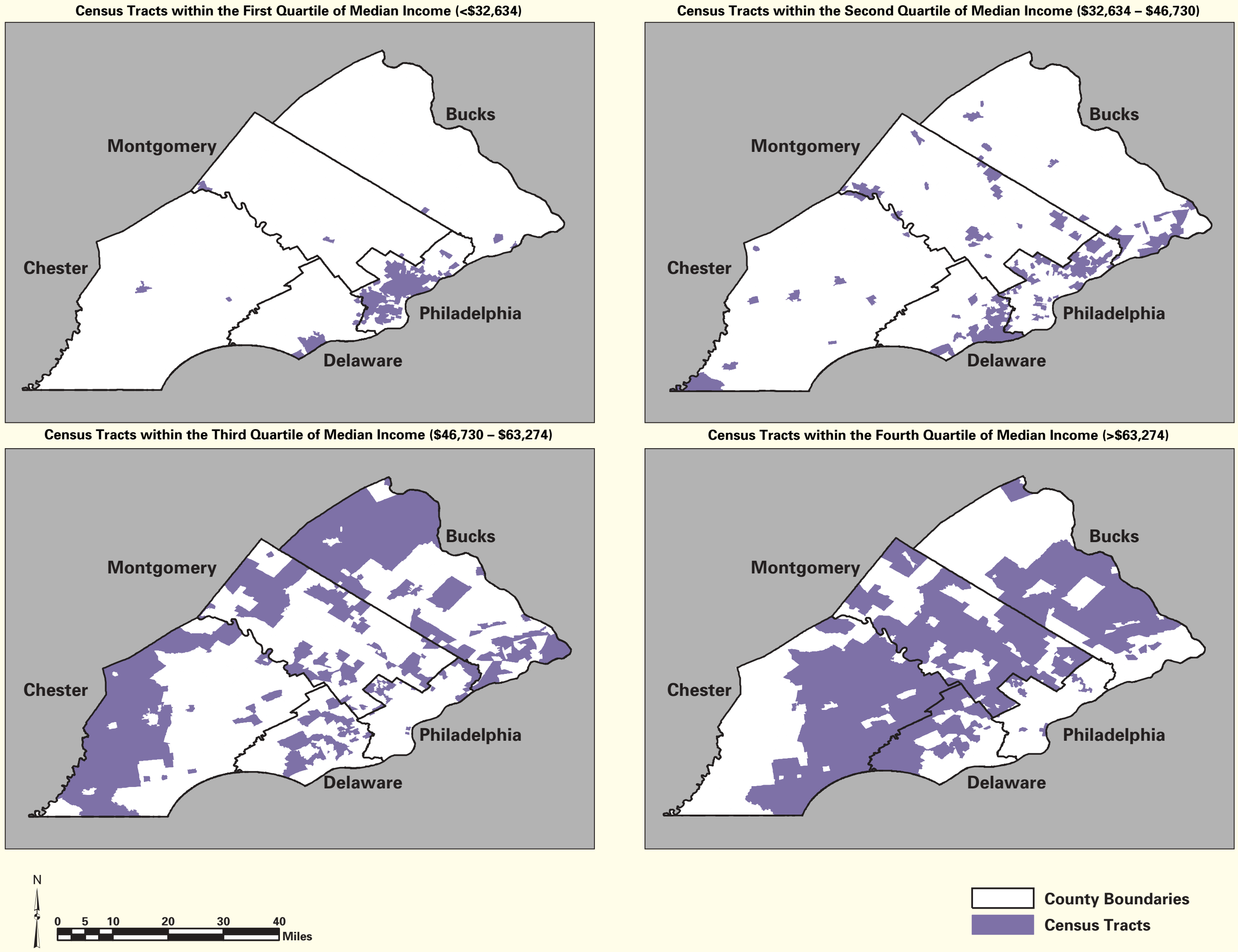
Source: Berube and Tiffany (Brookings Institution 2004).

For these reasons, Philadelphia can both learn from and share strategies to grow a middle class with its peer cities around the country, much as it has already done in the campaigns to transform the city's landscape and climate for business. And many middle class strategies are underway from expanding worker access to jobs to making work pay. However, Philadelphia has an opportunity to undertake a new market-oriented approach to building a middle class, one focused on getting the price of daily living right for families.

Current Local Strategies to Grow a Middle Class

There are a set of core strategies to expand low-income workers' access to jobs through education, training, and transportation initiatives. This includes such initiatives as education tax credits and loan programs, numerous workforce development programs, car-waivers in supplemental programs, and vanpool services, among other examples. In cases where all or most of the funding for these programs comes from the federal government, cities use these programs to grow a middle class by boosting the participation rates among eligible households. In other cases, states, cities, or local organizations have developed their own initiatives. For instance, the Greater Cleveland Growth Association, one of the nation's largest metropolitan chambers of commerce, identified the workforce needs of companies in the metropolitan area and helped equip over 2,000 individuals with skills needed by employers, landing them well-paying jobs.[6] And, governments and organizations in 30 states have sponsored car owner-

Most low- and moderate-income households in the Philadelphia area live in the city



Source: Authors' analysis of 2000 Census
Notes: These maps were created by rank-ordering the median income in every census tract in Bucks, Chester, Delaware, Montgomery, and Philadelphia counties, and then splitting the tracts into four, even groups. Data is displayed for all census tracts in the designated quartile of household income.

ship programs among low- and moderate-income households to expand access to jobs located outside the reach of public transportation.

Another important set of strategies aim to make work pay. This includes initiatives to increase the minimum wage, or impose what some states and cities now call a "livable wage" and improve employee benefits from employers. These initiatives also include outreach to improve low-income workers' participation in key federal people-based investments, including the Earned Income Tax Credit (EITC), Child Care Tax Credit, Food Stamps, and Medicaid, among many other programs. Again, where the federal government provides the bulk of funding, cities use these programs to grow a middle class by boosting participation. Organizations like the Campaign for Working Families in Philadelphia, for instance, have been integral to boosting participation in the Earned Income Tax Credit program, which in 2002 brought nearly $300 million into the Philadelphia economy and over $500 million into the metropolitan area.[7] In other cases, the state, city, or local organizations have supplemental or independent programs. Many states, for instance, have adopted a state EITC. Similarly, thirteen states have now passed legislation that boosts the minimum wage above the federal standard.

A New Strategy to Get the Market Right for Working Families

A potentially powerful but less understood set of strategies used to grow a middle class is reducing the prices charged to low-wage families for basic necessities. Nearly all of the work in this category has been related to reducing the costs of financial services, particularly costs associated with high-fee and high-rate mortgage lending, check cashers, payday lenders, pawnshops, and refund anticipation loans. For instance, state governments like Pennsylvania and North Carolina have passed laws that are meant to curb abuses in the mortgage lending market. City governments like Philadelphia's have responded with low-cost alternative loan products and new financial education for housing counselors supported by the Community Development Block Grant. And, organizations like The Reinvestment Fund and the Greater Philadelphia Urban Affairs Coalition have also helped develop alternative loan products.

But, the same factors that cause low-income working families to pay higher prices for basic financial services also cause higher prices for other basic necessities. As this report demonstrates, low-wage families pay higher prices to buy and insure cars. They pay higher prices to buy groceries in their neighborhoods. They pay higher prices to buy and insure homes. They pay higher prices to buy furniture and appliances. They pay higher real estate taxes. And, in Philadelphia, they often pay higher costs for utilities. Aside from the lower value of their homes, low-wage families pay higher prices than higher-income households for nearly every necessity.

Although these costs can add up to thousands of dollars in higher prices for individual families every year, many of these higher prices are unrecognized by state and local leaders. This report is the first to ever fully document these higher costs and does so for the Philadelphia region. The stark findings in this report afford an opportunity for state and local leaders to reclaim potentially thousands of dollars for low-income working families. Moreover, lowering the costs of basic necessities benefits not just working families but all Philadelphians. All households, for instance, would gain by receiving more information about pricing factors, like credit scores. Similarly all households would benefit from policies that lower the costs of natural gas and car insurance, both of which are more expensive in Philadelphia than in most other cities across the country.

The report starts by reviewing the costs of many household budget items and how these costs vary across neighborhood and household income levels. The report then examines the reasons behind the wide differences in the costs of these basic items.

Finally, the report examines some solutions to the high price dilemma facing working families: Reducing the risks of doing business, giving consumers the information they need in today's marketplace, curbing market abuses, and lowering the cost of publicly supplied goods and services in Philadelphia—in short, getting the market right—are all within reach of leaders in the private and public sector. ■

Aside from the lower value of their homes, low-wage families pay higher prices than higher-income households for nearly every necessity.

Methodology and Definitions

Low-wage or a low-income working family

This report uses the terms "low-wage family" and "low-income working family" interchangeably. Many definitions of these terms exist. Some are based on a percentage of the poverty line; others are based on the population of recipients in a federal income support program; others are based on distributions of income, such as quartiles or quintiles; and still others are based on one of a handful of alternative measures of sufficiency.

Of these definitions, the most appropriate measure for this report is one that is based on a distribution of income, the most literal of the extant measures. This is because many unit prices for basic necessities are systematically associated with family income, regardless of the sufficiency of one's wages or the size of one's household. In most cases this means that the costs of basic necessities are highest for those with the lowest income and least expensive for those with the highest income.

But, income was not defined as a constant distribution of income in this report because we rely on dozens of different data resources, many of which vary in the measurement of income. Where possible, measures are consistent. This means that the most frequent distribution of income we present is household income increments of $15,000. For instance, the lowest income group earns between $0 and $14,999 annually, the second earns between $15,000 and $29,999, and so on. We also use households who earn less than $30,000 as representative of low-income families, and households who earn more than $70,000 as representative of high-income families. *None of the results or conclusions we draw are dependent on these categories of income.* As the figures in each section suggest, we could have nearly as easily used households earning less than $20,000 or $10,000 as low-income, or households earning more than $80,000 or $90,000 as high-income. The bottom line is that these unit prices are systematically associated with household income, which means families earning a low-income are likely to pay a higher price than households with higher income.

The Philadelphia metropolitan area

This report focuses on households that are living within the city of Philadelphia. However, data are also presented where it is available, for the four other Pennsylvania counties that make-up the rest of the Pennsylvania portion of the metropolitan area. This includes Bucks, Chester, Delaware, and Montgomery counties. Data from the five counties that make-up the Pennsylvania portion of the metropolitan area—Bucks, Chester, Delaware, Montgomery, and Philadelphia—are referred to as the "Philadelphia area" or the "Pennsylvania portion of the metropolitan area." Data from the city are referred to as "Philadelphia" or "the city."

Data on multiple levels of geography are used to put the information about Philadelphia's families and neighborhoods in context with the metro area. It's also meant to illustrate for state and local leaders that higher prices charged to low-wage families affects families through out the metropolitan area. And, we focus specifically on the Pennsylvania portion of the metropolitan area because this report concentrates on reforms governments, businesses, and organizations in Pennsylvania can act upon.

The prices of basic necessities

The price of basic necessities used in this report refers to the unit price. The unit price does not refer to cost burden, or the cost of a necessity relative to either annual income or annual expenditures. It also does not refer to the absolute expense of an item. For instance, an Audi A4 has a higher absolute expense than a Ford Taurus. However, this report demonstrates that the unit price of both cars is higher for low-income families than higher-income households. This means, for instance, that a low-income household is charged a higher price for the Ford Taurus than a high-income household. It also means that low-income working families are charged more than higher-income households to borrow the same amount of money to buy this car and the same amount of insurance to insure this car.

Measuring the prices of basic necessities

There are numerous samples that measure information related to the prices of basic necessities. The Consumer Expenditure Survey, for instance, measures the amount that different households expend on basic necessities. Similarly, the Consumer Price Index is one of many resources that measure the price of many necessities in different parts of the country.[8] But, there is no similar, comprehensive resource that provides information about the prices different consumers pay for the exact same good or service in different areas of the country. For this reason, this report uses dozens of different data resources to document the prices that consumers pay for the exact same necessity in Philadelphia and the Pennsylvania suburbs around the city.

In particular, the major sources of data in this report are J.D. Power and Associates, the Federal Reserve's Survey of Consumer Finances, the Department of Commerce's American Community Survey, the Department of Commerce's Decennial Census, Fair Issac, Allstate Insurance Company, Progressive Insurance Company, the Pennsylvania Department of Insurance, the Pennsylvania Public Utility Commission, the Philadelphia Gas Works Company, Oil Price Information Service, Trade Dimensions, Department of Commerce County Business Patterns data, the Federal Trade Commission's Survey of Rent-to-Own Establishments, Department of Energy's Residential Energy Consumption Survey, the Philadelphia Tax Reform Commission, two anonymous sources, and Loan Performance. In addition to these major data resources, we also relied on numerous additional minor data resources to inform this report.

In spite of this broad cross section of data, we were still unable to find unit prices for every basic necessity where there were strong reasons to believe that low-wage families are charged higher prices for basic necessities than higher income households. In some cases we supplemented this information gap with data on neighborhoods. For instance, although we were not able to directly compare the average cost of using a rent-to-own institution relative to a mainstream supplier of short-term credit or buying furniture outright, we were able to find data on the distribution of rental establishments through out the metropolitan area. But, in other cases, we have noted that sufficient data was not available.

Similarly, we were not able to find local information about prices for every basic necessity reviewed in this report. For instance, we could not find sufficient local data to measure the higher prices that low-wage working families are charged to buy a car. But, there is excellent national data related to these prices, and we have no reason to suspect that Philadelphia's families are systematically different from families represented in this national sample. Also, the major causes of higher prices for low-wage families—rational market responses, market information failures, and market abuses—are general causes, which means that national data should illustrate trends in Philadelphia's market.[9]

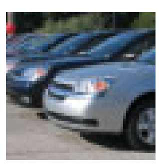
For these reasons, we have documented the methodology and sources used to measure prices in every section. We have noted in the text where we have used neighborhood data in place of individual information, and where national data is used to illustrate the existence of higher prices in Philadelphia's market. And, we have refrained from publishing an estimate of the total value of these higher prices for working families. ■

The prices that Philadelphia's low-wage families pay for goods and services

All households rely on basic goods and services, like transportation, grocery stores, financial services, insurance, utilities, and housing. But, the unit prices for many of these necessities are higher for low-income families than higher-income households. Some of these higher costs, like financials services, are well documented and analyzed. But, most are unrecognized by state and local leaders, who tend to focus on the burden of these necessities rather than the unit price, or on higher prices that are caused exclusively by market abuses.

This section of *The Price is Wrong* reviews these higher prices in Philadelphia. The analysis indicates that, in general, low-wage families in the Philadelphia area pay more than higher income households to:

- Buy and insure their cars
- Buy groceries in their neighborhoods
- Access and borrow money from financial institutions
- Establish utility service and use gas
- Buy, maintain, and furnish a home.



THE COSTS TO PURCHASE AND MAINTAIN A CAR

CAR PURCHASES: Philadelphia's low-income working families can pay over $500 more for the same car bought by a higher-income household.

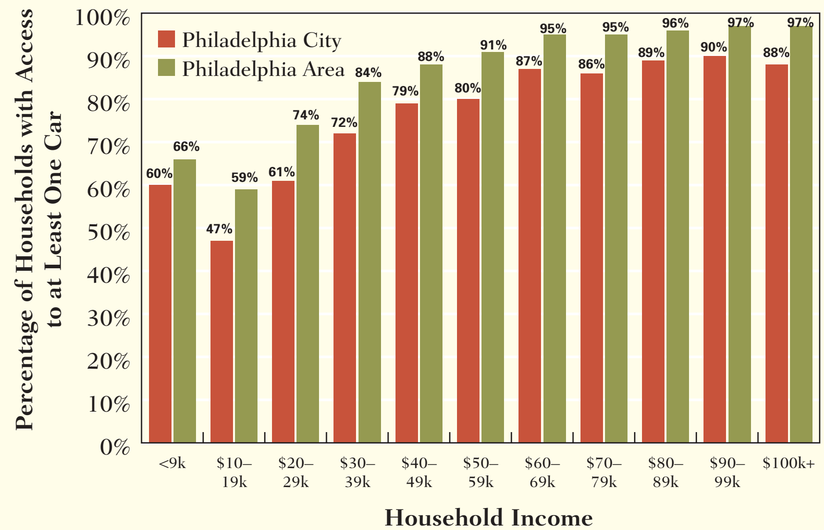
A large majority of low-income families in Philadelphia own a car. In fact, over 66 percent of all households in the Philadelphia area that earn less than $30,000 every year have access to at least one car.[10] And, the median household in this income group has access to two cars. Similarly, over 57 percent of households that earn less than $30,000 and live in the city own at least one car. Although households who earn higher annual incomes are more likely to own a car than households in this income group, most low-income households in the Philadelphia area own a car.

Data on the prices that were charged to these households when they bought their cars is scarce. In fact, no information is available that would allow us to examine how many people buy a new or used car in the Philadelphia area, the prices they pay for these cars, and the demographics of each car buyer. But, there are national data that can speak to these questions.[11] Assuming that this consumer behavior in a national sample of households is similar in Philadelphia, then approximately 27,000 households that earn less than the median income in the Philadelphia area likely buy cars every year.[12]

National data also allow us to infer the likely prices charged to these households when they buy automobiles. We can see exactly how much more a low-wage family would be charged for a car than a higher-income family by comparing two hypothetical customers.[13] Customer 1 is white (43 percent of the individuals in Philadelphia), has a high school diploma (75 percent over 24), owns a house (42 percent of individuals live in an owned-home), and lives in a neighborhood with a median income of $80,000 (46 percent earn between $70,000 and $90,000). Customer 2 is African American (44 percent of the individuals in Philadelphia), dropped out of high school (25 percent over 24), rents a home (58 percent of individuals live in a home they don't own), and lives in a neighborhood with a median income of $20,000 (27 percent earn between $10,000 and $30,000).[14]

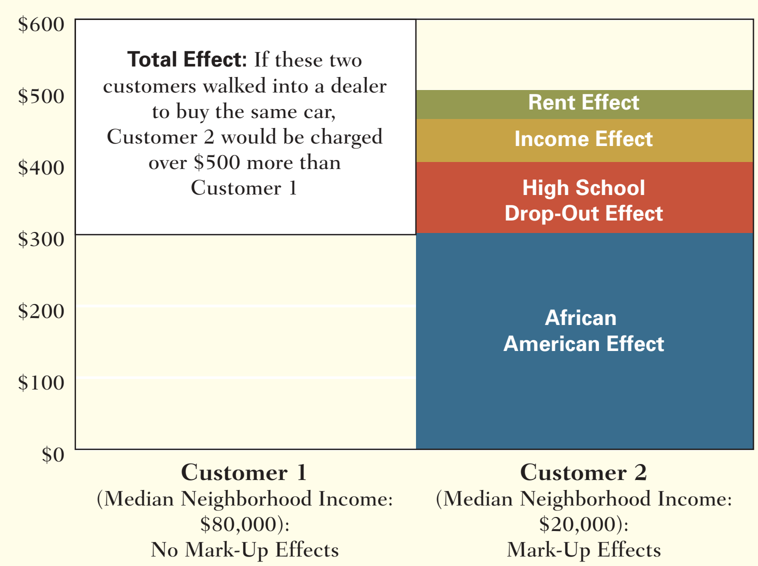
According to research based on over 650,000 car purchases, Customer 2 would pay over $500 more for the same automobile than Customer 1. Although the differences in income accounts for only about one fifth of this total effect,

Nearly all households in Philadelphia have access to at least one car.



Source: Authors' analysis of 2000 Census PUMS.
Note: Access is defined as having at least one car in the household. The Philadelphia area includes the city and the four suburban Pennsylvania counties—Bucks, Chester, Delaware, and Montgomery.

Low-income households in Philadelphia pay more to buy the same car a high-income household buys.



