FROM POVERTY, OPPORTUNITY

Putting the Market to Work for Lower Income Families

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Contents

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Executive Summary

Public and private leaders have a substantial, and widely overlooked, opportunity today to help lower income families get ahead by bringing down the inflated prices they pay for basic necessities, such as food and housing.

In general, lower income families tend to pay more for the exact same consumer product than families with higher incomes. For instance, 4.2 million lower income homeowners that earn less than $30,000 a year pay higher than average prices for their mortgages. About 4.5 million lower income households pay higher than average prices for auto loans. At least 1.6 million lower income adults pay excessive fees for furniture, appliances, and electronics. And, countless more pay high prices for other necessities, such as basic financial services, groceries, and insurance. Together, these extra costs add up to hundreds, sometimes thousands, of dollars unnecessarily spent by lower income families every year.

Reducing the costs of living for lower income families by just one percent would add up to over $6.5 billion in new spending power for these families. This would enable lower and modest-income families to save for, and invest in, income growing assets, like homes and retirement savings, or to pay for critical expenses for their children, like education and health care.

The policies needed to capture these savings for families will require few taxpayer dollars and true public-private partnership. Together, government, nonprofit, and business leaders can pursue a number of market and regulatory initiatives to bring down the cost of living for lower income families. And unlike most traditional anti-poverty initiatives, limited (strategic) public investments can match or seed innovative market solutions.

This report, analyzing both national data and data from 12 major metropolitan areas across the country, is about this opportunity to put the market to work for lower income families. The report makes the following conclusions:

1. Lower income families tend to pay higher than average prices for a wide array of basic household necessities—often for the exact same items—than higher income households. Depending on where lower income consumers live, and what combinations of necessities are consumed, they can pay up to thousands of dollars more every year for a full range of basic household goods, from financial services to housing to car purchases. For instance:

- ***Check Cashing and Short-Term Loans:*** Lower income consumers are much more likely than higher income consumers to pay high prices to cash checks and take out short-term loans. Most customers of check-cashing businesses earn annual incomes of less than $30,000. To cash a $500 check in one of these businesses, customers would pay an additional $5 to $50 in the selected 12 metro areas. Among the 50 states, the check cashing fee ranges between 1 percent of the face value of a check in West Virginia to no limit (in 19 states).

  Similarly, about 81 percent of the customers that buy high-priced payday loans earn less than $50,000 a year. The fees for short-term loans range from zero (because the industry is banned in some states) to more than 15 percent of a loan's value in Colorado, Delaware, South Dakota, and other states.

- ***Tax Refund Services:*** Lower income consumers are more likely than higher income consumers to pay high fees to get their tax returns quickly. In 2003, lower income tax filers were just as likely as all others to use professional tax preparation services (approximately 60 percent). But, lower income tax filers are nearly three times more likely than higher income households to buy refund anticipation loans. These advance payments on tax refunds are accompanied by interest rates between 70 percent to more than 1,800 percent.
- ***Remittance Services:*** Lower income consumers are likely to pay fees to wire funds to foreign countries, fees less likely to be incurred by high-income households. About 80 percent of remittance clients sending money to Latin America earn an annual income of less than $30,000. To send $200 every other week to Mexico for one year, a customer would be assessed an additional $320 in fees, on average.
- ***Car Prices:*** Nationwide, consumers from lower income neighborhoods pay between $50 and $500 more, on average, to buy the exact same car as a consumer from a higher income neighborhood.
- ***Car Loans:*** Nationwide, 4.5 million lower income consumers pay, on average, two percentage points more in interest for an auto loan than the average, higher income consumer. In 2004, auto-loan customers earning less than $30,000 a year paid an average APR of 9.2 percent for their loan, while the average APR for customers earning $60,000 to $90,000 was 7.2 percent.
- ***Car Insurance:*** Drivers from lower income neighborhoods in the 12 sample metropolitan areas pay between $50 to over $1,000 more per year in higher premiums for auto insurance than those living in higher income neighborhoods. In New York, Hartford, and Baltimore, drivers living in lower income neighborhoods paid $400 more, on average, for 12 months of auto insurance to insure the exact same car and driver risk as those in higher income neighborhoods.
- ***Home Loans:*** Nationwide, 4.2 million lower income homeowners pay, on average, a percentage point more than higher income households in interest for their mortgage. In 2004, the average APR on a first mortgage for lower income households was about 6.9 percent. By contrast, households earning between $60,000 and $90,000 paid an average rate of about 6.0 percent.
- ***Home Insurance:*** Holding other factors constant, homeowners in lower income neighborhoods can pay as much as $300 more for home insurance than those in higher income neighborhoods. For instance, in Chicago, the average quote for a year of home insurance in the city's lowest income neighborhoods was about $1,043, while the quote for households living in neighborhoods with a median income between $30,000 and $60,000, was approximately $755.
- ***Furniture, Appliances, and Electronics:*** Lower income consumers tend to pay more for furniture and appliances because they are much more likely than higher income households to shop at high-priced rent-to-own establishments. Nearly 60 percent of rent-to-own customers earn less than $25,000 a year. In Wisconsin, it is estimated that a $200 television might cost as much as $700 at one of the rent-to-own businesses in the state, after interest.
- ***Grocery Prices:*** Grocery stores in lower income neighborhoods tend to be smaller and more expensive than in higher