Source: Fiona Scott Morton, Florian Zettelmeyer, and Jorge Silva-Risso. 2001. "Consumer Information and Price Discrimination: Does the Internet Affect the Pricing of New Cars to Women and Minorities?" Working Paper 8688, National Bureau of Economic Research.

many of these other characteristics in this estimate are typical of low-income individuals in Philadelphia. In particular, a majority of individuals in the city who earn less than 75 percent of all of the other households in the Philadelphia area are African American, do not own a home, and dropped out of high school if they are 18 years old or older. In the greater Philadelphia area, 40 percent of the individuals in this income group are African American, 31 percent of 18 year olds and above do not have a high school degree, and 63 percent do not own a home.[15] This means that low-wage families in Philadelphia can pay over $500 more for the same car than if it were bought by a high-income household. ■

THE COSTS TO PURCHASE AND MAINTAIN A CAR

CAR LOANS: More than half of households with an auto loan that earn less than $30,000 a year pay a higher interest rate than the average borrower.

Most low-income working families pay higher interest rates for car loans than households with higher-incomes. Although there is only limited individual level information about auto loans in Philadelphia, there is national data on lending terms among different households. If these households are similar to households in Philadelphia, the data suggest that Philadelphia's low-income working families generally pay much higher interest rates for auto loans than higher-income households.

Philadelphia's low-income working families generally pay much higher interest rates for auto loans than higher-income households.

We illustrate this by sorting all households in a national sample of families first by the income they annually earn.[16] Using this distribution, we break all households up into income groups demarcated by $10,000 in income. This means the lowest-income group of households earns between $0 and $9,999, the next earns between $10,000 and $19,999, and so on. We then take the average interest rate charged on any outstanding auto loans within each group. These differences in means indicate that lenders charge much higher rates for low-income working families than higher-income households.

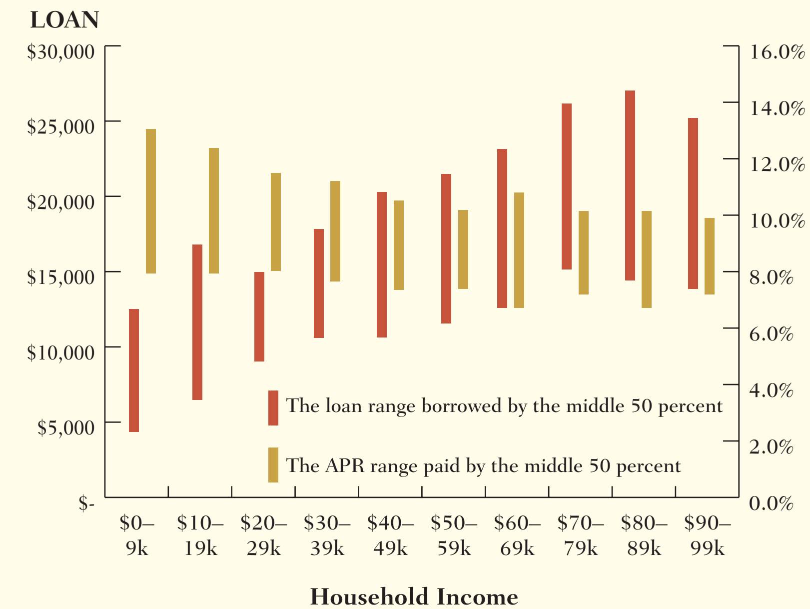
In particular, the average interest rate among all households earning below $30,000 every year—about 55 percent of all households in Philadelphia—is about 10.6 percent for an auto loan. In contrast, households earning more than $70,000 every year—about 14 percent of all households in the city - pay an average rate of 8.3 percent. While a 2.3 point difference in interest rates adds up over time to a significant amount of money, even larger differences among income groups exist on either side of the distribution around these means. In particular, over 50 percent of households that earn less than $30,000 pay an interest rate on their auto loan that is above the average rate charged to all households—9.36 percent. Alternatively, just 25 percent of households that earn more the $70,000 every year pay a higher interest rate than the average interest rate charged to all households with an auto loan.[17]

To get a sense of just how quickly these higher prices for auto loans adds up, we compared the total interest paid for a $5,000 auto loan and a $10,000 loan across a range of possible interest rates.[18] A 13.79 interest rate—the lowest rate charged to about one in five households earning less than $30,000 and about one in 10 households earning more than $70,000—adds up to nearly $1,500 in interest over the course of a 48 month, $5,000 auto loan. In contrast, a 7.3 interest rate—the highest rate charged to about one in five households earning less than $30,000 and one in three households earning more than $70,000—on the same loan amount adds up to just under $800 in total interest payments.

Since $11,000 is the median loan amount among households with a loan that earn less than $30,000, this means that low-wage working families can pay thousands of dollars in extra costs while paying back an auto loan that higher-income households do not have to pay. In fact, households with a lower interest rate can pay less interest for a $10,000 loan than a household with a high interest rate the borrows half that amount.[19]

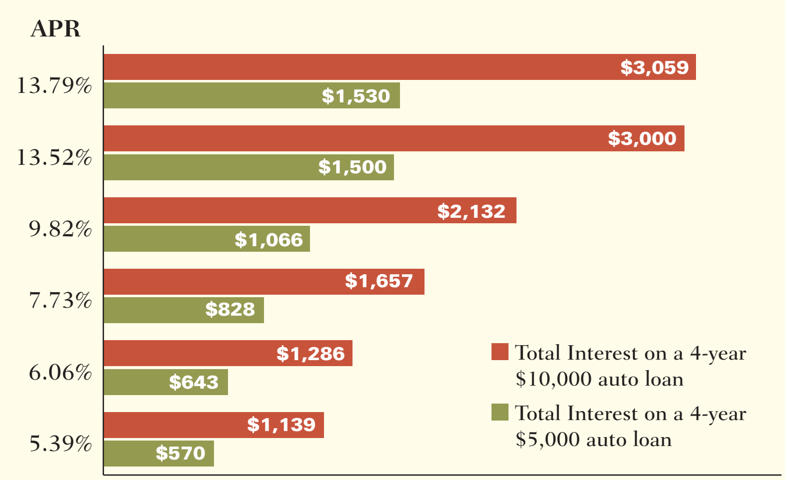
Importantly, not all low-income households have to pay these higher rates. In fact, about 25 percent of households who earn less than $10,000 a year pay an interest rate of under 8 percent on the loans they have taken out, which is below the median interest rate charged to the entire population of households with auto loans. It's also less than the rate paid by the majority of households who earn more than $100,000. So, while income is certainly related to interest rates, household income is not an immovable roadblock to qualify for lower interest rates. Instead, the challenge before leaders is to give more low-income working families the opportunity to qualify for low rates.[20] ■

Low-income working families borrow less money and pay higher interest rates for auto loans than higher-income households



Source: Authors' analysis of 2001 Survey of Consumer Finances.
Note: Total loan amount is the total amount originally borrowed on any outstanding auto loan for any household automobiles; APR is the average APR paid on any auto loans in the household; Households earning more than $100,000 are not shown for illustrative reasons; although this group continues the displayed trends.

Higher interest rates for auto loans quickly adds up to significantly higher interest payments for low-income working families



Source: MyFico.
Note: Based on an average among financial lending institutions in the Philadelphia market in October 2004.

THE COSTS TO PURCHASE AND MAINTAIN A CAR

CAR INSURANCE: The annual cost to insure the exact same car and driver in the Philadelphia area is over $400 more in a neighborhood with a median income less than $30,000 than in a neighborhood with a median income more than $70,000.

The Pennsylvania Department of Insurance does not collect data on the prices charged for insurance to every driver in the state. In fact, the state was unable to provide any information that would allow an independent, robust assessment of the algorithms or other more crude methods used by companies to assess what different types of customers should pay for insurance. To overcome this information gap, we estimate prices charged to Philadelphia's households by obtaining quotes from two of the least expensive companies that sell insurance in Philadelphia. Quotes were obtained for every ZIP code in the five counties that make up the Pennsylvania portion of the metropolitan area. The only variable that varied in these quotes was the median income in each of these ZIP codes. This means we were not able to examine the effects of credit scores, which are an important component of insurance rates. But these data do illustrate systematic neighborhood effects, which are also factored into insurance rates.

We sorted each ZIP code in this area into increments of $15,000, which means that the first group of neighborhoods has a median income less than $15,000; the second group of neighborhoods has a median income between $15,000-30,000, and so on.[21] These data indicate that the highest auto insurance rates in the Philadelphia area are paid by households that live in neighborhoods where the median income is between $15,000 and $24,999—about $562 every six months. In contrast, the lowest rate—$342 a every six months—is in neighborhoods where the median income is between $85,000 and $94,999.[22] This low rate provides these higher income households over $400 in annual savings that lower income households have to pay. Since a majority of low-income households own a car and auto insurance is compulsory in Pennsylvania, the majority of Philadelphia's low-wage families pay that higher price.[23]

Many low-wage families end up paying higher rates than they would actually qualify for if car insurance companies could measure risk more accurately.

For the typical low-income household that drives an automobile valued around $5,100, this means that their auto insurance premium could be over $400 more expensive every year than a higher income household that insures the exact same car and driver.[24] But, the true value of the higher price low-wage families pay for auto insurance could be much higher.

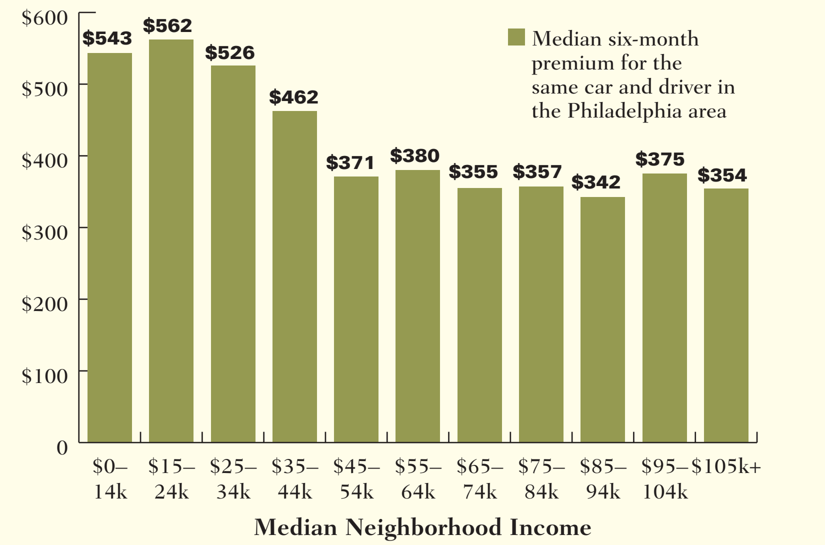
This estimate of the price of insurance for different households is based on a driver with a perfect insurance record, which leaves out a large number of drivers with violations or who have had interruptions in their insurance policies. It's also based on the median value of a car owned by the bottom income quintile of all households, which leaves out the higher valued cars owned by many low- and moderate-income households. And, it holds credit scores constant at a score slightly above the average for all individuals with a credit score, even though these scores are systematically associated with household income.

But most importantly, it is based on information provided by the two cheapest companies in Philadelphia that sell insurance—Progressive and Allstate. The rates of both companies are much less expensive than the other 16 companies that are authorized to sell auto insurance in Pennsylvania.[25] In fact, a one-year insurance policy for the same car and driver can vary within Philadelphia by nearly $4,000, depending on which company a driver is insured with. The most expensive companies—American Independent Insurance Company, Erie Insurance Company, Farmers

New Century Insurance Company, and Allstate Indemnity Company—charge between $4,600 and $5,500 a year to insure a $5,100 car to a 35 year old married male driver with a perfect driving history. Alternatively, Progressive and Allstate would only charge between $1,800 and $2,000 every year.[26]

Although there is no data that indicates which customers buy insurance from these different companies, low-wage customers do have access to less information-gathering resources, such as the Internet.[27] This may make low-wage households less able to shop around for the lowest possible insurance rate. It also certainly makes these households more susceptible to market abuses. Even without this consumer information, however, it is clear from the data that is available that low-income households are charged higher auto insurance rates than higher-income households. ■

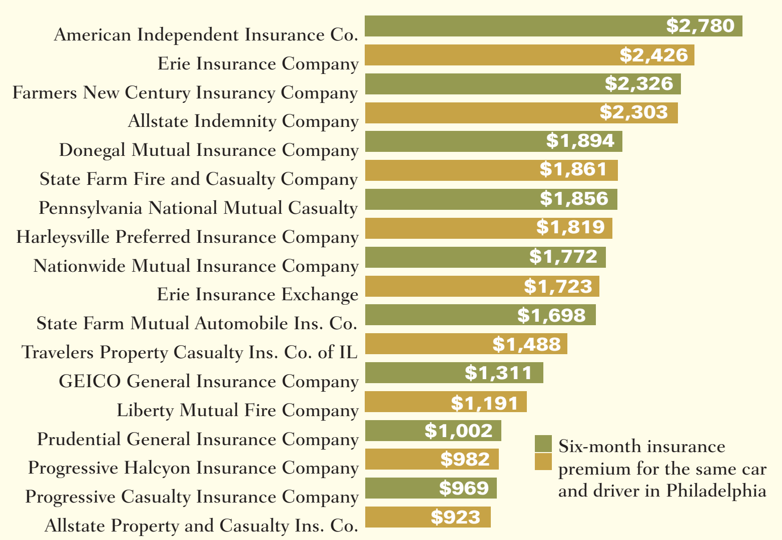
Low-income working families in Philadelphia pay much higher rates for auto insurance than higher-income households.



Note: Quotes are six month premiums for a 2002 Ford Taurus SE. The driver lives in the city of Philadelphia, is 35 years old, married, has a clean driving record, commutes five miles to work, and annually drives between 10,000 and 15,000 miles. Quotes are average six month premium quoted by Progressive and Allstate for all ZIP codes in Philadelphia and the surrounding suburban counties in Pennsylvania.

Source: Authors' analysis of data collected from the Progressive and Allstate Insurance Companies.

Six-month auto insurance premiums for the same car and driver in Philadelphia vary among companies by over $1,800

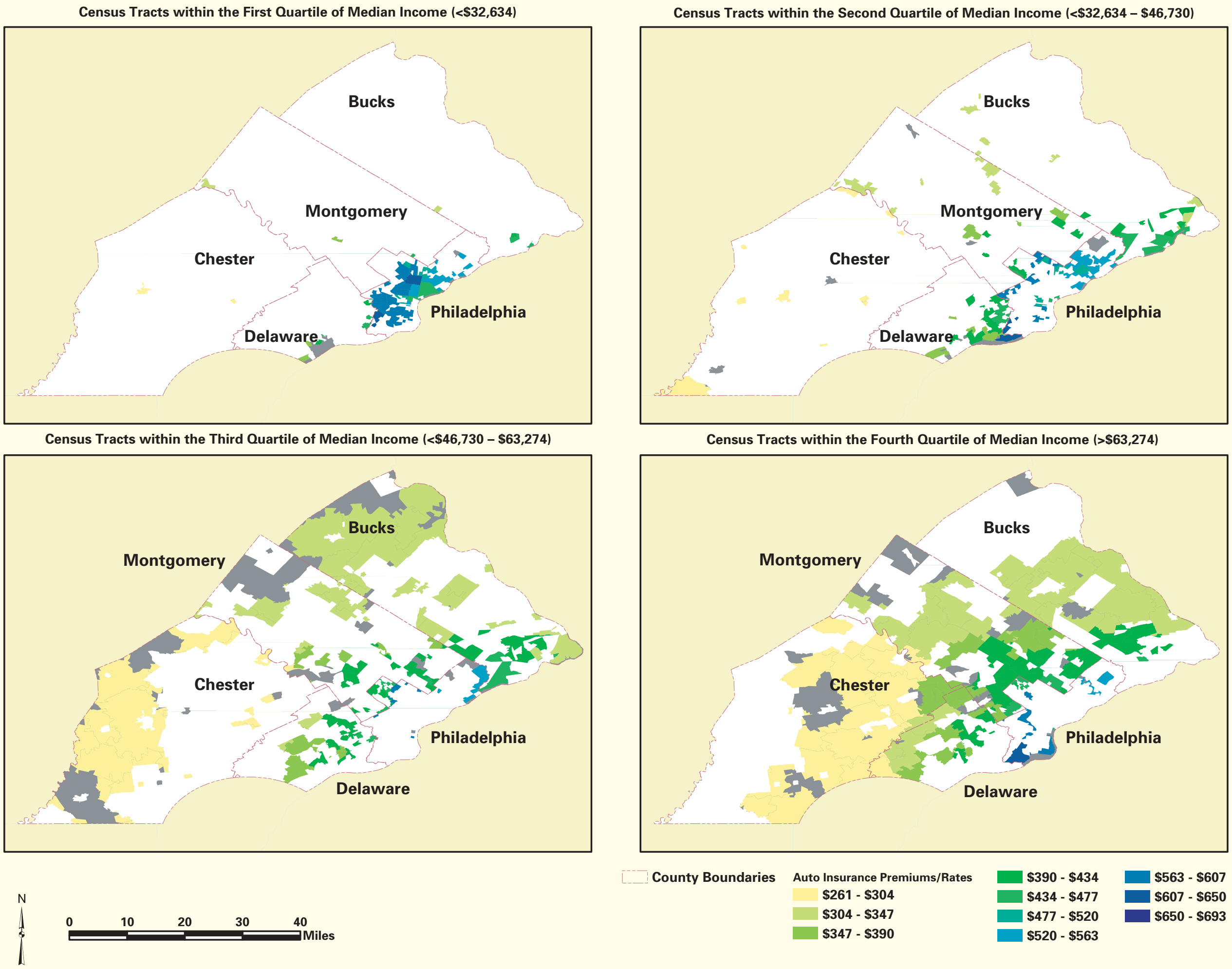


Source: Pennsylvania Department of Insurance.

Note: Quotes are six month premiums for a 2002 Ford Taurus SE. The driver lives in the city of Philadelphia, is 35 years old, married, has a clean driving record, commutes five miles to work, and annually drives about 10,000 and 15,000 miles. The current blue book value of this car in the Philadelphia market is approximately equal to the median value of automobiles owned by the lowest income quintile.

Households in Philadelphia pay higher auto insurance rates than households in the suburban counties and low-income working families pay much higher rates than higher-income households

Auto Insurance Premiums by ZIP Code and Income Quartiles by Census Tract, Philadelphia MSA



Source: Authors' analysis

Notes: Auto insurance premiums and income groups are shown by census tract. Areas with no data are shown in gray; data is displayed for all census tracts in the designated quartile of household income; all rated areas with data are included.

THE COSTS TO PURCHASE AND MAINTAIN A CAR

WHAT CAUSES HIGHER CAR PRICES?

Just owning a car can add thousands of dollars every year in extra charges for low-wage families that higher-income households do not have to pay. There are numerous market forces that cause these higher prices.

First, businesses face *higher risks* when they sell car-related products to low-wage families than to other households, which they respond to by raising prices for these consumers. Some of these higher risks are real; others are perceptions based on the limitations of how risk is measured.

Real risks include both individual and neighborhood differences among income groups. Low-income households generally default on payments more often than other households, driving up prices for auto loans and auto insurance.

Similarly, some low-income households live in higher-risk neighborhoods, which drives up the prices that insurance companies charge for insurance because they need to cover the higher probability that a car will need to be replaced or repaired.

But, there are also higher risks that are ascribed to low-wage families because limitations in risk measurement. Not all or even most low-income households in Philadelphia may default on payments, but, because they belong to an income group that is generally more likely to have these characteristics than other groups, they are more likely to be assigned a higher risk than other households. For instance, most companies that sell insurance and loans use credit scores to predict risk, which are strongly related to household income. This means that many low-wage families can end up paying higher rates than they would actually qualify for if companies could measure risk more accurately. Many low-income households are perceived to be a higher risk to sell insurance and loans to because of the way risk is currently measured, in other words, not because of a real higher risk.

Another perceived higher risk caused by limitations in risk measurement is the use of ZIP codes by insurance companies to determine policy rates. Many low-wage families in the Philadelphia area live in the city, where the high density of major commuting roads makes accidents more likely. Insurance companies could pass on the higher risk caused by driving in these neighborhoods to the commuters who use these roads and cause this higher risk. They could measure the accident rate by the ZIP code the drivers in the accident live in, for instance, rather than the ZIP code where the accident occurs. But, insurance companies instead measure the risk of driving by the accident rates in ZIP codes. This means that low-wage families can be perceived by insurance companies as more risky, when in fact the higher risk is being created by the wider population who uses major commuting roads.

A second cause of higher car-related prices is the *lack of information* that many low-wage families have about the market. This puts these families at a disadvantage when they need to bargain for prices, which leads to families overpaying for goods and services related to cars. For instance, one of the most important sources to find information today about auto insurance, car prices, auto loans, and even gas prices is the Internet. State Web pages provide the data on insurance companies used in this report, a range of online companies provide comparative prices for insurance, car prices, and loan information, and there are numerous resources to find independent information about car prices. But, fewer low-wage families have access to the Internet in Philadelphia than higher-income households.[28] This allows higher-income households to do more competitive shopping in the Philadelphia market than lower-wage families, and pay lower prices for car-related products.

Finally, *weak regulation and enforcement* allows some companies that sell automobile-related products to discriminate against low-wage families. Car dealers and predatory loan products are two well-known sources of price discrimination. Car dealers boost the prices of cars for low-income customers, and some lending services charge unnecessarily high fees and interest rates. Both also loan too much money to some of these families, making them more likely to have to pay extra fees and default on their loans.

But a less well known, but still pernicious, institution in these neighborhoods is the predatory tort industry, which often advertises lawsuits as an opportunity to win large financial settlements. Although the effect of this is yet to be fully measured, anecdotal evidence in Philadelphia suggests that low-wage families in Philadelphia are responding to this advertising strategy. This can drive up the cost of insuring low-wage families, since insurance companies are more likely to have to pay for law suit costs in low-income neighborhoods than higher-income neighborhoods. Still, the interaction between the tort industry and insurance premiums is still a relatively unknown issue. Future research will need to investigate the scope of the tort industry that derives revenue from auto-related suits, the extent and universe of households targeted by industry advertising, and the measurable impact that it has on auto insurance premiums.[29] ■

THE COSTS TO PURCHASE GROCERIES

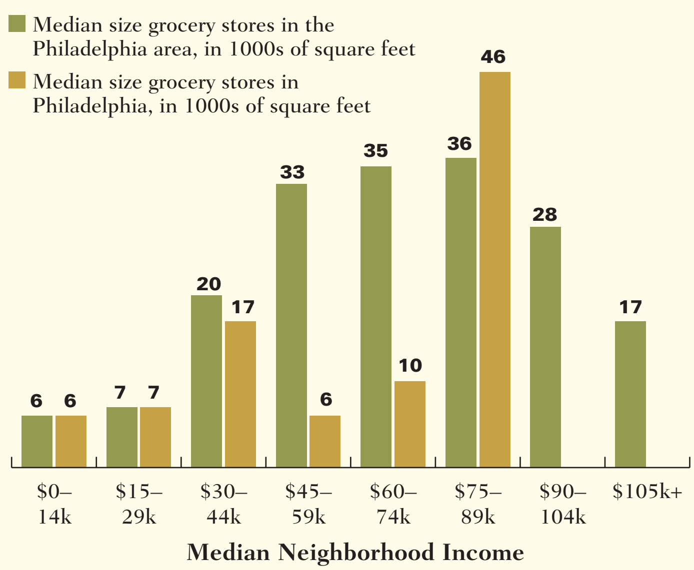
GROCERY PRICES: Philadelphia's low-income neighborhoods have smaller and fewer grocery stores than other neighborhoods, which can drive up food prices in low-income neighborhoods.

Although there is no information on food prices at every store in the Philadelphia area, there is evidence on the size of grocery stores. And, store size is an important determinant of food prices.[30] Research by United States Department of Agriculture's Phillip Kaufman and Charles Handy, for instance, shows that the prices charged by an establishment are strongly related to store size.[31] This formalizes the business model of big-box superstores like Wal-Mart and K-Mart, which are able to afford lower prices than many of their competitors because of the higher volume of goods stocked in their stores.

But, big-box grocery stores are generally not in either low-income or high-income neighborhoods in the Philadelphia area. In fact, the typical grocery store is much smaller in Philadelphia's low- and high-income neighborhoods than in middle-income neighborhoods. Taking the median grocery store size in every ZIP code and comparing that to the median income in those ZIP codes illustrates this relationship between grocery store size and neighborhood income. In particular, neighborhoods in the city with a median income less than $15,000 have grocery stores that have a median size of about 6,000 square feet.[32] Similarly, neighborhoods with a median income between $15,000 and $30,000 have stores with a median size of 7,000 square feet.[33] But, neighborhoods with a median income between $75,000 and $90,000 have grocery stores with a median store size of 46,000 square feet. With many times the amount of space, these grocery stores in higher-income neighborhoods are able to stock a substantially higher volume of goods, which considerably increases their ability to lower prices.[34]

In place of large grocery stores, low-income neighborhoods are stocked in the Philadelphia area with small, convenience stores. In the city, there are approximately 4 convenience stores for every 1,000 individuals living in a neighborhood with a median income less than $15,000.[35] Although there is a slightly higher concentration of convenience stores in neighborhoods with a median income between $75,000 and $90,000, there are only about 1.5 convenience stores for every 1,000 individuals in neighborhoods with a median income between $15,000 and $75,000. This means that the lowest income neighborhoods in Philadelphia have smaller grocery stores and a higher concentration of convenience stores than nearly all other neighborhoods in the city.

Grocery stores in Philadelphia are generally much smaller in low-income neighborhoods than in middle-income or suburban neighborhoods, which can drive up food prices.



Source: Authors' analysis of 2004 Trade Dimensions data.
Note: Median neighborhood income is measured as the median ZIP code income. There are no ZIP codes in the city of Philadelphia with a median income above $90,000.

This creates a market in low-income neighborhoods with relatively weak pressure for low food prices. Stores in these neighborhoods do not have the space to cut prices by boosting volume. Each of these stores also can subsist off a small number of customers, which can reduce competition among stores.

Do low-wage families in Philadelphia actually pay higher food prices? Although there is no evidence from Philadelphia to answer this question, the national evidence on both sides of this debate is mixed. On the one hand, there is a literature that suggests the poor do pay higher food prices.[36] But, there is also research that suggests the poor economize in response to higher prices, which may lead to external higher costs like higher healthcare bills because of poor nutrition.[37] Unfortunately, much of this literature is plagued by sample selection errors, since most studies are based on a unique basket of grocery items of an unknown (and probably unknowable) generalness. For this reason, we can point to very clear differences in market dynamics among different neighborhoods, but more evidence is needed on consumer behavior before we can determine the absolute magnitude of the effect these differences have on family budgets. ■

THE COSTS TO PURCHASE GROCERIES
WHAT CAUSES HIGHER GROCERY PRICES?

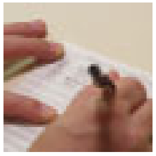
Low-income neighborhoods in Philadelphia are stocked with grocery stores that research suggests charge higher overall prices than the larger stores that are in middle-income neighborhoods. Stores are generally smaller in low-income neighborhoods for two major reasons.

First, businesses often face higher risks selling food in low-income neighborhoods. But, those higher risks are usually perceived based on misleading market information.

Recent analyses have shown that many marketing consulting firms undercount residents in low-income neighborhoods, make generalizations, and do not include local data in trend analysis.[38] This makes market data about consumer demand in Philadelphia's low-income neighborhoods much less certain than in neighborhoods with higher-income, which increases the risks of selling food in these neighborhoods. Since market data on low-income neighborhoods in Philadelphia may suffer from these same limitations, large supermarkets that now populate many middle-income neighborhoods may be dissuaded from moving into these lower income neighborhoods because they perceive a higher risk that may not exist.

Similarly, there is a perception that selling food in low-income neighborhoods requires more security than in higher-income neighborhoods, which would justify higher prices for low-income households. But, recent research by the United States Department of Agriculture's Economic Research Service found that there are no statistically significant differences in operating expenses in grocery stores with a large low income population than a store with a smaller low-income customer base.[39] This perception of higher risks, in other words, may drive the prices charged at different stores.

A second cause of smaller grocery stores in Philadelphia's low-income neighborhoods is the *public sector control* over the development review process in Philadelphia, which a recent report indicates is slower and more burdensome than in its peer cities.[40] This analysis, undertaken by the Building Industry Association of Philadelphia, found that the city's zoning and development process lags behind Baltimore, Boston, Chicago, Milwaukee, and Pittsburgh.[41] They also find that Philadelphia's development review process is unclear, uncoordinated, and not user-friendly compared to these other cities. This means that building the next generation of grocery stores that are larger and have lower prices, which dot the more recently built suburbs, is a much more expensive and arduous process for builders in Philadelphia. This slows down development in the city and can serve as an incentive for developers to locate in the suburbs. ■



THE COSTS TO USE FINANCIAL SERVICES

CASHING CHECKS: Low-income families often pay higher prices for cashing checks than higher-income families by using one of Philadelphia's 147 check-cashing establishments.

Low-income households are less likely than higher-income households to have access to a mainstream financial institution.[42] Although there is only limited data on the banking behavior of Philadelphia's families, there is national data about this consumer behavior. Assuming these national data are representative of Philadelphia's working families, the data suggest that low-income families in Philadelphia generally pay higher prices to cash checks than higher-income households.[43]

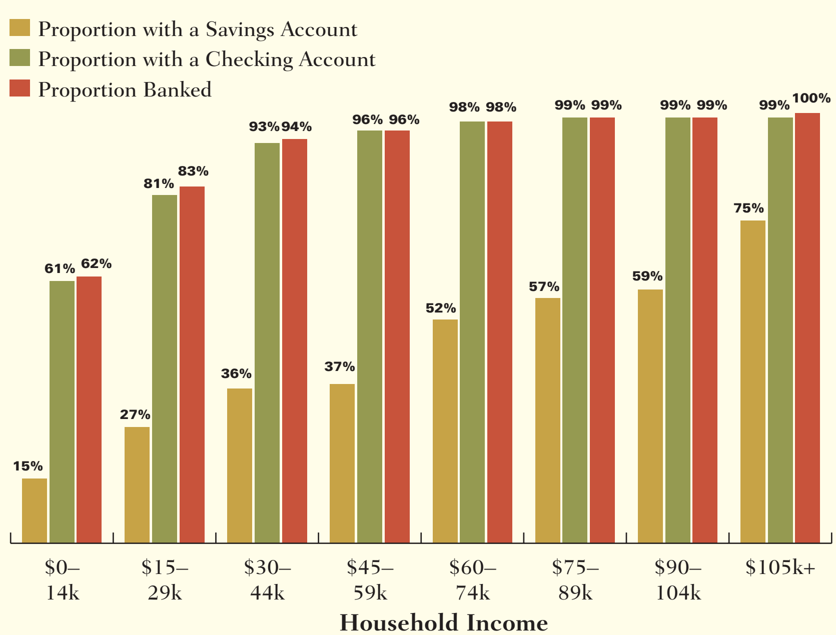
We can see this by sorting all households in a national sample of households into increments of $15,000 annual income.[44] This means the lowest income group earns between $0 and $14,999 every year, the next earns between $15,000 and $29,999, and so on. These data indicate the low-income households are much less likely to use mainstream banking services than higher-income households. In particular, only 62 percent of households earning between $0 and $14,999 are banked with a financial institution.[45] But, over 80 percent of households earning more than $15,000 annually are banked, and over 90 percent of households earning more than $30,000 are banked.

This means that low-income households are much more likely to need the services of a check casher than households with higher-incomes, who almost all rely on mainstream financial institutions. These services, found in about 147 storefronts in the Philadelphia area today, cash government, paycheck, and personal checks in exchange for a fee.[46] While nearly all customers of financial services pay to access money, the fees charged by check cashers are generally higher and assessed with more frequency than banks, which amount to substantially higher, overall prices for customers of these services.

In particular, state regulations stipulate that check cashers can charge up to 2.5 percent of the amount of a government check, 3 percent of a payroll check, and a maximum fee equal to 10 percent for a personal check. In addition to these per-check fees, check cashers can also charge new customers a maximum of $10.00 to use their service.[47] For a household that earned an after tax income between $15,000 and $30,000—about 20 percent of all households in the Philadelphia area—from a private employer, using a check cashing service would annually amount to between $450 and $900 in charges.[48]

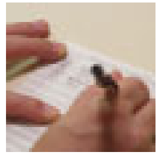
Of course, many mainstream banks may also charge higher rates to these households if their balance slipped below a minimum or if they overdrew their accounts. And, nearly all banks now charge clients for writing checks or using customer services. For instance, nearly all

Low- and moderate-income families are much less likely to have a checking account than higher-income families.



Source: Authors' analysis of 2001 Survey of Consumer Finances.

banks charge a fee to open a basic account, a fee for most debits, and a fee each time an account is overdrawn. And a recent Federal Reserve analysis indicates that these fees have significantly increased in recent years along with the minimum balances required to avoid them. For clients who frequently withdraw money or have trouble maintaining balances, these fees can quickly add up to equal and even surpass those charged by check cashers.[49] ■



THE COSTS TO USE FINANCIAL SERVICES

SHORT-TERM LOANS: Low-income families often can pay hundreds of dollars in higher prices for short-term loans than higher-income families.

Low-wage families can pay hundreds of dollars in higher costs for short-term loans that are not charged to households with higher-incomes. Many low-income families do not have access to mainstream sources for short-term loans, like credit cards or home equity, and instead turn to alternative financial services for short-term loans.[50]

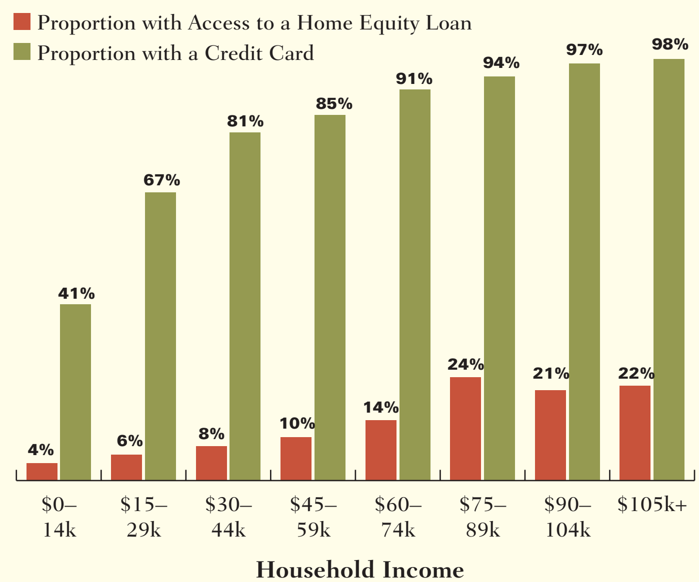
Although there is only limited data on the sources of credit extended to Philadelphia's families, national data indicate that low-income families are much less likely than other households to have access to mainstream sources of credit.[51] In particular, just 41 percent of families earning less than $15,000 a year have access to a credit card, and just 4 percent have access to a home equity loan. Similarly, 67 percent of families earning less than $30,000 a year have access to a credit card, and just 6 percent have access to a home equity loan. But, over 80 percent of families earning more than $30,000 a year have at least one credit card, and over 90 percent of families earning more than $60,000 a year have a card. Home equity loans are much less ubiquitous, but nonetheless are extended with more regularity to households with higher incomes.

Alternative financial services are distinguished from mainstream sources of credit by their unusually high fees and interest rates.

This means that low-income families are more likely to demand the services of alternative sources of credit for short-term loans. These alternative financial services include businesses such as payday lenders, tax preparation services that provide rapid refunds, pawnbrokers, title lenders, and some lending companies. These services are distinguished from mainstream sources of credit by their unusually high fees and interest rates. For instance, current state regulations in Pennsylvania mandate that pawnbrokers can charge up to a 3 percent interest rate every month and up to $1.50 fee for every pawned item. Interest is allowed to accrue through a maximum of 12 months, meaning that a client who received a $100 loan from a pawnbroker could owe a maximum of $144 if no payments were made, a total annual percentage rate of 44 percent of the original loan. This is a significantly higher interest rate than that typically charged for more mainstream short-term loan products, like credit cards or home equity loans.

Similarly, short-term lenders typically charge much higher rates than these mainstream sources of

Low- and moderate-income families are much less likely to have access to mainstream sources of credit, like credit cards and home equity loans, than higher-income families

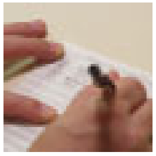


Source: Authors' analysis of 2001 Survey of Consumer Finances

short-term loans.[52] Nationally, the annual percentage rates for loans for that industry are typically in a range between 391 percent and 443 percent.[53] Although Pennsylvania law caps small-loan interest rates at 24 percent, companies can avoid this law by charging major fees and by renting charters of banks that are not subject to Pennsylvania rules.[54] This allows the short-term loan industry in Philadelphia and elsewhere in the state to charge low-wage families the same high rates that are charged in other states that do not have rate caps.[55] For instance, ACE Cash Express, which has about 26 stores in the Philadelphia area, provides short-term loans between $100 and $425, and charges $17.64 for every $100 borrowed for 14 days or less.[56] This equals an annual percentage rate of 459.9 percent, a significantly higher rate than the typical range offered by mainstream financial services. Customers who extend this loan another two weeks past the original 14 days can be charged this same fee for the extension.

Even some mainstream suppliers of credit are now starting to adopt the practices of these alternative sources of credit. Between 1994 and 2004, for instance, the average monthly late fee on a credit card increased from $12 to $30 and the grace period following a scheduled bill date was eliminated by many companies.[57] Moreover, credit card companies are increasingly using late payments to trigger higher interest rates. One missed bill can substantially increase an annual percentage rate of interest. This means that low-wage families have a range of options to obtain short-term loans which are significantly more expensive than options available to higher-income households. It also means that even mainstream sources of credit offer higher priced products to low-wage families.

Besides these daily sources of credit, low-wage families in Philadelphia also have an option once a year to apply for a tax refund anticipation loan, or money lent by a tax preparation service in anticipation of a tax refund.[58] These loans are offered by a majority of Philadelphia's 131 tax preparation establishments, and are used by about 42 percent of filers who claim the Earned Income Tax Credit in Philadelphia.[59] Although data on the prices charged for these loans in Philadelphia is scarce, analyses indicate that national chains like Jackson Hewitt, which has over 30 establishments in the city of Philadelphia, typically charge at least $100 in fees per customer and filing, and an additional $75 to $100 for a refund anticipation loan.[60] These fees create an annual percentage rate that is equivalent to the other alternative sources of credit. ■



THE COSTS TO USE FINANCIAL SERVICES

WHAT CAUSES HIGHER FINANCIAL SERVICES PRICES?

Low-wage families pay higher prices for financial services than other types of households for numerous reasons.

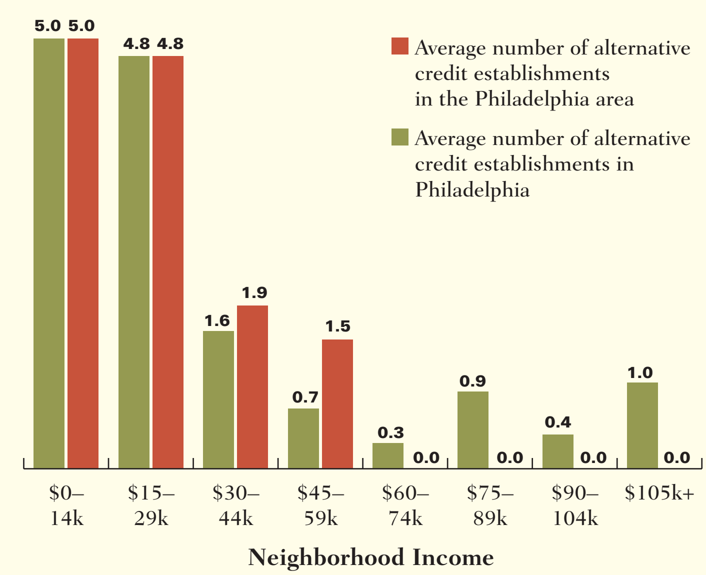
First, businesses face higher risks when they sell financial services to many low-wage families, which they rationally respond to by raising prices for these families. Some of these risks are real, such as the higher propensity of low-wage families to miss payments or default on loans. In fact, nearly one out of every three households that earn less than $15,000 and have borrowed money sometimes get behind or miss payments, compared to about 8 percent of households who earn more than $90,000.[61]

As Michael Barr recently noted in a Brookings Institution policy brief, this means that "the cost to individual financial institutions of research, product development, account administration, staff training, marketing and financial education with respect to new financial products for the poor, relative to their expected financial return, means that the market is unlikely to change quickly on its own." It also means that many mainstream financial institutions adopt policies that are meant to discourage low-income clients, such as minimum balances, high fees for late payments, and high interest rates

But, there are other risks that financial services may falsely perceive. As noted earlier, there is some evidence that credit scores may bias against "high risk" borrowers. And, there is also evidence that mainstream banks could profitably compete with many alternative financial institutions by developing less expensive alternatives. As Barr notes in the same brief, "one such alternative might be bank overdraft protection. Although current disclosures are inadequate and costs are high…overdraft policies could be provided at lower cost than payday [short-term in Pennsylvania] loans because there is no need for face-to-face interaction." Automatically perceiving higher risks, in other words, delimits the range of low cost financial services offered to low-wage families.