income neighborhoods. The average grocery store in our sample of 2,384 lower income neighborhoods is 2.5 times smaller than the average grocery store in a higher income neighborhood. Also, there is about one mid- or large-sized grocer for every 69,055 residents in lower income neighborhoods, half the availability found in other neighborhoods. Access to only small grocery stores results in higher food prices for lower income shoppers. In particular, over 67 percent of the same food products in our sample of 132 different products are more expensive in small grocery stores than in larger grocery stores.

2. A combination of real and perceived market risks, market abuses, and uneven consumer access to market information contribute to these additional costs incurred by lower income consumers.

There a number of market realities and market failures that help drive the costs of consumer products for lower income households.

- ***Companies—from banks to insurance companies— face both real and perceived higher costs of doing business with lower income consumers.*** Lower income borrowers are much more likely than higher income borrowers to fall behind on their payments, declare bankruptcy, and have low credit scores. Within a metropolitan area, they are also more likely to live in urban areas, where car or home insurance is more expensive. Given these risks, businesses will rationally pass on those risks in the form of higher costs to lower income consumers. Importantly, the existence of these higher costs will also drive perceptions of higher costs, even when there may not be data available to support or properly measure perceived risks. This also drives up prices.
- ***The dense concentration of businesses that sell high-priced products and services in lower income neighborhoods can serve to limit the choices of poorer consumers.*** Today, over 23 percent of lower income households do not have a checking account, and another 64 percent do not have a savings account. Certainly, these millions of lower income consumers represent an unmet market demand. However, if the businesses that fill that void are primarily those that that tend to charge high fees or interest rates, then lower income consumers are not being exposed to a broader array of mainstream, competitively-priced products.

  For instance, nearly all of the high-priced, basic financial service companies—alternative check cashers and short-term loan providers, tax preparation firms, and wiring companies—tend to be much more densely concentrated in lower income neighborhoods than higher income neighborhoods. The number of check cashers and short-term loan providers, in particular, is twice as dense in lower income neighborhoods as they are in other neighborhoods. That relative density—with twice as many businesses per capita—in lower income neighborhoods than other neighborhoods is true for remittance services and rent-to-own establishments.
- ***Unscrupulous business practices drive up prices in lower income markets.*** For instance, research on mortgage pricing suggests that between 14 and 20 percent of all borrowers who purchased a high-cost mortgage could have qualified for a better priced mortgage product. Even for those who cannot qualify for prime loans often face unnecessary additional features on mortgage products, such as long-term prepayment penalties and broad insurance plans, all contributing to the higher price. In other cases, the market abuses arise from lax regulatory protections that enable companies to charge APRs of over 400 percent for check-cashing services, short-term loans, and refund anticipation loans in some states.
- ***Finally, lower income consumers lack access to good market information about many goods and services.*** Lower income consumers are generally much less likely than other consumers to compare prices before buying goods and services, making them more susceptible to bad deals. Similarly, they are less likely to

have access to the Internet and its price-comparison tools. Further, studies also show that the lower a consumer's income, the less financial knowledge he or she is likely to have. This would result in limited knowledge about basic financial management, the use and management of credit scores, and the differences in values among key products, such as a checking account versus relying on check cashers. Finally, language barriers, along with cultural obstacles, can steer lower income families toward high-priced financial services.

3. Public and private leaders can reduce the cost of living for lower income consumers by reducing both real and perceived market risks in doing business with such consumers, curbing market abuses that inflate prices, and investing in making lower income consumers the savviest shoppers in the marketplace.

Reducing the additional costs that lower income families pay for standard household goods and services is a powerful and widely underutilized opportunity to help families get ahead. To seize that opportunity, leaders need to connect the competitive, mainstream economy to lower income consumers. There are a number of existing models and emerging initiatives from around the country that federal, state, and local leaders can replicate.