A second cause of higher financial service prices is *weak regulation and enforcement* of existing regulations. Besides the shortcoming in Pennsylvania's regulation of short-term lenders discussed earlier, the state cannot afford to independently monitor each of the financial establishments in the states. For instance, in 2003 the Banking Secretary issued a reminder to check cashers that their fees must be clearly posted for customers to see, but two of the three establishments we randomly

Alternative credit establishments like check-cashers are much more likely to be located in low- and moderate-income neighborhoods than higher-income neighborhoods



Source: Authors' analysis of 2001 County Business Patterns Data from the Department of Commerce

Notes: Neighborhood income is measured as the median income in the ZIP code that the credit establishment is located. Alternative credit intermediation establishments include check cashing services, loan servicing, money order issue services, and travelers check issuance services, as defined by the NAICS. There are no neighborhoods in Philadelphia with a median income greater than $90,000. The Philadelphia area includes Bucks, Chester, Delaware, Montgomery, and Philadelphia counties.

visited did not have their fees posted.[62] This does not mean that this is the norm, but it does indicate the room that alternative financial services currently have in the state to sell services. Paying for a daily compliance check-up of each establishment is well beyond the means of the state.

This difficulty with enforcement is exacerbated by the concentration of alternative financial services in Philadelphia's low-income neighborhoods, which increases the likelihood that families in these neighborhoods will be the target of abusive market practices. Over 42 percent of check cashing services, loan servicing institutions, money order issuance services, and travelers' check issuance services in the Pennsylvania area are located in neighborhoods where the median income is less than $30,000.[63] And, nearly three of every four of these establishments are located in neighborhoods with a median income less than $45,000.

This is partly due to the high concentration of the area's population in these low-income neighborhoods. But, it also has to do with the targeting of these neighborhoods by alternative financial services. Even after we control for the dispersion of the population by analyzing the mean number of establishments among different neighborhoods, it is clear that low-wage families have much more convenient access to higher-priced financial services than households with higher-incomes. For instance, Philadelphia neighborhoods with a median income of less than $30,000 have an average of five alternative credit establishments to buy financial services from in each neighborhood.[64] In contrast, neighborhoods in the Philadelphia area with a median income of more than $75,000 average just one of these establishments. Clearly, low-wage families are targeted by these companies, making them much more likely to pay higher prices for financial services than higher-income households.

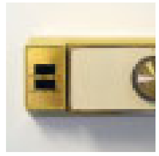
A third cause of higher financial services is *lack of education and information* among low-wage families about how to manage finances, which raises their demand for alternative financial services. Financial education classes used to be standard components of home economics classes in public schools, which provided broad access to the basic tools of personal finance management. But, the home economics course is no longer a standard offering in the public school curriculum, and most schools have dropped this course altogether.[65] This puts any household that depended on this education at risk. And, this risk is much higher for low-wage families since their margin of error is much smaller. Without the education to make informed choices about financial services, low-wage families may be less able to discern a fair price from one that is inflated. This makes low-income working families more likely to fall victim to abusive market practices than higher-income families.■

THE COSTS OF USING UTILITIES

ESTABLISHING SERVICE: Current state regulations make low-income families more likely to pay a security deposit and a higher security deposit than higher-income households.

Although the state does not collect data on the demographics of all the people that are charged a security deposit or on the amount charged to different households, nearly all of the criteria the state uses to determine the need for, and amount of, a security deposit describe characteristics of low-wage families.[66] In particular, utility companies are currently allowed by the state to determine the necessity and amount of a hook-up charge if: a) the applicant does not own the property where service will be provided, b) the applicant has had service within the last 24 months and missed a payment, or c) has no prior credit history. These criteria make low-income families much more likely to pay a security deposit and a higher amount of money for the deposit than higher-income households, since low-income households are more likely to rent and miss bill payments than higher-income households.

At current Philadelphia Gas Works rates, which supplies gas to over 80 percent of Philadelphia's households, a typical household would be charged $283 for a security deposit.[67] The amount of the deposit assessed by either gas or electric utilities cannot exceed the estimated bill for two billing periods, and four billing periods for water and sewer.[68] Although the deposit is refunded when the household cancels service, it is money that households would have otherwise been able to spend. It also may increase the demand among these households for higher-priced short-term loan products, since it takes money that could be invested in savings out of family budgets. ■



THE COSTS OF USING UTILITIES

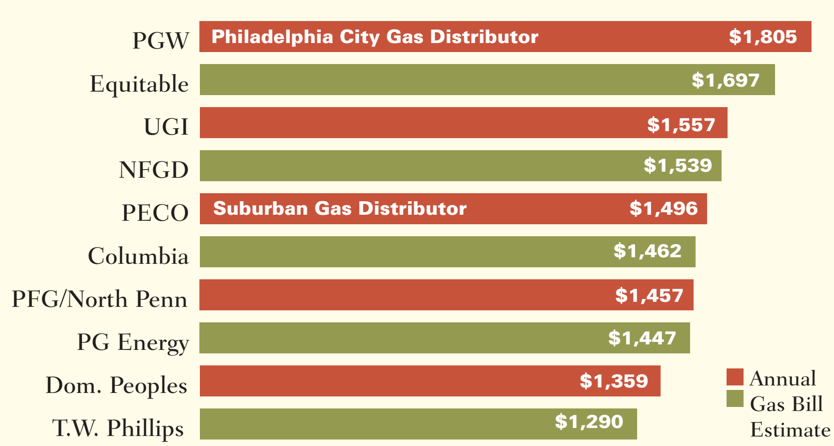
GAS PRICES: Philadelphia's households, a high share of whom are working class, pay approximately $300 more per year for gas than households in the surrounding Pennsylvania suburbs.

A majority of low-wage families in the Philadelphia metropolitan area pay hundreds of dollars more than households with higher-incomes to use gas to heat their homes, cook food, and warm up water. This is because a large proportion of low-wage families live in the city of Philadelphia, where gas rates are much higher than in the surrounding Pennsylvania suburbs.

Take the most recent rates approved by the Pennsylvania Public Utility Commission. For a typical household that consumes 10 million cubic feet of gas every month, Philadelphia's gas company, Philadelphia Gas Works (PGW), would charge approximately $1,805 every year to that household. Alternatively, the company that supplies gas to most of the Pennsylvania counties that surround the city would charge about $309 less every year, or about $1,496 for the same amount of gas.[69]

While this is a higher price for all households in the city of Philadelphia, the low-wage households in the Pennsylvania side of

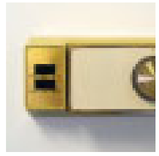
Philadelphia's gas company charges the highest overall prices in the state.



Notes: Based on the same 10 MCF monthly consumption. September/October 2004 approved rates.
Source: Authors' analysis of rate information published by the Pennsylvania Public Utility Commission.

the metropolitan area are clustered in the city. Of the approximately 391,000 households that earn less than $17,550 in this area, or less than 75 percent of all households, over 65 percent live in the city. In contrast, only about 20 percent of all households that earn more than 75 percent of all households in the area live in the city. This means that low-wage families in the metro area that use gas in their homes are much more likely than higher-income households to pay higher rates.

And, this is not a small proportion of households in Philadelphia. More than 80 percent of all households in the metropolitan area use gas in their homes. And, more than 55 percent of households in the city that earn less than 75 percent of the other households in the Pennsylvania side of the metro area use gas in their homes.[70] Although gas is generally less expensive than electricity, the other major source of energy in the metropolitan area, most households do not have a choice about their energy source. For low-wage families, this means that they often pay higher rates for gas than the higher-income households.[71] ■



THE COSTS OF USING UTILITIES
WHAT CAUSES HIGHER UTILITY PRICES?

Low-income working families in Philadelphia often pay higher utility prices than higher income households in the area for a number of reasons.[72]

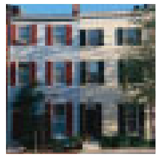
First, utility companies face *higher risks* when they sell goods and services to low-wage families, which they rationally pass onto these consumers through higher prices. Again, some of these higher risks are real, others are falsely perceived due to limitations of risk measurement.

Utility companies do face real higher risks by selling services to low-income households because these households are more likely than other households to fall behind payments. Utility companies respond to these higher risks by charging security deposits, since this serves as a down payment against any future unpaid bills.

But, these higher risks are also automatically perceived by companies because of the way that risk is currently measured. Since utility companies cannot perfectly predict which households or businesses will become delinquent, they use proxies, like home ownership and credit scores, to predict the probability of nonpayment. These current measures nearly guarantee that a low-income household will pay a security deposit, since they are much more likely than other households to rent and have low credit scores. But, households at all levels of income, and even businesses, do not pay their bills in Philadelphia. In fact, over 50 percent of Philadelphia Gas Works' customers regularly do not pay their bills. This means that low-income customers in Philadelphia can end up subsidizing all late- or non-payers in the city, even though many of these households may not actually represent a real higher risk to utility companies.

A second cause of these higher prices in Philadelphia is the *public monopoly* over the distribution of gas in the city. As a public utility, PGW has found it very difficult to suspend gas service for non-payment, leading a near majority of its customers to not pay their bills regularly. This means that PGW has unique budget pressure to raise rates to make up for lost revenue compared to the private companies that distribute gas in the suburban counties.[73] Although the city is currently taking steps to reduce delinquency rates, years of mismanagement let this problem go unresolved, contributing to the utility's over $1 billion in debt. This means that rates must be increased to cover growing interest costs at the same time that management must raise rates to cover lost revenue from delinquent accounts.

To complicate matters further, the high concentration of low-wage families in Philadelphia means that the low-income support programs mandated by the Pennsylvania Public Utility Commission are more expensive for PGW than other utilities. At the same time, funding for the federal Low-Income Home Energy Assistance Program (LIHEAP) has not kept pace with the rising burden of energy costs for low-wage families. This program provides three types of payments. The first type provides payments to energy suppliers to pay for residential heating costs; the second type provides cash-grants in energy crises, or instances when a household's utility service has been terminated or is under consideration for termination; and the third type is investments in weatherization. Up to 15 percent of federal LIHEAP money sent to a state can be invested in this third funding stream. But, LIHEAP money was only distributed to about 300,000 households in Pennsylvania out of about 600,000 eligible households in 2003, which means that many low-income families are not able to pay their bills. This drives up the delinquency rates throughout the state, leading to higher prices. ■



THE COSTS TO PURCHASE AND MAINTAIN A HOME

HOME LOANS: Low-income households can pay hundreds, even thousands, of dollars more for the same mortgage taken-out by a high-income household.

Most low-income working families who have a mortgage pay hundreds of dollars more every year for it than higher-income households who borrow the same amount of money. This higher cost is due to the higher interest rates and fees that are charged to low-wage families.

Although the mortgage data on Philadelphia households is sparse, there is national lending data on consumer behavior. We use these data to make inferences about the prices charged for loans among different households in Philadelphia. In particular, all households were rank-ordered by their annual income, and then divided into income groups in increments of $10,000. This means that the lowest-income group earned between $0 and $9,999, the next earns between $10,000 and $19,999, and so on. We then looked at the range of rates in each of these income groups.

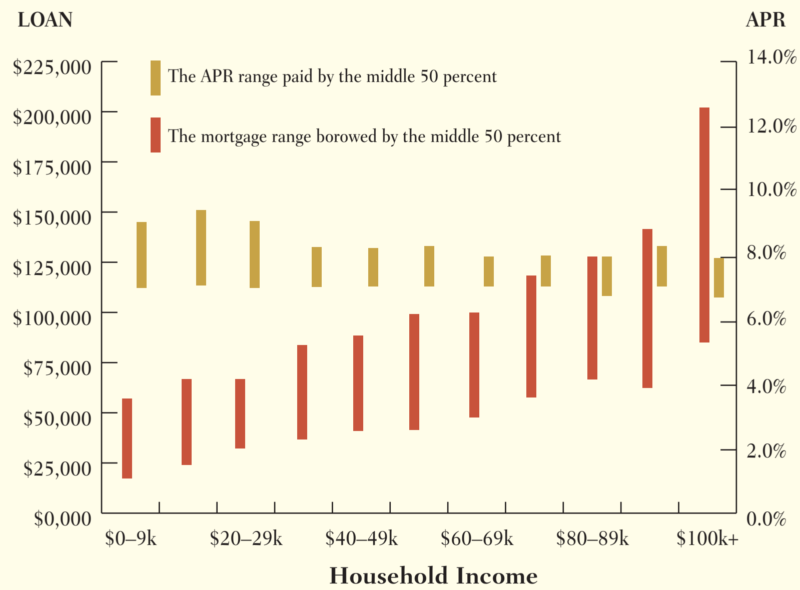
In fact, there are a host of mortgage-related fees which can add up to even more money for low-wage families over time.

The average rate of interest charged for a mortgage to households earning less than $30,000 every year—about 55 percent of all households in Philadelphia—is approximately 8.10 percent. In contrast, households earning more than $70,000 every year—about 14 percent of all households in the city—pay an average rate of 7.95 percent. Although this difference adds up over time to a significant amount of money, the major differences across income groups occurs on either side of the central tendency. Over 52 percent of households that earn less than $30,000 a year pay a higher interest rate than the average rate charged to all households—about 8 percent. In contrast, about 32 percent of households earning more than $70,000 pay an above-average interest rate.

To get a sense of how quickly these higher interest rates charged to low-wage families add up, we compared the total interest paid for a $50,000 home loan and a $100,000 loan across a range of possible interest rates. A 9.39 percent interest rate—the lowest rate charged to nearly 18 out of every 100 households earning less than $30,000 and about five out of every 100 households earning more than $70,000—adds up to nearly $100,000 in interest over the course of a 30-year loan for $50,000. In contrast, a 5.56 percent interest rate—the highest interest rate charged to about four out of every 100 households that earn less than $30,000 and one of every 100 households earning more than $70,000—on the same loan amount adds up to just over $50,000 in interest payments.[74] Since the median mortgage among households earning less than $30,000 is just over $50,000, this means that low-wage families can pay tens of thousands of dollars more in interest payments than a higher-income household.[75]

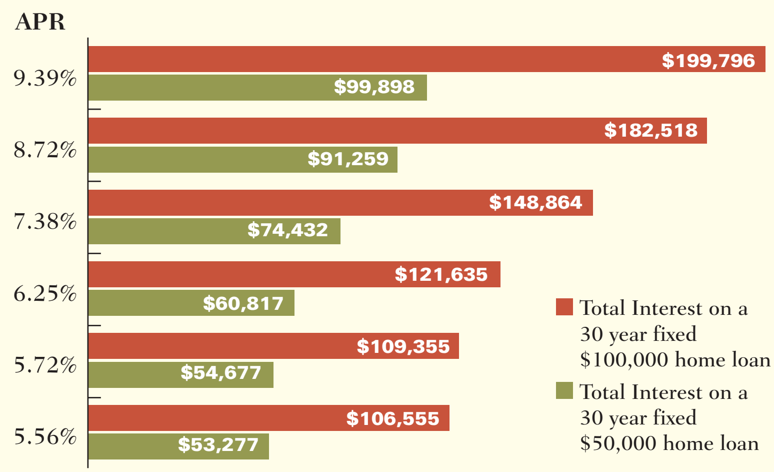
However, research indicates that interest rates are not the only source of higher mortgage-related prices for low-wage families. In fact, there are a host of mortgage-related fees which can add up to even more money for low-wage families over time. These include points charged to a total loan amount, prepayment penalties, yield-spread premiums, mandatory arbitration clauses which can lead to additional costs, and refinanced loans that have assigned fees.[76] The likelihood of being charged these fees is strongly related to the demographic characteristics of the borrower. For instance, black borrowers and borrowers with low credit scores are much more likely to be charged prepayment penalties than other borrowers.[77] This evidence means that low-wage families pay higher interest rates and are more likely to be charged additional mortgage-related fees than households with higher-incomes. ■

Low-income working families borrow less money and pay higher interest rates for home loans than higher-income households



Source: Federal Reserve, 2001 Survey of Consumer Finances.
Note: Total loan amount is the total amount originally borrowed on any outstanding home loan for any household with a home loan; APR is the average annual percentage rate paid on any home loans in the household.

Higher interest rates for mortgages quickly adds up to significantly higher interest payments for low-income working families



Source: MyFico
Note: Based on an average among financial lending institutions in the Philadelphia market in October 2001.

THE COSTS TO PURCHASE AND MAINTAIN A HOME

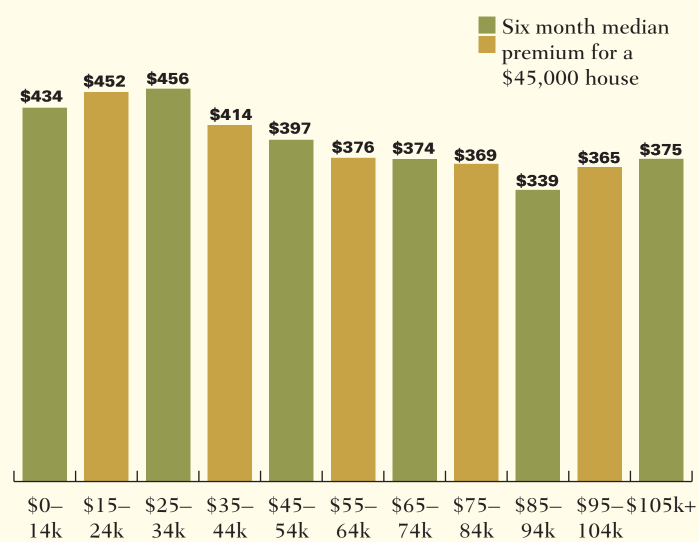
HOME INSURANCE: Families in Philadelphia's low-income neighborhoods pay relatively higher homeowners' insurance.

The Pennsylvania Department of Insurance does not collect data on the prices charged for insurance to every homeowner in the state. It also does not provide information that would allow independent analyses of the methods used by each of the companies licensed in the state to determine rates. But, we can use prices from Allstate Insurance Company, one of the least expensive insurance companies in the state, to make inferences about what these costs are for different households. In particular, we obtained online quotes from Allstate to insure a $45,000 home in every ZIP code in the five counties that make up the Pennsylvania portion of the metropolitan area. The only variable that varied in these quotes was the median income in each ZIP code.[78]

To interpret these data we sorted all of the neighborhoods into increments of $15,000. This means that the lowest income group earns between $0 and $14,999, the next earns between $15,000 and $29,999, and so on. The evidence indicates that the average price charged in each of these neighborhood income groups is dependent on the median income earned in that neighborhood. In particular, households living in a neighborhood with a median income between $0 and $14,999 are charged an average price of $434 every six months to insure a $45,000 home and households living in a neighborhood with median income between $15,000 and $29,999 are charged an average price of $452 every six months. In contrast, the average price charged in neighborhoods with a median income more than $30,000 was between $339 and $414 every six months to insure an equally-valued home.[79]

These data suggest that low-income homeowners are charged higher prices for insurance than higher-income households. But, the true value of the higher price low- and moderate-income households pay for home insurance could be much higher than these data suggest. This home insurance quote had to be estimated with the assumption that the homeowner had a perfect credit score, a score that is strongly related to household income. It also had to be estimated with data from one of the least expensive companies that sell insurance in Pennsylvania.[80] And, the rates of 18 of the other 19 major companies that are authorized to sell insurance in the state are much higher than Allstate. In fact, data published by the Pennsylvania Department of Insurance indicate that a one-year

Low-income working families in Philadelphia pay higher home insurance rates than higher-income households

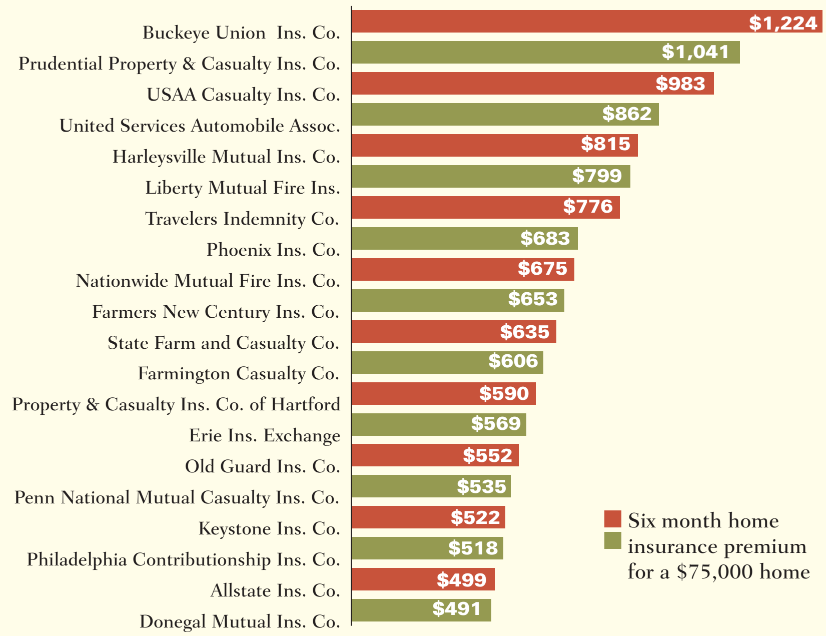


Source: Authors' analysis of Allstate quotes collected in 2004.
Note: Quotes are six month premiums for a $45,000 house in 164 ZIP codes in the Philadelphia area from Allstate, one of the least expensive home insurers in the state according to data published by the Pennsylvania Department of Insurance. Neighborhood income is the median income in each ZIP code.

home insurance policy in Philadelphia for an owner of a $75,000 home varies between Allstate Insurance Company and Donegal Mutual Insurance Company, which charge under $500 every six months, to Buckeye Union Insurance Company and Prudential Property and Casualty Insurance Company, which charge over $1,000 for the exact same policy.[81]

There is no data collected by the Department of Insurance that indicates which types of consumers buy insurance from these different companies, so it is impossible to know if low-wage families in Philadelphia also pay more for insurance because they are targeted by more expensive companies. But, low-income households do have less access to information-gathering resources, like the Internet, which may make them less able to shop around for a better insurance premium and less able to detect an inflated price. In any case, it is clear from what evidence does exist that low-income households pay more to insure their homes than households with higher-income households. ■

Six month home insurance premiums for the same house in Philadelphia vary by over $700 among companies



Source: Pennsylvania Department of Insurance

Notes: The Pennsylvania Department of Insurance annually releases approved rates for each company for every county in Pennsylvania. The average rate was used in cases where companies report two different rates for the same house. Data are from 2004.

THE COSTS TO PURCHASE AND MAINTAIN A HOME

HOME APPLIANCES AND FURNISHING: A survey of Philadelphia's rent-to-own stores, which are used by predominately low-income households, found that the rental price of an appliance was marked-up by 90 percent over the purchase price.

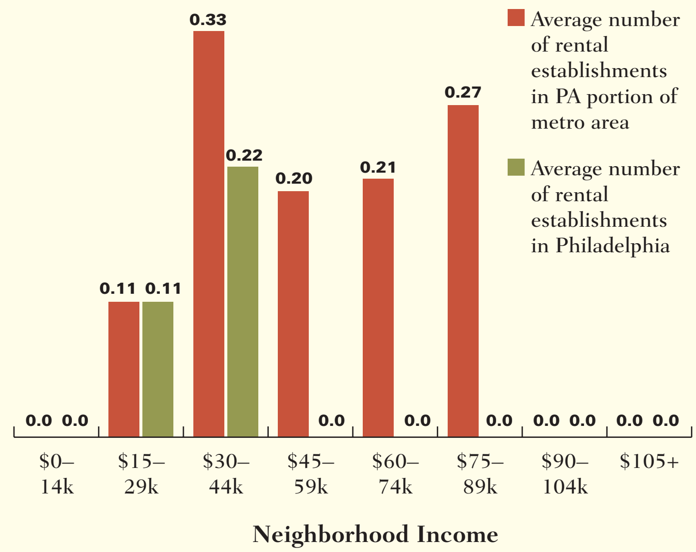
Low-wage families in Philadelphia can pay hundreds of dollars more for the same piece of furniture or appliance bought by a higher-income household. This is because low-income working families are much more likely to use rent-to-own stores than higher-income households. These stores generally charge higher interest rates for loans than other sources of credit, such as credit cards or home equity loans, and can also charge higher fees than these other sources of credit.[82]

Although there is no information on the customers of rent-to-own stores in Philadelphia, the Federal Trade Commission (FTC) recently drew a national sample of 12,000 households to analyze their use of rent-to-own stores. According to these data, 59 percent of the customers of rent-to-own stores earned less than $25,000 and nearly 90 percent earned less than $50,000 every year.[83] This means that nearly all of the customers of rent-to-own stores, or nearly all of the customers that pay these higher prices for furniture and appliances, have a low- or moderate-income.

This national information about customers of rent-to-own stores is reflected in Philadelphia by the location of these stores through out the area.[84] Although only 2 of the 35 rental stores in this area are located in neighborhoods with a median income less than $30,000, just 11 percent of these stores are located in neighborhoods with a median income more than $75,000. This means that nearly all of the rental establishments in the area are clustered in moderate-income neighborhoods.

Although it is impossible to know how this dispersion of rental establishments is reflected in consumer behavior, we do know that the national FTC sample suggests nearly all of the customers of rent-to-own establishments are low- or moderate-income. We can also estimate the higher costs that using these services could add up to in Philadelphia. In particular, we selected a handful of household items and received quotes from a rent-to-own business with 11 establishments in the Philadelphia metropolitan area. We found that the average price of an item increased by 90 percent if the item was not purchased up-front, and was instead financed with the recommended rent-to-own installment plan. These higher prices may be charged to the majority of rent-to-own customers in Philadelphia, since nearly 70 percent of rent-to-own customers reported in the FTC survey that they intend to own the item they are renting.[85] Besides this mark-up, low-income households are also frequently extended too much credit at rent-to-own stores, which adds extra fees to renting-to-own these items. In the FTC sample, for instance, more than 46 percent reported that they had missed payments. ■

Rental establishments like rent-to-own stores are concentrated in low- and moderate-income neighborhoods in Philadelphia



Source: Authors' analysis of 2002 County Business Patterns data from the Department of Commerce.
Notes: Neighborhood Income is measured as the median income in the ZIP code that the rental establishment is located.

THE COSTS TO PURCHASE AND MAINTAIN A HOME

REAL ESTATE TAXES: Homes in Philadelphia's low-income neighborhoods are much more likely than homes in high-income neighborhoods to be assessed at values higher than their worth.

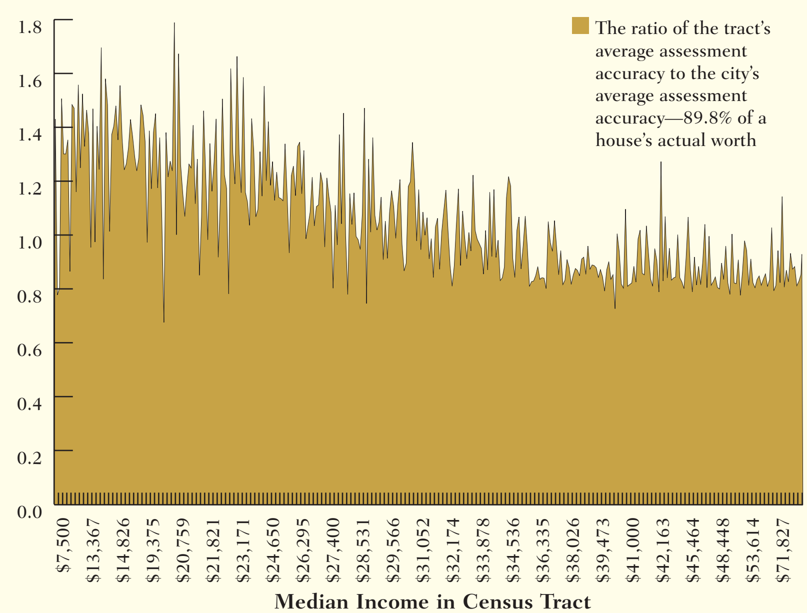
Low- and moderate-income households in Philadelphia pay taxes on a higher portion of their house's worth than higher-income households. This is because the accuracy of assessed home values is systematically related to neighborhood income in Philadelphia.

In particular, houses in Philadelphia's low- and moderate-income neighborhoods are much more likely to be assessed at higher values than their actual value; and houses in higher-income neighborhoods tend to be assessed at lower values than they are worth. This means that real estate taxes, which on paper look to be a constant percentage of a house's worth, are regressive in Philadelphia, since low-income homeowners pay a higher realized tax rate than higher-income households.

This is illustrated by comparing the assessment error in every neighborhood in Philadelphia with the average error across the entire city. Using data collected for the Philadelphia Tax Reform Commission, we start by calculating the average accuracy of an assessment in the city, which is 89.9 percent of a house's worth.[86] This means that the average homeowner in Philadelphia is taxed on 89.8 percent of their house's actual worth. We then take the average accuracy of an assessment in each of the city's census tracts, and divide each of these into the average assessed value in the city. This means that neighborhoods with a ratio greater than one are paying, on average, a higher share of their house's worth in real estate taxes than the average homeowner in the city. Neighborhoods with a ratio below one are paying, on average, a lower share of their house's worth in real estate taxes than the average homeowner.

These data indicate that homeowners in low- and moderate-income neighborhoods in North and West Philadelphia tend to pay a much larger share of their house's actual worth in taxes every year than higher-income households in the lower and upper Northeast neighborhoods of Philadelphia. The average neighborhoods where the median income is less than $30,000 have an error rate that is 35 percent higher than the city average. In contrast, houses in neighborhoods with a median income higher than $70,000 have an error rate that is about 3 percent lower than the city average. This means that low- and moderate-income households are actually subsidizing the city services consumed by higher income households on a percentage basis, because these households are paying higher realized real estate tax rates than higher-income households. ■

Low-income working families in Philadelphia pay more of their house's worth in real estate taxes than higher-income households



Source: Authors' analysis of data obtained from the Philadelphia Tax Reform Commission and the 2000 Census

Note: The Pearson product moment correlation between tract median income and the assessment accuracy ratio shown in this figure is -.52. Data are from 359 Census tracts in the city of Philadelphia.

THE HIGHER PRICES CHARGED TO LOW-WAGE FAMILIES

WHAT CAUSES HIGHER PRICES RELATED TO HOUSING?

Although home values are generally lower in low-income neighborhoods than in higher income neighborhoods, nearly everything else related to a home is more expensive for the households that live in low-income neighborhoods. There are a number of reasons why this is the case.

First, businesses rationally react to the *higher risks* they face when they sell housing-related goods and services to low-income households by raising prices for these consumers. Some of these higher risks are real; suppliers of housing related goods and services perceive others.

For instance, default rates on loans tend to be higher among low-income households than other households. This drives up the cost of selling goods and services to these households, which is passed on to low-income consumers through higher prices

But, in other cases, these higher risks are perceived. For instance there is some evidence that the use of credit scores has expanded lending institutions capacity to extend credit to previously under-served households. But, there is other evidence that indicates that the use of credit scores can harm households with low credit scores.[87] This is because of numerous data quality issues that affect the accuracy of credit scores, which can drive up the prices that businesses charge to "high risk" households. This is clearly a field that is still developing, but the evidence that has been marshaled does suggest that improved estimation of credit scores would lower prices for households that are currently rated as "high risk." In fact, the Michigan Insurance Commissioner recently banned the use of credit scores in estimations of insurance premiums due to concerns about the error rate in risk assessments caused by credit scores.

…evidence that has been marshaled does suggest that improved estimation of credit scores would lower prices for households that are currently rated as 'high risk.'

A second cause of higher home related prices for low-wage families is the *lack of information* many of these households have about the markets that sell housing related goods and services. This information disparity makes low-income working families more susceptible to overpriced goods and services than higher-income households. It also makes them less able to shop around the market in Philadelphia for the lowest possible price. For instance, the Internet now contains numerous websites that are designed to save households money on insurance, loans, furniture, and appliances. But many low-income families are not able to take advantage of these cost-savings, since low-income households have less access to the Internet than higher-income households.[88] Lack of information goes beyond the Internet, though. Public school curriculums used to provide a free financial education to children. And, many banks also used to regularly sponsor financial education classes, which inculcated money management skills. Both sources of financial education have significantly diminished over time.[89] For families that relied on these free financial education resources, they now are at a disadvantage in the market when they shop for goods and services.

A third cause of higher home-related prices is *weak regulation and enforcement.*

The rent-to-own industry, for instance, is regulated by a piecemeal collection of mandates which leaves the market vulnerable to predatory behavior. As one sign of this, rent-to-own establishments are not required by Pennsylvania law to disclose the total cost of a purchase, even though over 70 percent of rent-to-own customers intend to buy the item they have rented.[90] Although this information is available upon request, the absence of this information along with the high profile weekly installment prices makes customers less able to assess the true value of their purchase.[91] Similarly, loans and insurance are sold without representation of the marketplace of prices. In fact, only one insurance company—Progressive Insurance—that sells insurance in Pennsylvania will give consumers the rates charged by any of their competitors. The effects of these market conditions are that any household without access to sufficient market information are more susceptible to inflated prices for goods and services.

A final cause of higher home-related prices in Philadelphia is *the public supply of goods and services.* This cause relates specifically to the higher realized tax rates that low-income households pay in Philadelphia. Although there may not be anything intrinsic to Philadelphia's city government that causes assessment error to be systematically related to neighborhood income, it is responsible for this error. It is also responsible for determining what it is about its assessment evaluation process that is causing low-income neighborhoods to pay higher realized tax rates than higher-income neighborhoods. ■

STORIES FROM TWO FAMILIES

This section has covered a wide range of everyday goods and services for which low-wage families pay higher prices than other households. What do all of these higher prices add up to for individual families in Philadelphia?

The stories of two different working families in Philadelphia (whose names have been changed to protect their identities) are illustrative.

Couple Denise and Anthony Washington have been married for fifteen years and care for five children. They've been homeowners for nearly ten years and also own two cars, so that they can get to work in the suburbs.

The Washingtons routinely try to save money by taking advantage of the informational resources they have access to. When they purchased their two cars, Denise called all of the insurance companies listed in the Yellow Pages to compare prices. When they buy clothes or consumer electronics, they routinely go online to comparative shopping sites that provide deals or on-line outlets. And, when they need to buy other basic goods and services, Denise will often look around for a sale to get the lowest possible price.

Although the Washingtons did not use similar approaches to get their mortgage and home insurance, in general they take advantage of a wide variety of market information to save money.

In contrast, married couple Debra and Rick Shoup take advantage of much less information. Rick needs a car to commute to work, so they have one car, and they've recently invested in a home. The Shoups did not shop around for their car and bought it in passing because it was "clean" and Rick "liked it." They also use a for-profit tax preparation service, usually shop at the local grocery store, and have just recently stopped using a check-casher and signed-up with a local bank.

The Shoups probably have very good reasons for using less information to save money than the Washington's. Like most low-wage families, for instance, they probably do not have home access to the Internet.

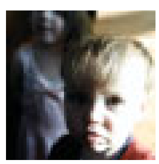
But, the different extent to which these two families use information means that the Washington's pay lower prices than the Shoups. And, this is reflected in the different ability of the families to get ahead. The Shoups say they do not "have any extra money at the end of the month" and the Washingtons are "saving for their retirement and [their] children's educations." They're also making plans to start their own business. Clearly, gaining access to market information can save families money and help them get ahead. ■

What are the effects of these higher prices in Philadelphia?

The current market that sets prices for everyday goods and services in Philadelphia is not working for the benefit of low-income working families or the city. Both are stuck in a cycle of market imperfections keeping them from getting ahead. This makes the entire city financially insecure, stifling business growth and keeping working families asset poor. It also stalls the city's effort to turn around its multi-decade decline.

This section will review the effect these higher prices have on working families and the city, showing that higher prices:

- Trap low-wage families and the city in a cycle of weak market imperfections
- Make families financially insecure
- Hinder asset investments and
- Weaken prospects for mainstream business investments in Philadelphia



THE EFFECTS OF HIGHER PRICES CHARGED TO LOW-WAGE FAMILIES

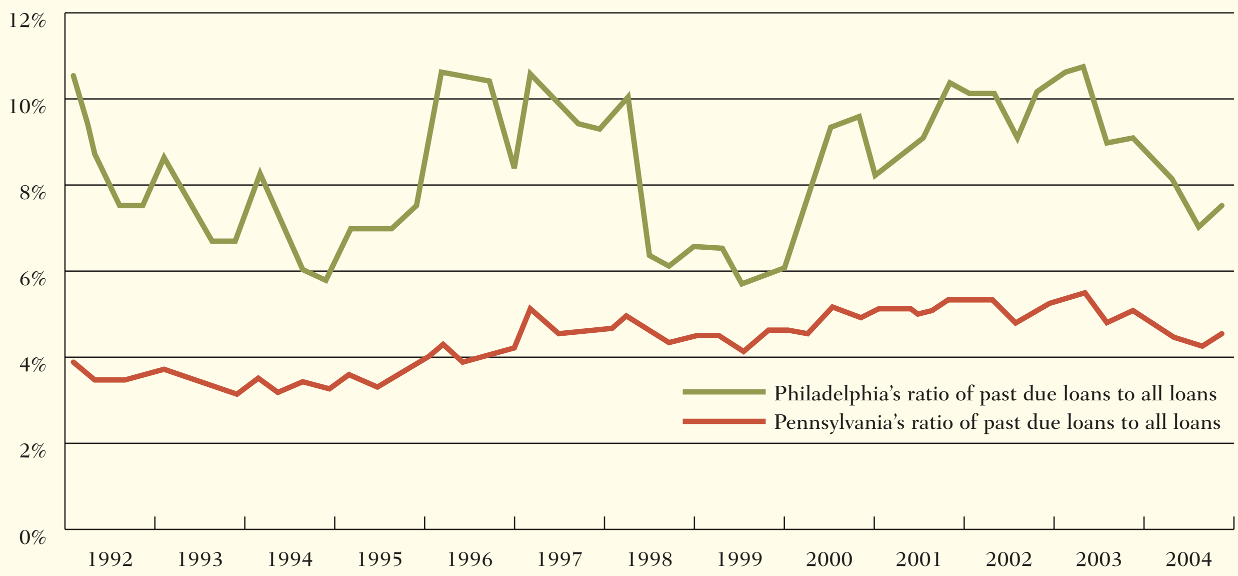
A CYCLE OF MARKET IMPERFECTIONS

The current market that sets prices for everyday goods and services in Philadelphia traps both working families and the city in a cycle of market imperfections. This cycle begins with the fact that mainstream businesses face higher risks (both real and perceived) when they sell goods and services to low-wage families, for a number of reasons we discussed in the previous section. These businesses respond to the higher risks by charging low-wage families higher prices for everyday goods and services. This creates higher prices for the consumers in the market least able to afford extra costs, which leads to financial insecurity, higher delinquency rates, and a greater likelihood of needing to turn to abusive suppliers of goods and services. And, the cycle turns full circle when these characteristics of low-wage families are factored into the pricing decisions of mainstream suppliers of goods and services.

This cycle of market imperfections holds everyone behind.