In general, public and private leaders need to embrace three types of reforms:

- ***Public and private leaders need to encourage mainstream businesses to serve lower income markets, where there remains great demand for services and products.*** In concert with community outreach efforts to dispel myths and misperceptions, political and community leaders need to engage the business community to take down the roadblocks to entry into lower income markets. In some cases, businesses have failed to recognize this market opportunity. In other cases, the market opportunity is stunted by real, higher costs of doing business in lower income neighborhoods. To address the particular opportunities that exist in their communities, leaders need to be fact-driven and entrepreneurial. Businesses will respond to profitable opportunities. Already, innovations are underway to encourage businesses to reach out to lower income consumers and produce new low-cost products and services, and in turn, to encourage lower income consumers to turn to mainstream business products.
- ***Public and private leaders need to crack down on alternative, high-priced businesses that have blossomed in lower income neighborhoods.*** At the local level, leaders can use their licensing and zoning authority to curb the development of these businesses in lower income neighborhoods. At the state and federal level, leaders need to enact regulations that limit the fees and interest rates charged by fringe businesses, while funding research that addresses questionable business practices. As always, efforts to create lower-cost alternatives, as mentioned above, will also reduce the demand for alternative, high-priced businesses.
- ***Public and private leaders need to promote consumer responsibility and empower lower income consumers with better market information.*** Ultimately, consumers need to take responsibility to make smart bets on getting ahead, which means knowing which companies to buy from, what goods and services to stay away from, and how to manage day-to-day budget demands. But, the growing complexity of the market makes this difficult for everyone. Among the many choices consumers now have, there are hundreds of different mortgage products, often dozens of mortgage and insurance companies to choose from, new breeds of alternative financial service providers, and growing applications of credit reports and scores. There are a number of examples of market innovations that local and state leaders can embrace that create better electronic tools and information to help lower income consumers navigate today's maze of market choices and price variations. ■


GUEST
Date
Table
YOUR RECEIPT
THANK YOU
12-06-05
12-28-05
Tax
Total
Guest Receipt
Date
Amount
Guests

Introduction

Put aside common perceptions about poverty for a moment and consider this: Together, lower income households in this country are now collectively worth more than $650 billion in buying power every year.[1] That staggering sum is greater than the budgets of Canada and Mexico combined, and equal to more than 25 percent of the entire United States federal budget. To be sure, lower income families need nearly every penny of that total to get by—but not in the way you think. In fact, that $650 billion is potentially one of the most important sources of funding for anti-poverty initiatives today.

Last year, about 4.2 million lower income homeowners paid higher than average prices for their mortgages. About 4.5 million lower income households paid higher than average rates for auto loans. At least 1.6 million lower income adults paid too much for furniture, appliances, and electronics. And countless more paid higher prices for other necessities like basic financial services, food, and insurance than did their wealthier neighbors. Together, these high prices add up to hundreds, sometimes thousands, of dollars needlessly spent by lower income families every year.

But this problem—the evidence that lower income Americans pay more for necessities from groceries to car loans—is also a huge opportunity to push back against poverty. Reducing costs of living by just one percent would amount to over $6.5 billion in new spending for lower income families. What if we could cut these costs by 10 percent? That would add up to over $65 billion newly available for lower income families to save or invest in wealth-building assets from education to homes.

This is today's poverty opportunity: Reduce the higher cost of living that too many lower income families now must pay, and free up billions to help those families build real wealth. Through these savings, market dynamics can be put to work as an important asset, rather than just a liability, for lower income families.

We can accomplish this in three steps.

First, public and private leaders must take measures to bring down higher business costs that drive up prices for poor families. Second, new laws and more rigorous enforcement are needed to curb market abuses that gouge low-income workers. Third and most importantly, the public must invest in making lower income consumers the savviest shoppers in the marketplace, equipped with the know-how to spot and avoid bad deals and find the lowest possible prices. Together, these strategies will give lower income families a powerful tool to lift themselves out of poverty.

WHERE DID THIS OPPORTUNITY COME FROM?

Today's poverty opportunity is not a new one, but it is much greater in scope and importance today than at any time in the past.[2] There are two main reasons for this: demand among lower income consumers for many necessities has expanded dramatically over the last decade, while the supply of those necessities also has substantially changed.

Over the past decade, sweeping economic, market, and policy changes all interacted to create millions of new customers for many basic necessities. The roaring economy of the late 1990s helped contribute to income growth and the decline of concentrated poverty. Additionally, a major wave of new immigration to the U.S. also boosted demand for an array of goods. Those factors, along with sweeping policy reforms in programs that benefit lower income families, sent millions of lower income adults into the labor force in the 1990s.[3]

As demand increased for necessities like basic financial services, housing, cars, and insurance, the financial services market was transforming in ways that increased access to credit among lower income households. The most important of these changes was the burgeoning use of credit scores, which essentially allowed sellers of credit to index prices to reflect lending risks.[4] The advent of indexing helped open up numerous low-income credit markets once eschewed by businesses, and greatly increased lower income consumers' access to a host of credit products, from credit cards to mortgages. These market changes, in turn, expanded the purchasing power of lower income households.