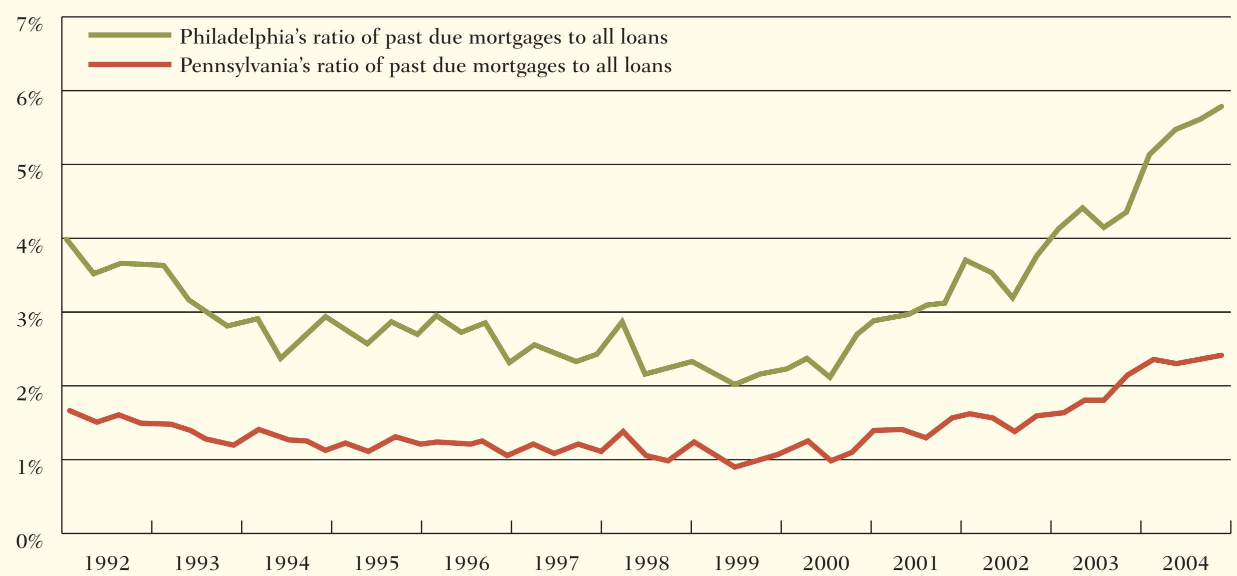
Low-wage families are drained of money to pay for investments. Mainstream businesses sacrifice profitable markets to fringe suppli-

Philadelphia households are much more likely to miss loan payments than households in the rest of the state



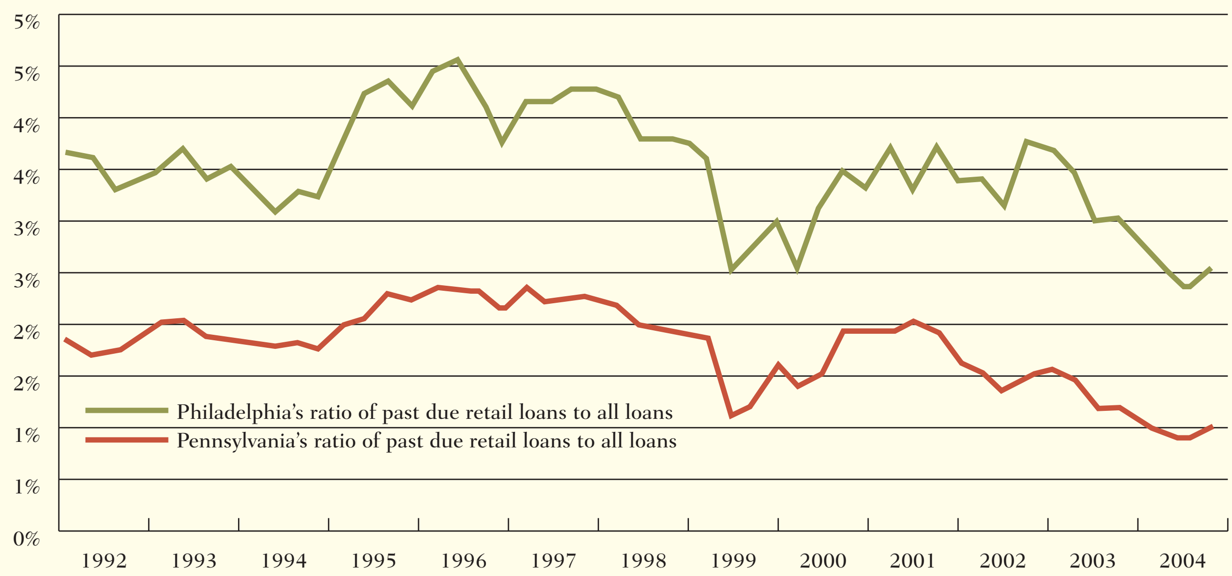
Source: Authors' analysis of data from an anonymous source.
Note: Past-due ratio is measured as the ratio of all consumer trades 60 or more days past-due to all consumer trades. Time series is in quarters.

Philadelphia households are much more likely to miss mortgage payments than households in the rest of the state



Source: Authors' analysis of data from an anonymous source.
Note: Past-due ratio is measured as the ratio of all mortgages 60 or more days past-due to all mortgages. Time series is in quarters.

Philadelphia households are much more likely to miss retail loan payments than households in the rest of the state

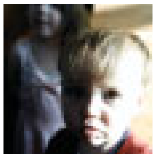


Source: Authors' analysis of data from an anonymous source.
Note: Past-due retail ratio is measured as the ratio of all retail loans 60 or more days past-due to all retail loans. Time series is in quarters.

ers of goods and services because low-wage families are trapped in a cycle of high risk. The city misses out on benefiting from claiming a dividend from healthy neighborhoods, rising property values, expanded investment by mainstream businesses, and a booming middle class. And many, or even most, households in Philadelphia end up paying higher prices because of the broad brush effect of price increases, such as auto insurance rates and utility prices.

One of the most illuminating signs of this cycle of market imperfections in Philadelphia is the soaring loan delinquency rates in the city. Compared to the rest of the state, Philadelphia has a 67 percent higher proportion of past-due loans to all loans made in the city as of the 3rd quarter in 2004. Home mortgage past-due rates were 140 percent higher in Philadelphia than the rest of the state in the same quarter. And retail loans—for furniture, appliances, and other retail goods—were 153 percent higher than the rest of the state. Philadelphia also has a past-due loan ratio that is nearly twice as high as in any of the neighboring suburban counties in Pennsylvania—Bucks, Chester, Delaware, and Montgomery.

All of this is known to the businesses that Philadelphia is trying to attract, limiting their eagerness to reinvest in Philadelphia. This cycle of market imperfections will have to be broken for families and the city to move ahead. ■



THE EFFECTS OF HIGHER PRICES CHARGED TO LOW-WAGE FAMILIES

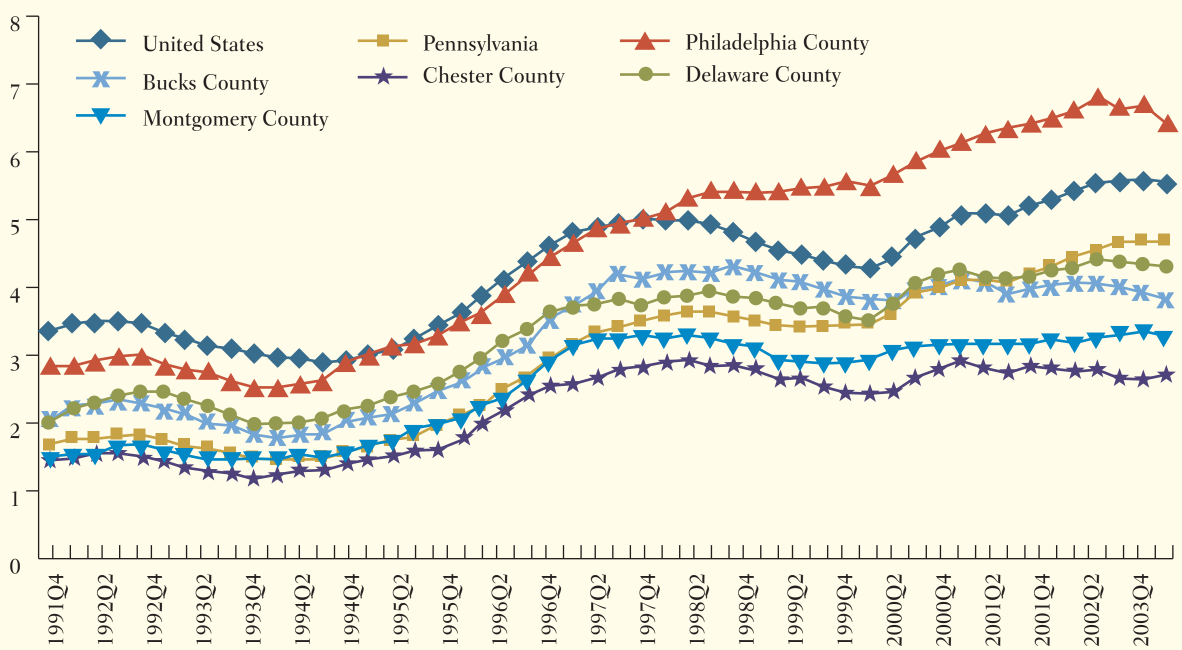
FINANCIALLY INSECURE FAMILIES

The thousands of dollars in extra costs that are annually tacked onto the everyday goods and services that low- and moderate-income households buy in Philadelphia make these families financially insecure.

For an alarming number of Philadelphians this insecurity forces them to declare bankruptcy. As of the last quarter of 2003, the quarterly bankruptcy rate in Philadelphia was 16 percent higher than the U.S. average and 45 percent higher than the rate in the surrounding Pennsylvania suburbs. This converts into about six new bankruptcy filings in this economic quarter for every 1,000 Philadelphia residents.[92]

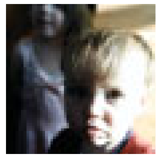
Although the official bankruptcy rate is influenced by numerous factors and includes families of all income levels, the thousands of dollars in higher costs for necessities certainly are an important factor to families not being able to make ends meet through out the metro area. And, the population of bankruptcy filers remains predominately low- and moderate-income households.[93] ■

Bankruptcy rates in Philadelphia are higher than the average filing rate in Pennsylvania and the rest of the country



Source: Loan Performance

Notes: Bankruptcy rate is number of new filings per 1,000 individuals in indicated place.



THE EFFECTS OF HIGHER PRICES CHARGED TO LOW-WAGE FAMILIES

ASSET POOR FAMILIES

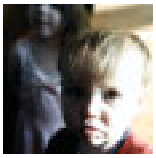
When low-income working families have to pay more to buy basic necessities than higher-income households, they are less able to make investments in the future. This holds these families back from getting ahead by acting as a roadblock to their middle class aspirations.

Consider each component of everyday living that is more expensive for low-income working families. This report has shown that low- and moderate-income households can be charged every year, for the exact same good or service bought by a higher-income household:

- $100s more to buy the same car
- $100s more to borrow the same amount of money for an auto loan
- $100s, perhaps $1000s, more to insure the same car and driver
- More to buy food in their neighborhood
- $100s more to access the same amount of money
- $100s more to obtain a short-term loan
- $100s more to establish the same type of utility service
- $100s more to use the same amount of gas to heat homes and cook meals
- $100s more to borrow the same amount of money for a home loan
- $100s more to insure the same value of a home
- $100s more buy to buy the same appliances and furniture

…only 20 percent of adults 25-years and older in the city have a college-degree, lower than nearly every other one of the largest 100 cities in America.

These systematic, higher prices for basic necessities contribute mightily to the struggles of working families in Philadelphia trying to make investments in education and struggling to buy, and then hold on to, homes. For instance, only 20 percent of adults 25-years and older in the city have a college-degree, lower than nearly every other one of the largest 100 cities in America.[94] And, the majority of homeowners in Philadelphia are at least 55 years old. This means that if Philadelphia cannot create capital for a new generation of low-wage families to invest in houses, many of these properties could eventually turn into rental properties. ■



THE EFFECTS OF HIGHER PRICES CHARGED TO LOW-WAGE FAMILIES

WEAK PROSPECTS FOR MAINSTREAM BUSINESS INVESTMENTS IN PHILADELPHIA

When households cannot invest in income-growing assets, like education and houses, or pay for nutritious food, upkeep of their homes, and maintenance of their vehicles, economies can retract. Less disposable income becomes available for local businesses, which means businesses and neighborhoods cannot grow, and potential businesses may be dissuaded from entering the market. An extra $400 charge for an auto insurance premium, for instance, means that a family forfeits their potential to spend that money on another good or service sold by a local business.

These effects are magnified by the fact that many of the businesses that charge higher prices, like insurance and financial institutions, have their headquarters located in other states. This means that an extra $400 charge for auto insurance not only reduces money spent on local goods and services, it also may primarily benefit a firm located out-of-state. But, there is no way of knowing the extent of these trade-offs. Families may very well decide to spend any extra money at the movies or on consumer electronics instead of putting it into a savings account or using the services of a local business. Similarly, the higher prices do not all support businesses which have their headquarters in other states. And, even those businesses with out-of-state headquarters support jobs and invest in real estate in Philadelphia, which can benefit local businesses.

This means that, at the very least, higher prices charged to Philadelphia's working families reduce options for local businesses. In the absence of these higher prices, families would have more choices about where and how to spend their money, creating an opportunity for local businesses. But, as long as these higher prices continue to be charged, this market opportunity will continue to be limited. ■

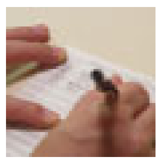
Getting the market right: improving market dynamics for low-income working families

What can state and local leaders do to lower these higher prices?

Leaders will have to work within several levels of government and across many business sectors to improve the market for working families. Broad coalitions of constituents need to be rallied, the interests of businesses need to be leveraged, and the full weight of the legislative and regulatory role of state and local government will need to be invested.

Four specific goals should drive this reform agenda:

- Reduce the risk of selling goods and services to low-wage families
- Give consumers the information they need in today's new market
- Curb market abuses through regulation
- And, in Philadelphia, lower the prices of publicly sold goods and services.



GETTING THE MARKET RIGHT

GOAL 1: Reduce the risk of selling goods and services to low-wage families

Low-wage families in Philadelphia pay higher prices for basic necessities, in part, because of the higher risk that businesses face when they sell goods and services to these households. This has something to do with their higher actual risk, indicated by any range of items, such as a higher delinquency rate. But, it also has something to do with the way that risk is measured, such as the use of ZIP codes by insurance companies to calculate insurance rates or the use of credit scores to predict the likelihood of delinquency. In either case, state and local government have numerous opportunities to lower the risk that businesses face when they sell goods and services to low-wage families. In turn, prices for goods and services sold to low-income families will drop. To bring about these lower prices, state and local leaders need to make changes in the market.

Leaders will have to address the behavior of low-wage consumers that are buying goods and services, the businesses selling to them, and their neighborhoods. There is not one person or group, in other words, to single out for changes. In addition, leaders will have to adopt both short and long term perspectives. While some reforms should engender rapid deductions in the prices charged to low-wage families, others will require sustained investment and attention. Together, these reforms can create powerful changes in the marketplace that will give low-wage families access to much less expensive goods and services.

• The city needs to renew and expand investments in financial literacy. Organizations outside of government and the city government have made numerous investments in financial literacy to pick up where public schools left off. Among other items, this included a one-time city investment in financial literacy training for housing counselors and the establishment of a hotline that prospective mortgage borrowers can call to receive financial advice.

But, more investments are needed. While these initiatives by organizations in Philadelphia and city government reach some of the people who once would have relied on a course in a public school to learn financial management skills, this is certainly not equal to a guaranteed financial education in a public school. This opportunity inculcates lessons that can be used to make a lifetime of wise financial decisions. It is also a guaranteed opportunity for financial education for any student that attends public schools. Also, the city should establish an Office of Financial Education that parallels the recently created state office, which will coordinate the extant financial literacy training available in the city; promote additional funding for financial literacy classes; work to expand the scope and quality of the training provided in the city; and coordinate with the state office.

FROM PURSES TO PORTFOLIOS

The Delaware Treasury Department, the Delaware Money School, and Citigroup recently teamed up to offer a free one-day financial education conference to women in Delaware. This conference kicked off the Delaware Money School's 350 free financial educations classes that it provides through out the year, which have in the past attracted over 10,000 participants.

The courses are instructed by financial professionals who have volunteered to teach classes on subjects that include money management and debt reduction, investing, and retirement planning, among other topics. At the completion of 10 hours, participants receive a certificate that certifies that they have received a financial education.

In addition to the classes, the Delaware Money School also provides free financial education speakers to visit workplaces and community organization meetings.

For more information visit the website of the Delaware Money School at http://www.delawaremoneyschool.com

• The city should pay for a market study of the true market demand in its neighborhoods. Part of the higher risk of selling goods and services to low-wage families is caused by the lack of real market information—or the presence of misinformation—about market activity and assets in lower income neighborhoods. As Robert Weissbourd noted in a recent Brookings Institution article, "While business intelligence on middle- and upper-income consumers abounds, identifying the assets and special market dynamics of low-income communities has not been a focus of traditional business market analysis." This means that many low- and moderate-income communities go underserved by mainstream suppliers of basic necessities that charge lower prices and that there is less competition in these neighborhoods to drive down the prices for necessities. Weak market data also means mainstream suppliers of basic necessities are not capitalizing on a robust market for their goods and services.

For these reasons, the city needs to reduce the higher risk businesses perceive in these neighborhoods by investing in a study that analyzes the market demand in its neighborhoods. These results should then be leveraged to market neighborhoods to prospective businesses using the Philadelphia Department of Commerce's Urban Industry Initiative as a model. This initiative acts to promote industrial development in the city by providing a number of time and money-saving services to existing and potential industry businesses, including assistance with recruiting, networking, finding development resources, and addressing neighborhood development. It has set a precedent for working with businesses and promoting their development which city leaders should use to take full advantage of a market research report.

• New capital needs to be leveraged to reduce the costs of doing business in underserved neighborhoods. In cases where the higher risks of doing business are real, the state and city should subsidize these higher costs for businesses. One of the largest existing sources of capital is the First Industries program, a $150 million program to support Pennsylvania's agriculture and tourism industries that passed in spring 2004. In this program, supermarkets—which have been defined as retail stores that primarily sell groceries, excluding convenience stores—and farmers markets are eligible for up to $10 million in planning grants and up to $90 million in loans and loan guarantees. Nonprofits and individuals can also apply for funding within the program guidelines.

Another major source of new funding in the state is the Fresh Food Financing Initiative, which Philadelphia State Rep. Dwight Evans fought to include in the state's recently passed economic stimulus package. Created in partnership with The Food Trust and the Greater Philadelphia Urban Affairs Coalition (GPUAC), this initiative awarded Philadelphia-based The Reinvestment Fund $10 million to increase the number of supermarkets in underserved neighborhoods.

But, more capital is also needed for large grocery store development. City government should use all of the typical tools of economic development to attract major grocery stores, including tax increment financing, small business loans, and political leadership. Mayoral leadership was critical, for instance, in the success of supermarket development projects in Dallas, TX, where a study showed a paucity of supermarkets in predominantly low-income South Dallas. The city negotiated a comprehensive package of financial incentives with Houston-based Fiesta Mart and asked the store to develop a minimum of five sites. The first, a 45,000 square foot store in a low-income neighborhood, has shown that there was a profitable market missed by typical market demand studies.[95]

Organizations outside of government can grow capital for grocery stores by providing potential grocery stores with information on community demographics, conduct focus groups, and help supermarkets establish a positive presence in the community. The CEO of First National, a leading supermarket chain, remarked that, "Cultivating close ties to community groups is the place to start (to create) trust that dispels the view that outside chains come in to take advantage." The trust between a supermarket and the community may result in loyal customers.

Organizations outside of government should also directly fund new

ETI'S PURCHASING POWER PROFILES

Using data from the Consumer Expenditure Survey and state revenue data, the University of Wisconsin-Milwaukee Employment and Training Institute (ETI) has recently published estimates of market demand in every ZIP code and the 100 largest metropolitan areas in the United States.

The "ETI Purchasing Power Profiles" provide estimates of expenditures by neighborhood for 16 categories of expenditures, including food at home; food away from home; apparel and related services; television equipment, tapes and discs; audio equipment, CDs, and tapes; household textiles; furniture; floor coverings; major appliances; small appliances and housewares; computer hardware and software; miscellaneous household equipment; non-prescription drugs and supplies; housekeeping supplies; personal products; and home repair commodities.