At the same time, jobs were also spreading out in metropolitan areas, following, and sometimes leading, sprawling settlement patterns.[5] As jobs dispersed through metro areas and lower income workers found themselves spatially isolated from available jobs, car ownership among lower income households surged accordingly—from 67 percent in 1993 to 73 percent just ten years later.[6] This increase far outpaced the pace of car purchases among higher income households.[7]

Finally, in the background of all of these policy and market changes, the economy continued to flatten, as the globalization of supply and demand chains of the economy accelerated.[8] One important economic effect of globalization was that wages continued to stagnate, particularly among lower income workers.[9] In turn, this drove up demand among lower income consumers for a variety of short-term loans, along with creatively-priced products, such as mortgages with balloon payments.[10]

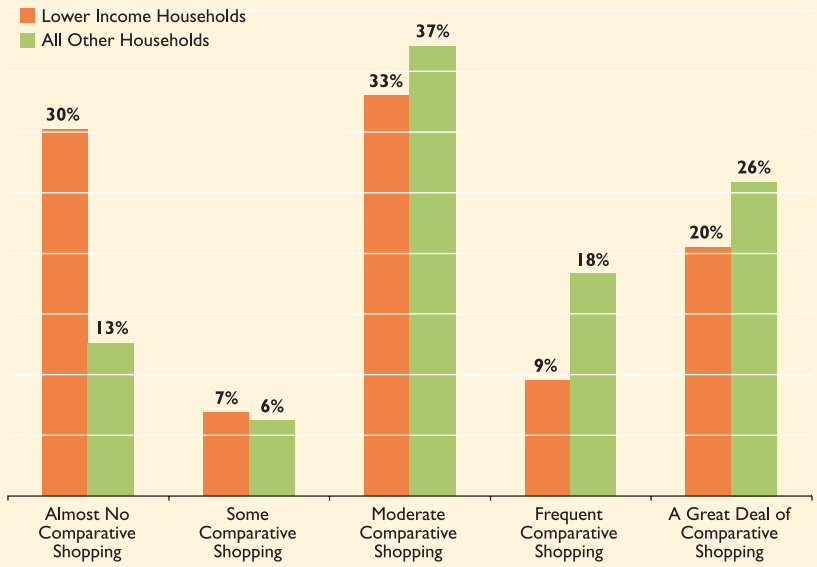
All of these changes worked to bring millions of new lower income consumers into the market for basic necessities.

The supply side of this market too underwent significant change, starting with innovative and entrepreneurial responses in the basic financial services market. Over the past decade, tens of thousands of high-priced, alternative financial services storefronts popped up around the country to meet surging demand in lower income households for check cashing, short-term loans, tax preparation, and money wiring services.[11] The mortgage market responded as well, creating new products for new lower income homebuyers who may have been ignored in the past.[12] Even the grocery market took steps to meet new patterns of demand, most visibly illustrated by Wal-Mart's recent efforts to move into underserved, lower income markets.[13]

For the most part, however, the rising market opportunities presented by lower income consumers went unnoticed. As mainstream

Being lower income is not just about having a lower income; too often, it is also about having to pay high prices for goods and necessities.

Lower income households do less comparative shopping for major credit and borrowing purchases than higher income households



Source: Author's analysis of the 2004 Survey of Consumer Finances

Note: Proportion of consumers in each income category that indicate the extent to which they comparatively shop when making major decisions about credit or borrowing.

businesses missed the moment, high-priced businesses moved to fill the void in the financial services and retail markets especially, leaving these new consumers vulnerable to exploitation.[14]

This vulnerability is not surprising: Survey evidence demonstrates conclusively that consumer savvy and financial literacy both increase with wealth.[15] In other words, low-income families have less understanding about financial services products and their value than do higher income households. This leaves lower income consumers more vulnerable to overcharging, unscrupulous businesses. Between 14 percent and 20 percent of all mortgage borrowers, for instance, are now estimated to pay higher interest rates and fees than indicated by their qualifications.[16]

Similarly, lower income consumers are much less likely than higher income households to shop around when making major decisions about credit or borrowing.[17]

In fact, nearly one in three low-income households reports that they do almost no shopping around; only about one in eight higher income households don't. One might hear such figures and respond, "caveat emptor," but the fact is that many of these consumers are new to many of these markets and may not fully understand their options. That problem has grown worse as many of these markets have become more complicated over the past decade: From insurance plans to mortgage policies, consumers are often beset with large numbers of choices, making it more difficult to make smart decisions.

This paper aims to demonstrate the higher costs lower income households pay for basic goods, costs that high-income households do not pay for what are substantially the same goods.

Overall, the items we examine—financial services, auto-related products, home financing and household goods, and groceries—account for at least 70 percent of a lower income household's budget. Put simply, the evidence is clear: For a wide range of goods and services, poor families pay more.