The profiles are used by cities and developers to estimate neighborhood market demand, particularly in low- and moderate-income neighborhoods that often have their market demand underestimated by traditional evaluative methods.

For more information please visit the website of the Employment and Training Institute at: http://www.uwm.edu/Dept/ETI

grocery store development. Foundations such as the William Penn Foundation, the Pew Charitable Trust, and the Wilmington Trust have all contributed resources toward the development of new urban stores. In the 1990s, the Local Initiative Support Corporation's The Retail Initiative and Fannie Mae's American Communities Fund focused on closing the financing gap and returning retail to cities. Some CDCs, for instance, notably the Bed-Stuy Restoration Corporation in New York and the New Community Development Corporation in Newark, New Jersey, have taken on lead roles as the owners of the retail facility in which new supermarkets locate.

• State and city government need to commission research on methods that are used by companies to measure risk. This report has documented instances in which companies may be unduly assigning higher risk to low-wage families because of the current methods that are used to measure risk.

One example of this is the way that insurance companies determine automobile premiums. Low-income households may be charged higher premiums because insurance companies incorporate ZIP code measures of accident and filing rates. This means that many low-wage neighborhoods in Philadelphia that are clustered around high-density commuting roads may end up paying higher premiums because of the higher accident rate caused by commuters, not their neighbors. Insurance companies have a choice here about how they measure risk. By using ZIP code information, they are unduly passing that higher risk onto every driver in that ZIP code. Alternatively, the companies could ask more information about the particular driver, such as the roads they use to commute to and from work, which would allow them to pass that higher risk directly to the drivers that are causing the higher accident rates.

Similarly, credit scores are a widely used measure of risk, but there is mounting evidence that suggests the error in these scores harms low-wage families.[96] As a response to this error, the Michigan Insurance Commissioner recently banned their use by insurance companies licensed to sell insurance in the state.

Both of these examples indicate that state and local government should make investments in studying how risk is being measured by companies. Both businesses and low-wage families stand to benefit immensely from more accurate measures of risk.

• The city should reduce real neighborhood risk. Insurance premiums, food prices, and utility prices are affected by either higher crime or accident rates, since these rates affect the cost of supplying a good or service. Higher crime rates, for instance, mean that some companies have a greater need for security services. It also means that insurance companies are more likely to have to replace stolen or damaged belongings. Similarly, higher accident rates drive up the likelihood that insurance companies will have to pay for automobile repairs or replacements. For these reasons, the city can lower the prices of basic necessities by lowering crime and accident rates. ■

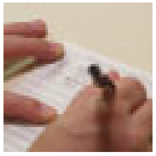
MICHIGAN BAN ON INSURANCE COMPANIES USING CREDIT SCORES

Michigan's Department of Labor and Economic Growth, which regulates insurance providers in the state, announced last year that insurance rates in the state will be reduced by a regulation that took effect on January 1, 2005 banning the use of credit scores by insurance companies. Insurance Commissioner Linda Watters explained her rational for the new regulation by saying, "I believe that using credit scores to determine insurance rates is unfair."

This action followed a review of several recent reports that have found credit scoring is error prone, including a Consumer Reports study than found 30 percent of the scores they analyzed contained errors, and a series of hearings held in July 2004. It was also motivated by the wide diversity in the use of credit scores by insurance companies. Some insurers in the state have two or three tiers of rates based on credit scores, whereas another company has 46 tiers. Insurance premiums vary significantly across these tiers.

In addition to this new regulation, the state annually publishes an extensive list of approved rates for a range of different cars in the state.

For more information please visit the Office of Financial and Insurance Services (OFIS) at http://www.michigan.gov/cis



GETTING THE MARKET RIGHT

GOAL 2: Give consumers the information they need in today's new market

All consumers should have the information they need to shop for lower prices, recognize inflated prices, and effectively manage money. But, many low-wage families lack this information, which makes them more susceptible to bad deals.

Lack of basic information about the market is exacerbated by the increasing complexity associated with buying basic necessities. Credit scores now determine prices for a wide range of necessities, but knowledge about how to improve these scores is uneven. New competition in utility markets has expanded the range of prices and services consumers can buy, but this information is on an obscure state agency webpage. New market products are available which are designed to specifically reduce costs for low-income households, but advertising for these products is disjointed and random. And, new online companies are designed to lower prices for all households, but low-income households have less access to the Internet than higher-income households.

Even in cases where low-wage families do have a potential to use information to save money, the costs may be too prohibitive. For instance, grocery customers must visit different stores to collect and compare coupons; insurance customers must make calls to at least 18 different companies; and car shoppers must visit different dealers to find the best price. This collection of price information takes access to resources like automobiles which many low-wage families cannot afford.

The city has already taken some steps to fill this information gap among households. In just the past four years, the city has trained over 300 city housing counselors about predatory lending, set up a financial education hotline, and heavily marketed these resources through fliers sent out in utility bills and by relying on the dense network of community organizations in Philadelphia. Similarly, organizations like the Greater Philadelphia Urban Affairs Coalition's Campaign for Working Families have provided low income tax filers with free financial literacy information. These are all impressive and innovative steps that distinguish Philadelphia as a leader in financial literacy.

But, more reforms are needed. In particular:

• Low- and moderate-income households need to be provided with a roadmap for how to improve their credit scores. These scores are becoming increasingly important as a determinant of prices for basic necessities, and are

THE MULTILATERAL INVESTMENT FUND'S REMITTANCE COST-CUTTING CAMPAIGN

With the support of 32 countries, this organization promotes economic growth in Latin America and the Caribbean. The fund has recently turned its attention to remittances as an economic development tool, since the high cost of sending money back to families in countries of origin annually drains a significant portion of the $38 billion sent to Latin American and the Caribbean every year through remittances.

Among the many activities undertaken over the past four years, their work has focused on developing alternative remittance products, raising awareness about the economic development potential of remittance cost-cutting, and increasing competition for remittances. For instance, one grant went to the Federation of Associations of Cooperatives in Argentina to broaden the supply of financial products available for recipients of remittances.

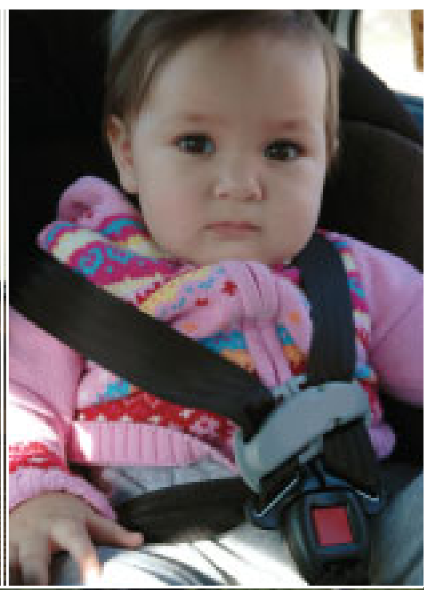
For more information please visit the website of the Multilateral Investment Fund at: http://www.iadb.org/mif/v2/remittances.html

already factored into the prices that are charged for loans, insurance, and even utility security deposits. By providing a roadmap for different types of households to improve their credit scores, more low- and moderate-income households will qualify for lower interest rates, insurance premiums, and security deposits.

For instance, a roadmap to improve credit scores for new consumers would stress the options they have to build a good credit score. On the other hand, a roadmap for a customer heavily indebted would stress the steps that customer could take to improve their scores.

This roadmap should be distributed by a number of different institutions. The city government needs to provide this information on its webpage and leverage its vast network of housing counselors, utilities, and its anti-predatory lending hotline; state government needs to use the newly established Office of Financial Education to publicize this information; and organizations outside of government should take advantage of their network of members or clients and the coalitions they belong to.

Most importantly, business leaders need to work within their networks to publicize the importance of having customers with lower credit scores. Accident rates, lawsuit incidences, and default rates are all correlated with credit scores. As a consequence, increasing the proportion of customers that have high credit scores means that the businesses that rely on credit scores should face less risk supplying basic necessities.



• The state needs to make investments in rethinking financial education curriculum.

Today's marketplace for basic necessities is full of new information and knowledge that any responsible consumer must keep track of. This means that a financial literacy curriculum needs to be robust and not focused on a single set of skills, such as financial planning. It also means that inculcating financial skills cannot be confined to just single events, such as home purchases, or single members of working families, such as homebuyers. Financial literacy is something that every member of a working family needs to succeed. This means that the state must make investments in rethinking financial

FLEXCAR

Flexcar is the nation's largest car-sharing program. It allows members to buy a variety of different types of memberships, which allow users to gain access to automobiles for limited periods of time.

Flexcar provides members with a fleet of cars located across 10 metropolitan areas. Each area contains multiple locations for members to pick-up and drop-off the rental automobile.

For instance, in Washington, DC there are over 125 vehicles located at or near 53 stops on the city's mass transit system. The annual membership fee is only $35 and the usage fee is $9 hour.

The fee covers the costs of the vehicle, gas, maintenance, and the insurance for the car and driver. The cars are generally some of the most fuel-efficient automobiles available in the market.

This market innovation saves households from the costs of buying, maintaining, insuring, filling-up, and storing a car. For many households, car-sharing programs can significantly reduce the costs associated with using an automobile.

For more information please visit the Flexcar webpage at: http://www.flexcar.com/

education in the state.

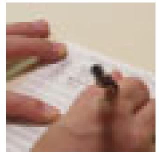
In particular, the state should follow the lead recommendations of the Governor's Task Force for Working Families and commission a report or taskforce that: (a) analyzes the current state of financial literacy and consumer counseling; (b) the best practices used to reach clients, particularly practices that create "teachable moments" for low- and moderate-income children and adults; and (c) develop new, innovative practices for reaching families.[97]

• Low- and moderate-income households need to be provided with a catalog of existing market products that are specifically designed to lower prices for low- and moderate income consumers. Among other items, this catalog should include information about the limited tort insurance plan; the several utility cost savings plans; low cost checking plans; free tax preparation services that are available to low and moderate income households; and specially priced loan products created by the city, including Mini-Phil and Phil+.

The limited tort insurance plan is available to all drivers in Pennsylvania and reduces insurance premiums by as much as 40 percent for participants. In exchange for this substantial discount, drivers waive their right to sue the party at fault in a minor accident. But, drivers retain their right to sue for unpaid medical bills, lost wages, out-of-pocket expenses, and "pain and suffering" in more serious accidents. Currently, about 70 percent of the city's drivers have selected this insurance option.

Such a catalog should also include information about utility cost savings plans, which is already supplied at http://www.utilitychoice.org/, a Pennsylvania-specific price guide to every utility in the Pennsylvania market. For instance, PGW provides numerous programs for reducing gas bills, including the Customer Responsibility Program, Conservation Works Program, and Customer Assistance Referral and Evaluation Program. Similarly, all telephone providers are required to offer numerous discount programs, including Lifeline, Link-Up-America, and UTAP.

Finally, there are numerous financial services that are already available that provide a discount to low- and moderate-income households. For instance, the Greater Philadelphia Urban Affairs Coalition's Campaign for Working Families provides free tax preparation service; the city has worked with area banks to create low cost loans for home renovations; and some banks offer low cost checking accounts. ■



GETTING THE MARKET RIGHT

GOAL 3: Curb market abuses through regulation

A perfect marketplace would automatically set the lowest possible price for basic necessities. But, marketplaces are often far from perfect, and fringe suppliers of basic necessities are able to take advantage of these imperfections by charging excessively high prices. In some cases these high prices are illegal, though in other cases high prices are just unethical.

Philadelphia has already taken several innovative steps to curb these market abuses. Just in the past four years, the city's Neighborhood Transformation Initiative (NTI) used part of a bond sale to train 300 housing counselors about predatory lending and set up a hotline for city residents to report and find out about predatory lending.

The research that comes out of TRF's lending project will be an invaluable asset to crack down on predatory institutions.

The state has also shown leadership in this area. The governor created a new Office of Financial Education in May 2004, which includes a commitment to educate consumers about predatory lending, among other things. Similarly, the statehouse passed the Pennsylvania's Mortgage Bankers and Brokers and Consumer Equity Protection Act (MBCEPA) in 2001, which eliminated or curtailed numerous predatory practices in Philadelphia's financial service industry.

Outside of government, organizations like The Reinvestment Fund (TRF) have been leaders in the fight against predatory lending by developing an ambitious and comprehensive catalog of tools to fight predatory home lending practices. For instance, TRF has assembled a Predatory Lending Strategy Team which brings together industry, government, and nongovernment representatives to study and track patterns of predatory lending. The research that comes out of this project will be an invaluable asset to crack down on predatory institutions.

As a consequence of this work, future reforms need to strengthen these underway efforts and to branch into additional markets with abuses, particularly predatory tort lawyers, car dealers, and rent to own establishments. In particular:

• Fortify underway efforts to curb market abuses. City government needs to reauthorize funding for the anti-predatory lending training it provided its housing counselors in 2002; continue to widely publicize the anti-predatory lending hotline it established in 2003; work with local organizations to monitor companies that receive chronic complaints on the anti-predatory lending hotline; expand the number of alternative loan products it has developed with area banks; and continue to lobby the state government to make MBCEPA a stronger anti-predatory lending law.

At the state level, the General Assembly and the governor need to expand the 2001 MBCEPA to put more regulatory emphasis on protecting consumers. A new law needs to include a cap on points assigned to loans, assign punitive damages when these caps are violated, and mandate that the Department of Banking develop financial counseling materials that lenders in the state must be required to share with high interest and high fee loan consumers. Similarly, it needs to follow states like North Carolina that have banned lenders from collecting fees on loan-flipping, a practice that contributes to the number of people who pay subprime loans.

Organizations outside of government need to continue to play an enforcement role. Studies like TRF's subprime lending analysis are models of how organizations in Philadelphia can use their capacity to monitor, evaluate, and report predatory lending practices in Philadelphia. These efforts need to be expanded and made into permanent initiatives.

• Strengthen regulations governing the short-term loan industry. A campaign against market abuses in the loan market needs to move beyond the almost exclusive focus on mortgage lending companies and instead broaden its focus on a number of additional small-loan companies, including pawnshops, rent-to-own- stores, short-term lenders, check-cashers, and for profit tax preparation services that supply rapid refund anticipation loans. Each of these businesses has a strong incentive to exploit the lack of competition they face from more mainstream suppliers by charging unnecessarily high prices.

One obvious loophole in state regulations that needs to be closed is the lack of regulation governing fees. Although payday lenders are technically not allowed in the state, a short-term loan industry is now clustered in the state and offers similar, inflated APRs for short-term loans. This industry is different from the payday lenders in name only, since both charge APRs for short-term loans that soar over 400 percent. The city or state needs to pass stronger regulations to limit these companies from taking advantage of the short-term loan needs of low-income customers.

• Predatory tort lawyers need to be investigated and held accountable. The city must act to investigate and perhaps regulate the predatory tort lawyers that drive up insurance premiums in lower income neighborhoods. This agenda should include: more aggressive

NORTH CAROLINA'S ANTI-PREDATORY LENDING LAW

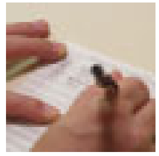
Fully implemented in 2000, the North Carolina anti-predatory lending law has reduced subprime lending through out the state, according to recent analysis by Roberto Quercia, Michael Stegman, and Walter Davis. Among the numerous provisions that are designed to curb predatory lending, this law prohibits prepayment penalties on first-lien mortgages under $150,000; defines high cost loans; prohibits numerous lending practices without consideration of a borrower's ability to pay; prohibits refinancing if there is no net benefit to homeowner; prohibits the financing of single premium credit insurance; and requires applicants for high cost loans to receive financial counseling before taking out the loan.

Since the law has taken effect, purchase originations increased; but, there was a substantive decline in the number of refinance originations, which research by The Reinvestment Fund in Philadelphia has shown to be the major source of subprime loans in the home mortgage market.

For more information about this and related efforts underway throughout the country please visit the homepage of the Center for Responsible Lending at: http://www.responsible-lending.org

enforcement of the city's double dip laws which prevent tort lawyers from recruiting tow truck lawyers to advertise; new commissioned research that analyzes how these lawyers drive up premiums; and regular monitoring of the advertising by these lawyers. Further, insurance companies, the city, or organizations in the city should combat the advertising campaign of tort lawyers by running public service announcement and sending out fliers of information about the effects of tort lawyers.

• **Publicize the names of companies that take advantage of low-income families.** The names of companies that charge excessively high prices need to be regularly publicized. City government can post this information on their webpage, distribute it to the city's vast network of housing counselors and to the new financial education counselors, and disseminate it through the monthly bills sent out by the city's two major utilities, Philadelphia Gas Works and Philadelphia Water Works. Organizations outside of government need to make this available to their members or clients, and use their networks to distribute this information. ■



GETTING THE MARKET RIGHT

GOAL 4: Lower the high prices of goods and services sold by government in Philadelphia

The last reform needed to reduce prices in Philadelphia is one that may be unique to Philadelphia. The public natural gas monopoly is poorly run and more expensive for all households in the city, which particularly hurts low-wage families who are less able to pay these higher rates than higher-income households. The city can work to directly reduce these rates. But, it also has an indirect opportunity to reduce these rates by increasing the resources available for making homes more efficient. This strategy would reduce the consumption of resources by households, which will lower the overall cost of energy for these households.

There is already a strong precedent in Philadelphia for achieving this policy goal.

The city owned Philadelphia Gas Works, for instance, is one of the few utilities in the country to supplement federal LIHEAP funding on weatherization. The city utility has also created a number of special, utility payment plans for low-

and moderate-income households that temporarily subsidize utility costs.

Future reforms need to build on these efforts. In particular:

• Expand support for home efficiency. According to PGW, the federal LIHEAP program is reaching only about 50 percent of the eligible households in the state. And, in Philadelphia 50 percent of the residential users do not pay their gas bill regularly. The higher prices that low- and moderate-income households have to pay to heat their homes is simply too high in the city for many to afford.

The General Assembly needs to join the numerous other states who have funded a state LIHEAP program that supplements federal spending. Such a program would reduce the pressure utilities face to raise rates when customers are not able to pay their bills.

Such a program should specifically focus on investments in efficiency. As energy prices climb, the state cannot afford to subsidize every household that needs and will need assistance. It also makes little long-term sense to subsidize inefficient homes, since this does not solve any of the causes that are driving up prices for low-wage families. Instead, the state should focus on reducing consumption by increasing the efficiency of their housing stock. This should include investments in roof repairs, efficiency standards for appliances and equipment, and enforcement of the state energy code. It should also include an extensive review of other state initiatives.

• Reform state regulations to expand resources for Philadelphia Gas Works. The Pennsylvania Department of Welfare needs to stop allowing LIHEAP emergency funds to be used for secondary and tertiary energy heating sources This state rule drains money away from Philadelphia Gas Works, since clients can use the spending to pay for other utilities. ■

NEW YORK'S SUPPLEMENTAL HOME ENERGY ALLOWANCE

Although it is the single largest beneficiary from the LIHEAP program, receiving about 6.8 percent of the annual federal spending, New York has joined 25 other states to provide a state subsidized supplement. In fiscal year 2004 this amounted to $74 million, which was spent on rate assistance and promoting energy efficiency through out the state.

In addition to this additional state spending, New York also prohibits collection by regulated utilities of security deposits and, in some cases, reconnection fees from recipients of public assistance, supplemental security income (SSI), and a selection of state supplemental programs.

For more information about LIHEAP please visit the LIHEAP Clearinghouse online at: http://www.ncat.org/liheap. For more information about efforts underway to boost the efficiency of low- and moderate-income homes please visit the homepage of the Energy Coordinating Agency (http://www.ecasavesenergy.org) or the Center for Neighborhood Technology (http://www.cnt.org).

Conclusion

Philadelphia is at a crossroads. After decades of decline leaders in the metropolitan area are now poised to bring substantial economic development to the area.

This report has outlined another tool that can be used in that effort, one that addresses the particular needs of low- and moderate-income working families throughout Philadelphia.

Thousands of dollars are drained from these households through higher prices, much of which could be regained by transforming the markets that set these prices. Moreover, many of these reforms unite broad cross sections of constituents within the metropolitan area, building a political and economic base that has been unmatched in many previous efforts to help these families move ahead.

Philadelphia can continue to move ahead by getting back to the basics—the prices we pay everyday in the markets for necessities.