Thus, the opportunity beckons. Bringing down the costs for these items can create billions of dollars in potential savings, which can be put to work in investments like houses and educations, and in savings for families and retirements. Indeed, as we will describe below, a number of policy and market initiatives to lower prices for lower income families are already underway. Each of these initiatives represents a growing recognition among policymakers that it's time for them to take the other side of low-income families' ledgers more seriously. Being lower income is not just about having a lower income; too often, it is also about having to pay high prices for goods and necessities. As this report illustrates, that's a massive roadblock for working families—but avenues exist to take it down. ■

When we add up all of these higher prices, lower income households can end up paying hundreds, even thousands of dollars more every year to buy the exact same goods or services that higher income households consume.

Methodology

It is exceedingly difficult to measure the prices different individuals pay for the exact same product. Consider, for instance, the price of orange juice, long a staple on Americans' breakfast tables. To help consumers decide among all of the brands and types of orange juice, grocery stores advertise the sticker cost of the product: $2.30 for concentrated orange juice, for instance, and $3.50 for freshly squeezed. Less prominently, grocers also advertise the per-unit price, which is the cost of the same amount of juice across the different brands and types (e.g., $0.44/ounce). This measure controls for a host of factors that can inflate or deflate the sticker cost, from the package size to the thickness of the container that the orange juice is contained in.

The difficulty for this analysis is that most surveys of consumer finances and expenditures measure sticker costs only. As a result, low-income consumers in these surveys appear to spend less on groceries than do higher income households. Lower income households, for instance, more likely buy generic brands instead of more expensive, freshly squeezed juice.[18] Over time, this means that they spend considerably less on orange juice than higher income households.

What this misses, though, is that per-unit price often varies from one community to another based on median household income. The same amount of juice, for instance, often will cost more in a low-income neighborhood than in a higher income neighborhood. When considering orange juice, this difference might not seem significant—but as we demonstrate below, this pattern of price varying by household income holds true for nearly all basic necessities, from small items like a tank of gas or the cost of cashing a check, to much larger items like home mortgages and auto insurance. When we add up all of these higher prices, low-income households can end up paying hundreds, even thousands of dollars more every year to buy the exact same goods or services that higher income households consume. Eliminating this price difference will provide a great opportunity to help lower income families get ahead.

To document that opportunity for public and private leaders throughout the country, we marshal national evidence where it is available, supplemented with local data from 12 metropolitan areas. The breadth of this sample allows us to make a general case about the higher prices lower income families

pay, and to present the most comprehensive picture possible on prices. Data was not always available for individual consumers, so we supplement individual level data with evidence from lower income neighborhoods.

Since most readers will not be familiar with these data sources, and because the availability of data is uneven across the different items measured, we go into detail about each of these dimensions of the analysis below.

ABOUT THE METROPOLITAN AREAS

To supplement and complement the analysis of national data we gathered information about 12 metropolitan areas that together account for about 23 percent of the entire U.S. population.[19]

The 12 metro areas provide geographic diversity but also represent diverse markets. Most importantly, the cost of living varies widely in our sample of metro areas. According to the 2005 ACCRA cost of living index, which measures 364 metropolitan areas, New York and San Francisco are respectively the first and second most expensive metros to live in throughout the entire country.[20] In contrast, Pittsburgh is ranked as the 217th most expensive metro.

The communities in our sample also cover a wide range of economic conditions. Real median wage growth in Indianapolis, Los Angeles, and Pittsburgh stood under 5 percent between 1998 and 2004.[22] On the other hand, San Francisco, New York, and Washington, DC all saw median wages grow by over 15 percent. Similarly, the poverty rate widely varies across our sample of metropolitan areas. Within the cities of Atlanta, Baltimore, Chicago, and Hartford more than one out every five people lives below the poverty line. In contrast, poverty rates in the cities of Indianapolis and San Francisco are both below the national rate. Such uneven opportunity across these metropolitan areas should account for the effects that the economy has on prices for necessities.

This study's 12 metro areas range from being some of the most expensive to the most affordable areas in the U.S.

Metro Area	Cost of Living Rank (of 364)
New York	1
San Francisco	2
Los Angeles	5
Washington, DC	12
Chicago	24
Hartford	30
Seattle	36
Baltimore	40
Denver	88
Indianapolis	110
Atlanta	145
Pittsburgh	217

Note: Cost of living rank is based on quarterly average price data for basic living expenses basis over a one-year period.
Source: ACCRA Cost of Living Index, 2005

ABOUT THE BASIC GOODS AND SERVICES

In this analysis we focus on basic necessities for lower income families, including food, housing, utilities, transportation, and financial services. Together, these items account for about 70 percent of the spending in a typical American household. Other goods and services, like health care, entertainment, apparel, and personal insurance, account for the balance of what households spend; unfortunately, no comparative data is available to assess how prices for these goods and services vary across income categories.

To measure how prices vary across basic necessities, we used a variety of data sources and methods. We summarize this information for each necessity below.