While different, each of these reforms aspires to transform the markets that set prices for basic necessities. For consumers, leaders will need to make the marketplace more transparent, help lower- and moderate-income households become more attractive customers, and improve accessibility to mainstream suppliers of necessities, reducing the opportunities for these households to become mired in a cycle of higher prices in the process. For suppliers of necessities, leaders will have to make the market of consumers more transparent, crack down on a range of predatory market behaviors, and, most importantly, foster marketplace innovations by harnessing the self-interest of entrepreneurs and area businesses.

Through these efforts, leaders will be able to put thousands of dollars back into the pockets of working families for investment in assets like education and houses, growing the incomes of individuals and the competitiveness of the metropolitan area.

Philadelphia can continue to move ahead by getting back to the basics—the prices we pay everyday in the markets for necessities. ■

Endnotes

1. Brookings Institution Analysis.

2. "Transforming Our Neighborhoods—Building Our Future." 2000–2003 Neighborhood Transformation Initiative Progress Report. City of Philadelphia.

3. Alan Berube and Thacher Tiffany. 2004. "The Shape of the Curve: Household Income Distributions in U.S. Cities, 1979–1999. Brookings Institution, Metropolitan Policy Program.

4. Department of Commerce, 2003 American Community Survey.

5. Also see: Manuel Pastor Jr., Peter Drier, J. Eugene Grigsby III, and Marta Lopez-Garza. 2000. *Regions That Work: How Cities and Suburbs Can Grow Together.* Minneapolis: University of Minnesota Press.

6. Robert P. Giloth. 2003. *Workforce Intermediaries for the Twenty-first Century.* Philadelphia: Temple University Press.

7. Brookings Institution analysis.

8. For a recent analysis of six different measures, see Leah Curran, Harold Wolman, Edward W. Hill, and Kimberly Furdell. 2005. "Economic Wellbeing and Where We Live: Accounting for Geographic Cost-of-Living Differences." Unpublished manuscript.

9. Note that some costs in Philadelphia are also higher because of the public supply of goods and services. We have no expectation that this is a general cause.

10. Authors' analysis of 2000 PUMS sample from the the decennial census.

11. We feel confident using national data to illustrate the existence of this higher price in Philadelphia because the major causes of higher prices—rational market responses to risk, market failures, and market abuses—are general, which means we have no prior to suspect that Philadelphia is somehow insulated from these market forces.

12. Authors' analysis of the 2001 Survey of Consumer Finance and 2000 PUMS sample from the Census. We use the median income because of data limitations.

13. These simulations are based on the multivariable regression models estimated in Fiona Scott Morton, Florian Zettelmeyer, and Jorge Silva-Risso. 2001. "Consumer Information and Price Discrimination: Does the Internet Affect the Pricing of New Cars to Women and Minorities?" Working Paper 8688, National Bureau of Economic Research. In these models, the car value is held constant by a least squares with dummy variables model design, which controls for over 400 different automobile makes and models.

14. In the Pennsylvania portion of the metropolitan area (Bucks, Chester, Delaware, Montgomery, and Philadelphia counties), 71 percent of the individuals are white; 22 percent are black; 86 percent of individuals older than 18 have a high school degree; 56 percent of individuals live in a home owned by someone in their household; 15 percent live in a household with an annual income between \$70,000 and 90,000; and 27 percent live in a household with an annual income between \$.01 and \$30,000. About 11 percent of individuals over 18 in the Pennsylvania side of the metro area fit the Customer 1 profile and about 8 percent of individuals over 18 fit the Customer 2 profile (give or take \$10,000 household income in both cases). Race and education data are from the U.S. Census Bureau 2003 American Community Survey. Income and home ownership data are from the U.S. Census Bureau 2000 Decennial Census. Finally, note that the homeownership rate—or the proportion of households that own homes—is 59.3 percent. This is different from the percentage of individuals that live in an owned home, which is much lower.

15. Authors' analysis of 2000 PUMS sample. Greater Philadelphia area is the five counties that make-up the Pennsylvania portion of the metropolitan area.

16. This is the 2001 Survey of Consumer Finances, The Federal Reserve.

17. Authors' analysis of the 2001 Survey of Consumer Finances.

18. These rates were automatically selected by Fair Isaac at www.myfico.com as a representative range of interest being offered for auto loans in the Philadelphia market in October 2004.

19. Authors' analysis of the 2001 Survey of Consumer Finances.

20. The current, reliable, and general data that is available on auto loans provide no information as to why some low-income families are able to qualify for competitive interest rates, while others are charged higher rates than other households.

21. The results are not dependent on these arbitrary income group categories.

22. This estimate is based on quotes from two insurance companies—Allstate and Progressive—in every ZIP code in Philadelphia, Bucks, Chester, Delaware, and Montgomery counties. The quote is for a car that is valued at the same value of automobiles owned by the median household in the lowest income quintile - $5,100. In the Philadelphia market, this is a 2002 Ford Taurus. The driver is assumed to have a perfect driving and insurance record, to be 35 years old and married, commutes five miles to work, and annually drives between 10,000 and 15,000 miles. Credit scores are held constant in this analysis—one company assumes the highest possible score, the other company assumes an undisclosed "average score." This means that we are likely underestimating the true variance in rates among households, since credit scores are strongly related to household income.

23. Authors' analysis of 2000 PUMS.

24. Typical is measured as the median value of automobiles owned by the lowest income quintile in the 2001 Survey of Consumer Finances sample of American households, which is $5,100.

25. All of these caveats represent data limitations. Also, company rates vary, in part, because of the different market niches each company serves. Those companies that specialize in insuring high risk drivers will charge higher rates than companies that insure a more general cross-section of drivers.

26. Quotes from insurance companies for the same car and driver were obtained from the Pennsylvania Department of Insurance.

27. U.S. Department of Commerce Economics and Statistics Administration. 2001. "Home Computers and Internet Use in the United States: August 2000." U.S. Census Bureau Special Studies (P23–207).

28. U.S. Department of Commerce Economics and Statistics Administration. 2001. "Home Computers and Internet Use in the United States: August 2000." U.S. Census Bureau Special Studies (P23–207).

29. Auto maintenance, car inspection fees, driver's education classes, and licensing fees are some of the many additional costs associated with car ownership that we have not considered because of data limitations.

30. We tried unsuccessfully to purchase store-level data from AC Nielson. Future work may want to try this resource again.

31. Phillip R. Kaufman and Charles R. Handy. 1989. "Supermarket Prices and Price Differences: City, Firm, and Store-Level Determinants." United States Department of Agriculture, Economic Research Service, *Technical Bulletin* Number 1776.

32. Neighborhoods are defined as ZIP codes.

33. This estimate was derived from data on the size of all grocery stores in Philadelphia. The median income in the ZIP code of each store location was obtained. These stores were then rank ordered by the ZIP code and a median store size was obtained for each ZIP code. Finally, we obtained the median income in each of the ZIP codes from the Department of Commerce and sorted these data in increments of $10,000.

34. Besides having smaller stores, the Food Trust has shown in several publications that many low-income neighborhoods in Philadelphia also lack a sufficient number of stores. See for instance: The Food Trust. 2002. "The Need for More Supermarkets in Philadelphia: Food for Every Child." Available online at www.thefoodtrust.org. This analysis is based on a finer definition of a neighborhood that we were unable to replicate. However, a ZIP code level analysis—a much higher level of geography than used by the Food Trust— showed no relationship between the number of stores and median ZIP code income.

35. Authors' analysis of 2004 Trade Dimensions data.

36. For example, see David M. Frankel and Eric D. Gould. 2001. "The Retail Price of Inequality." *Journal of Urban Economics* 49: 210–39

37. For example, see Phillip Kaufman, James M. MacDonald, Steven M. Lutz, and David Smallwood. 1997. "Do the Poor Pay More for Food? Item Selection and Price Differences Affect Low-Income Household Food Costs." United States Department of Agriculture: Agricultural Economic Report Number 759. And, see the Food Trust organization for evidence that nutritional health in Philadelphia is strongly related to income.

38. Robert Weissbourd. 1999. The Market Potential of Inner-City Neighborhoods: Filling the Information Gap." Brookings Institution Metropolitan Policy Program. Also see: 2003. "Houston Strikes It Big with DrillDown." Federal Reserve Bank of Dallas, E-Perspectives, Volume 3, Issue 4; The Food Trust (based in Philadelphia) www.thefoodtrust.org; and "The Changing Models of Inner City Grocery Retailing." Boston: Initiative for a Competitive Inner City.

39. Robert P. King, Ephraim S. Leibtag, and Ajay S. Behl. 2004. "Supermarket Characteristics and Operating Costs in Low-Income Areas" Agricultural Economic Report No. (AER839).

40. Building Industry Association of Philadelphia. 2004. "If We Fix It, They Will Come."

41. For further evidence, compare Chicago's efforts to streamline the development process at **www.developmentcode.com/ChicagoNew/** with Philadelphia's numerous publications which explain the development process.

42. Michael Barr. 2004. "Banking the Poor." Brookings Institution Metropolitan Policy Program. It is important to note that many of these alternative financial services are filling market needs unmet by mainstream financial services. For this reason, reforms aimed at lowering these prices must engage these institutions to creative profitable services with incentives for low-income households to use them.

43. We feel confident using national data to illustrate the existence of this higher price in Philadelphia because the major causes of higher prices—rational market responses to risk, market failures, and market abuses—are general, which means we have no prior reason to suspect that Philadelphia is somehow insulated from these market forces.

44. These national data are the 2001 Survey of Consumer Finances. We do not use increments of $15,000, since the data in this section are rich enough to allow for a more detailed analysis of household income.

45. Banked is defined as having a checking or some type of savings account. The 2001 Survey of Consumer Finances estimates that approximately 13 percent of American families are unbanked. Nearly all of these families earn less than $30,000 a year.

46. Estimate based on a content analysis of Philadelphia's Yellow Pages.

47. The NAICS industry coding system once assigned a unique code to check cashing establishments, which allowed researchers to study their market penetration. But, the code has been reassigned several times over the past 18 years to a higher level of aggregation, which makes it impossible to identify these establishments.

48. ($15,000/26 2-week pay periods)*3.0%(the fee charged for payroll checks)*26(the number of times a customer uses the service every year) = $450; ($30,000/26)*(3%)*(26) = $900

49. For an interesting discussion of the fees charged by retail banks, see Timothy H. Hannan. 2002. "Retail Fees of Depositary Institutions, 1997–2001." *Federal Reserve Bulletin,* Summer.

50. Michael Barr. 2004. "Banking the Poor." Brookings Institution Metropolitan Policy Program.

51. 2001 Survey of Consumer Finances.

52. Pennsylvania law prohibits payday lending. But, in its place, companies provide short-term loans to would-be clients of payday lenders.

53. Keith Ernst, John Farris, Uriah King. 2004. "Quantifying the Economic Cost of Predatory Payday Lending." Durham, NC: Center for Responsible Lending.

54. Regulations for these loans in Pennsylvania are governed by the Consumer Discount Summary Act, which mandates that interest rates for these loans are not allowed to exceed 24 percent. Longer loans—1 to 5 years—cannot exceed 28 percent. Note that this legislation does not specify finance charge limits for these particular loans, which is why the annual per-

centage rates are so high. The Pennsylvania House of Representatives has recently considered a bill that would legalize payday lending as well as APRs as high as 910 percent for a one-week loan. This shift to state-chartered banks followed a federal ruling that prevents banks from renting national charters to avoid state laws. The Pennsylvania Department of Banking responded to this ruling with a letter to its state chartered banks on April 1, 2003, which endorsed the federal rule. But, the Department has not taken any regulatory position on the renting of state charters.

55. For an interesting discussion of the efforts by payday lenders to create revolving debt among customers, see **www.kenan-flagler.unc.edu/assets/documents/CC_Payday_lending.pdf**. Also, see numerous studies by the Center for Responsive Lending at **http://www.responsible-lending.org/payday/index.cfm** for more information about these services. They estimate that American families pay $3.4 billion in costs to use these services every year.

56. This check casher is owned by Republic Bank and Trust Company, based in Kentucky. These fees were obtained directly from the company on 2/13/05 at **http://www.acecashexpress.com/loan_apps/PA.pdf**.

57. Annie E. Casey Foundation. 2005. "Double Jeopardy: Advocasey Explores The High Costs of Being Poor." Baltimore, MD: Annie E. Casey Foundation.

58. Alan Berube, Anne Kim, Benjamin Forman, and Megan Burns. 2002. "The Price of Paying Taxes." Survey Series, The Brookings Institution Metropolitan Policy Program and Progressive Policy Institute. Assessment based on random sampling of Philadelphia's tax establishments.

59. Feather Hustoun. 2004. "Philadelphia's Campaign for Working Families." Brookings Institution Metropolitan Policy Program.

60. Alan Berube, Anne Kim, Benjamin Forman, and Megan Burns. 2002. "The Price of Paying Taxes." Survey Series, The Brookings Institution Metropolitan Policy Program and Progressive Policy Institute.

61. Authors' analysis of the 2001 Survey of Consumer Finances. Michael Barr. 2004. "Banking the Poor: Policies to Bring Low-Income Americans Into the Financial Mainstream." Brookings Institution Research Brief.

62. This reminder was published on May 5, 2003.

63. Of course, these distributions only become significant if the size of the banking population does not track this distribution. In fact, the population in each of these neighborhoods does not track this distribution.

64. Neighborhoods are measured by ZIP codes. Median neighborhood income is median income in every ZIP code.

65. For more information see Kathryn Gwatkin and George McCarthy. 2003. "A Critical Examination of Financial Literacy Education." Presented at Building Assets, Building Credit: A Symposium on Improving Financial Services in Low-Income Communities. Also, data from the 2001 Survey of Consumer Finances indicate that 88 percent of the individuals who reported that "they just haven't gotten around to it" as the primary reason why they did not have a checking account earned less than $45,000. Also see Saundra Braunstein and Carolyn Welch. November 2002. "Financial Literacy: An Overview of Practice, Research, and Policy." Federal Reserve Bulletin.

66. For instance, the 2000 Census indicates that there are fewer low-income homeowners in Philadelphia than higher-income households; and the 2001 Survey of Consumer Finances indicates that low-income consumers are more likely to fall behind in payments than higher-income households.

67. Authors' analysis of data obtained from correspondence with Steven Hershey, Vice President - Community Initiatives, Philadelphia Gas Works.

68. We were not able to obtain any data from the state or PGW on the typical amount actually charged by PGW for a security deposit. Nor were we able to obtain an estimate of the proportion of households served by PGW that pay a security deposit. This information was also not located for other utility companies that serve the Pennsylvania market.

69. Authors' analysis of rate information published by the Pennsylvania Public Utility Commission.

70. Authors' analysis of 2000 Public Use Micro Data from the Decennial Census.

71. PGW, like most utilities, also charges a fixed fee of $12.00 to all customers. PGW does not adjust this charge for usage, which means that this charge is

a higher percentage of a bill for low-income families than higher-income households, since low-income households use less energy, on average, than higher-income households. For evidence of this point please refer to the Department of Energy's Residential Energy Consumption Survey.

72. We were not able to find reliable data for the other energy sources and utilities, including telephones and water and sewer.

73. Steve Hershey. February 20, 2004. "Briefing for the Philadelphia Delegation: Low-Income Home Energy Assistance Program (LIHEAP)." Sponsored by Philadelphia Gas Works, Philadelphia Facilities Management Corporation, and Philadelphia Gas Commission.

74. These interests rates were automatically generated by MyFico as representative of the range of rates being offered by banks in the Philadelphia area.

75. Authors' analysis of 2001 Survey of Consumer Finances. Note that interest rates have fallen since this sample was drawn.

76. For more information, please refer to the Center for Responsive Lending. The information cited here was accessed at the following web address: http://www.responsiblelending.org/abuses/abusive.cfm

77. John Farris and Christopher A. Richardson. 2004. "The Geography of Subprime Mortgage Prepayment Penalty Patterns." Housing Policy Debate 15 (3) 687–714.

78. Although home insurance is not required by a state law, like auto insurance, nearly all mortgage companies require that lenders have insurance on their home.

79. This estimate is based on an analysis of home insurance premiums in every ZIP code in Philadelphia, Bucks, Chester, Delaware, and Montgomery counties. The quotes are from Allstate for a six month premium for a $50,000 house. Allstate is one of the least expensive home insurers in the state according to data published by the Pennsylvania Department of Insurance. Everything except the ZIP code of the applicant was held constant in the analysis of premiums.

80. These caveats represent data limitations.

81. The Pennsylvania Department of Insurance releases a purchasing guide every year which provides quotes on several types of insurance policies from each of the major companies licensed to sell insurance in the state. The least expensive home in this publication is a $75,000 home. We repeatedly called the Department for quotes on a less expensive home but were told that they do not collect enough information from the insurance companies to estimate these additional rates.

82. James M. Lacko, Signe-Mary McKernan, and Manoj Hastak. 2000. "Survey of Rent-to-Own Customers." Federal Trade Commission, Bureau of Economics Staff Report.

83. James M. Lacko, Signe-Mary McKernan, and Manoj Hastak. 2000. "Survey of Rent-to-Own Customers." Federal Trade Commission, Bureau of Economics Staff Report.

84. Note that the rent-to-own NAICS code, which is used by the Department of Commerce, is exceedingly broad, including furniture and appliance stores in addition to party event and office furniture stores. Given this, it is particularly noteworthy that these results parallel so closely the Federal Trade Commission results, which were based on a sample of exclusively furniture and appliance rent to own customers.

85. James M. Lacko, Signe-Mary McKernan, and Manoj Hastak. 2000. "Survey of Rent-to-Own Customers." Federal Trade Commission, Bureau of Economics Staff Report. For the remaining 30 percent who are just renting the item, it is conceivable that their costs could be even higher if they continue to use rent-to-own stores to update items they are renting.

86. Kevin C. Gillen. 2003. "Challenges and Solutions to Real Property Assessment Uniformity in Philadelphia." Prepared for the Philadelphia Tax Reform Commission. Brett Mandel. 2004 "Tax Reform in Philadelphia." Prepared for this report.

87. Hollis Fishelson-Holstine. 2004. "The Role of Credit Scoring in Increasing Homeownership for Underserved Populations." Presented at: Building Assets, Building Credit: A Symposium on Improving Financial Services in Low-Income Communities, hosted by the Joint Center for Housing Studies at Harvard University. Robert B. Avery, Paul S. Calem, and Glenn B. Canner. 2004. "Credit Information Reporting and the Practical Implications of Inaccurate or Missing Information in Underwriting Decisions." Presented at: Building Assets, Building Credit: A Symposium on Improving Financial

Services in Low-Income Communities, hosted by the Joint Center for Housing Studies at Harvard University.

88. U.S. Department of Commerce Economics and Statistics Administration. 2001. "Home Computers and Internet Use in the United States: August 2000." U.S. Census Bureau Special Studies (P23–207).

89. Kathryn Gwatkin and George McCarthy. 2004. "A Critical Examination of Financial Literacy Education." Presented at: Building Assets, Building Credit: A Symposium on Improving Financial Services in Low-Income

90. James M. Lacko, Signe-Mary McKernan, and Manoj Hastak. 2000. "Survey of Rent-to-Own Customers." Federal Trade Commission, Bureau of Economics Staff Report.

91. There is no better sign of this than the fact that many rent-to-own establishments do not display these prices. It is also worth noting that we often had to ask repeatedly to get this information from the company that we called to obtain sample price discrimination statistics.

92. Numbers are rounded.

93. Teresa A. Sullivan, Elizabeth Warren, and Jay Lawrence Westbrook. 2000. The Fragile Middle Class. New Haven: Yale University Press.

94. In particular, Philadelphia ranked 92 out of the 100 largest cities in the United States. Brookings Institution analysis.

95. Hannah Burton. 2004. "Exchanging Public Policy Solutions to Closing the Urban Grocery Store Gap." Prepared for the Brookings Institution.

96. One way this is illustrated is the research on high risk mortgage lending and credit scores. For instance, see Avery, Calem, Canner, (2004).

97. This report is available online on the homepage of the Pennsylvania Department of Banking. Its title is: "Dollars and Sense: Realistic Ways Policymakers can help Pennsylvania's Families."

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