Groceries

For our analysis of per-unit food prices, we needed to measure what households of different incomes pay for the same basket of groceries. In this way we could hold constant all other factors that affect the prices consumers pay for groceries, like different brands or product sizes.[23] To do this, we looked at two types of information.

In total, we analyzed nearly 21,000 grocery stores for this report, using two types of information. The first is a comprehensive database of all grocery stores in each of these markets, from the 500 square foot "mom-and-pop" corner store to the 150,000 square foot Wal-Mart super center. Importantly, this means that there is a substantial range in the a) the quantity of food items, b) the quality of food items, and c) the availability of other services, such as a pharmacy, across our population of grocery stores.[24] From the perspective of the U.S., Canadian, and Mexican officials that jointly created this coding system, the common unifying good sold across all of these establishments is food. But, it is important to keep in mind that this is an otherwise very diverse group of establishments.

This database is maintained by InfoUSA, a private company that mines hundreds of resources to compile a comprehensive index of business establishments in America.[25] This database does not include data about grocery prices, but does contain information about each establishment's location, size and annual revenue. Because store size is strongly correlated with the price of products, we can make inferences about prices based on store size.[26]

Our second source is a database maintained by AC Nielson to look directly at prices in a sample of 3,000 mid- to large-sized grocery stores. This database is not a comprehensive index of grocery stores in the metro areas in our sample, nor is it a random sample of stores: the database only includes grocery store chains that are customers of AC Nielson. Both of these characteristics are important limitations, because the smaller, mom-and-pop stores are the very stores that we find are concentrated in lower income neighborhoods. Also, there is some evidence that suggests lower income neighborhoods have less access to chains.[27] Still, the stores in the AC Nielson sample do vary by size, which allows us to more closely examine the relationship between store size and food prices.

To develop a typical grocery cart of food items, we turned to the ACCRA cost of living index, which includes grocery prices.[28] Using their method as a guide, we examined prices for ground beef, chicken, canned-tuna, milk, eggs, margarine, processed cheese, potatoes, oranges, lettuce, sliced-bread, canned orange juice, coffee, sugar, cereal, frozen dinner, frozen corn, and soft drinks.

Within these food categories, we looked at the average per-unit price of the most popular products sold in these categories during the 12-month period between October 2004 and October 2005. We chose this method of comparison because we needed to compare the price of the exact same product across the 3,000 stores in our sample, and not all products are sold at every grocery store.[29] This yielded a total sample of 132 different food products sold across all of the stores in our analysis.[30] Since each participating store reports data every week, we then took the average price of each food item over the course of the 52 week period. Using this information, we were able to determine how the cost of these products systematically varied across each of the stores in our analysis.

Transportation

More than nine of every 10 American households have access to at least one car, including more than seven out of every 10 lower income households.[31] We focus on three types of automobile costs: the price of purchasing a car, a car loan, and car insurance.[32]

To measure the price of buying a car, we relied on an analysis by Fiona Scott Morton, Florina Zettelmeyer, and Jorge Silva-Risso published by the National Bureau of Economic Research.[33] Using a unique national database of over 650,000 car purchases, these scholars were able to control for over two dozen factors that influence the price that different customers pay for the same automobile. This makes it possible to isolate the independent effect of buyer income on the price of a car, along with the effects of race, gender, and educational attainment. But, to calculate the total effects of income on the price of a car, one would have to add in many of the other effects in this model because these factors also systematically covary with income.[34] Using this model, we can estimate the average mark-up fee lower income drivers typically pay.

To assess what different households pay to borrow the same amount of money for an auto loan, we used the 2004 Survey of Consumer Finances administered by the Federal Reserve. These data provide the only resource that we are aware of to assess how prices for auto loans vary by household income.[35] The Survey of Consumer Finances (SCF) is conducted every three years, and was based in 2004 on interviews with 4,522 families.[36]

Finally, we analyzed the price of insuring the exact same car and driver in each of the metropolitan areas included in this report. Because disclosure laws are so limited in the insurance industry, it is impossible to assess this issue with national data—such data just do not exist. We also cannot measure most of the factors considered by insurance companies in their insurance-rating models, some of which likely vary systematically by income.[37] But, we can look at data from the metro areas in our sample, and we can look at the effects of territories on prices—one important variable used by insurance companies to set prices.

To do this, we looked at the websites of three large insurance companies—Geico, Allstate, and Progressive—that together account for about 23 percent of the auto insurance market.[38] On each of these sites, we entered a similar profile of a car and driver and obtained auto insurance premium quotes for the minimum amount of legally required insurance.[39] To make the estimate as conservative as possible, we selected an optimal set of characteristics for the driver: 35 years old, married, with a clean driving record, a short (five-mile) daily commute to work, and limited annual mileage (between 10,000–15,000 miles). The car that we used is a five-year-old Ford Taurus, which is approximately equal in value to the median value of automobiles owned by individuals in the lowest income quintile, according to the 2004 Survey of Consumer Finances.

We entered this car and driver profile for each of the ZIP codes in the metropolitan areas in our sample.[40] This research method was designed to yield over 10,000 dif-

ferent price quotes for car insurance, or one premium for every company and ZIP code in the analysis. With this data, we then used the Census 2000 survey to estimate the median income in each of these ZIP codes.[41] In this way, we were able to analyze the relationship between neighborhood income and the price of auto insurance.

While this analysis speaks to the powerful influence of where a driver lives on the price of insurance, it is not without important limitations. For one, it does not account for the credit or insurance score of the driver, and the role that this information can play in shaping auto insurance premiums.[42] The analysis also omits a number of other factors commonly believed to raise the price of auto insurance for lower income drivers, including the driver's occupation and educational attainment of the driver.[43]

Basic Financial Services

We analyzed the four most prominent types of basic financial services: cashing checks, obtaining short-term loans, tax preparation, and wiring money. Together, these four services represent nearly all of the basic financial service products.[44]

Nearly all of the data for this part of the analysis is based on national surveys of consumer behavior and local information about prices. This reflects the gaps that exist in information today: We have very little information about how consumer behavior varies across types of markets, and we have very little information about average prices paid across the country. Still, the available data do provide a powerful set of facts that point to the higher prices lower income families tend to pay for these services.

To determine what consumers typically pay for these services, we used three major sources of data. The first are a series of national surveys, which are covered in each section of the report.

The second data source is information collected from banking regulators in each of the states represented by the metropolitan areas in our analysis. Through an assessment of information collected from both conversations with representatives and information on state-maintained web pages, we were able to assess the maximum interest rates and fees associated with using these products.[45]

Our other major source of information to assess the price of basic financial services was the InfoUSA database, reviewed earlier.[46] In total, we looked at nearly 34,000 providers of basic financial services, from mainstream banks and credit unions to more fringe businesses, like check-cashing establishments and payday lenders. Using these data, we looked at the location and annual revenue of each establishment. We then used the Census 2000 survey to estimate the median income in the neighborhood where each establishment is located. With this information, inferences were made about how the price of basic financial services varies by neighborhood income.

Importantly, the InfoUSA data categorizes establishments by their primary and secondary business

service, but does not capture every type of commodity sold. This means, for instance, that a gas station that derives the largest portion of its revenue from the sale of gas, sells food as its second biggest revenue source, and cashes checks as its third source of revenue, will not be listed in the InfoUSA database as a check-cashing business. For this reason, we systematically undercount the number of businesses in each category.[47]

We supplemented these major sources of data with information about specific companies in our analysis. While not as generalizable as the information collected from the states or InfoUSA, this evidence offers some powerful examples of the higher prices lower income households often must pay for these basic financial service products.

Housing

Our analysis of housing prices includes an assessment of the prices paid for mortgages, home insurance, and furniture and appliances. While this does not exhaust the list of important housing-related costs—such as maintenance, rent, and property taxes—there is no data to suggest that prices for any of these necessities are higher for lower income families than other households.[48]

To examine how mortgage prices vary by household income, we looked at two different datasets. The first is the 2004 Survey of Consumer Finances administered by the Federal Reserve, which we reviewed earlier in this section. These data allow us to compare how the typical amount borrowed and the typical rate charged for mortgages varies across different income categories. The data provide an excellent, national assessment of these higher prices.

We supplemented this analysis with data from the 2004 Home Mortgage Disclosure Act (HMDA), which provides information about a large proportion of the mortgages originated in the 12 metropolitan areas of our geographic sample. These data include a variable that flags whether an originated loan has a high price. The Federal Reserve Board defines high-price loans as those that have an annual percentage rate (APR) three percentage points above comparable Treasury notes for first liens and five percentage points above for junior liens. With this definition, the Board estimated they would capture over 95 percent of the sub-prime market.[49] Although, recent comparisons of the HMDA data with private data suggest that the Board's definition of "high cost" captures a substantially smaller share of the sub-prime market.[50]

To analyze the price of home insurance, we used a method similar to the consideration of auto insurance prices described above. The major difference is that only one of the three selected insurance companies makes home insurance quotes available, and does so for nine of the 12 metropolitan areas. For each of the ZIP codes in these nine metropolitan areas, we entered a similar profile of a house worth approximately $75,000, and requested the minimum amount of insurance required by the state. We then used the 2000 Census to estimate median income in each of these ZIP codes, then analyzed the relationship between neighborhood income and the price of home insurance.

To assess the price of furniture and appliances, we used two different resources. The first is survey data collected by the Federal Trade Commission, which analyzed various characteristics associated with 12,000 customers of rent to own stores.[51] The second resource is the InfoUSA database described in greater detail above. Using these data, we were able to build a profile of rent-to-own customers, while also illustrating where these establishments are geographically concentrated within each of the metropolitan areas studied.

ABOUT OUR DEFINITION OF LOWER INCOME FAMILIES

We used numerous data resources that estimate household income, including Home Mortgage Disclosure Act data, the Survey of Consumer Finances, a Federal Trade Commission Survey, Census Bureau surveys, and J.D. Power and Associates, among others. Because these data are in many different forms, we needed to establish a common definition of "lower income" across each of these different data resources. This was no small challenge, because there is no commonly accepted definition of lower income or poverty.[52] Some analyses use the federal poverty line as the point of demarcation, while others use some percentage above the poverty line. Still others use some measure of a "sufficient income" or receipt of some type of public benefit, like the Earned Income Tax Credit, as a definition.

The results presented in this analysis do not depend on choosing from one of the many available measures of lower income. In general, we find that prices decrease linearly or curvilinearly as household income or neighborhood income increases, where quantitative income information is available.

But, because we needed some way to illustrate these findings, and talk about the differences between lower income borrowers, neighborhoods, and everyone else, we needed to select a measure. Given the lack of agreement about the term "low-income" and "poor" and in light of the diverse measures of income in our datasets (and lack of a poverty measure), we elected to use increments of $30,000 as the common yardstick to assess the relationship between income and prices. We then elected to measure "lower income" as any neighborhood with a median income less than $30,000, or any household that earns less than $30,000—depending on the dataset in use.[53] In current dollars, this represents about half of the estimated value of the median family income in 2006.[54]

But, like any measure of "poverty" or "low-income" it is important to keep in mind the unique limitations of this particular measure. First, cost of living variance among the metro areas means that equal income in two cities does not mean equal purchasing power or quality of life: an annual income of $30,000 goes much farther in Pittsburgh than in San Francisco. Second, not all surveys measure the same units. A family with children making less than $30,000 is certainly less well-off than an individual living alone with the same income. Unfortunately, the data do not allow us to make these distinctions. Similarly, we would have ideally been able to distinguish between individuals, households, and families, but that type of specific data was not available across all of these diverse datasets.

Still, like a lot of these academically minded (unresolved) issues with a measure of "low-income" or "poverty," the importance of these limitations lays at the margins: at worst we are talking about lower income and very moderate-income households, instead of just "low-income" households. For all of these reasons, we refer to "lower income" households, consumers, and neighborhoods throughout the results section of this analysis, and contrast these units to "higher income" households, consumers, and neighborhoods. ■

FINDINGS:

The Higher Prices Facing Lower Income Consumers

I. BASIC FINANCIAL SERVICES

Low- and moderate-income consumers are more likely to buy high-priced basic financial services than higher income households.

Lower income families are more likely than other households to pay high prices for basic financial services like check cashing, short-term loans, tax preparation, and transmitting money. Depending on what products they purchase, the extent of their demand, and where and from what type of establishment they make their purchases, lower income families can pay as much as several thousand dollars every year in extra costs for these services.[55]

Lower income consumers are much more likely than higher income consumers to pay high prices to cash checks and take out short-term loans.[56]

Depending on where lower income families live and the types of services they consume, these costs can range from a few dollars more to over $2,000 every year in extra costs for these basic financial services.[57]

Lower income consumers pay more because of their greater reliance upon alternative, high-priced financial service companies, including check cashers, payday lenders, pawnshops, and auto-title lenders. For instance, survey evidence indicates that most check casher customers earn annual incomes below $30,000. Similarly, most payday-lending customers earn between $15,000 and $60,000 per year, and over 65 percent of pawnshop customers earn under $25,000.[58] All these types of businesses tend to charge a higher price for a comparable service or product sold by a bank or a credit union, thus indicating that the lower income consumers who frequent them are more likely than higher income households to pay high prices for basic financial services.

Exactly how much more lower income consumers pay depends on what products they consume, the extent of their demand, along with where and who they are buying the product from. For instance, cashing a check *generally* costs substantially more every year at a check-cashing establishment than at a bank, but exactly how much more varies across the country.[59]

Prices charged at check cashers range from approximately one percent of the face value of a check in West Virginia to no limit in 19 states.[60] Across the 12 metropolitan areas in our sample, maximum check-cashing fees generally range between 1.6 percent of the face value of a check in New York to up to 10 percent for personal checks cashed in Maryland.[61] Although there is no information about the exact prices charged at establishments in these areas, recent research suggests that fees are generally fixed at the maximum allowed rate.[62]

Thus, a family with a net income of $30,000 a year would pay about $18.46 every two weeks to cash a check in New York, or about $480 over the course of a year. In contrast, that same family would pay $1,500 to cash checks from a private company if they lived and worked in Atlanta.

At least in theory, the family need not pay anything to cash

Exactly how much more lower income consumers pay depends on what products they consume, the extent of their demand, along with where and who they are buying the product from.

The maximum allowable fee for check cashing services varies widely among the states

Select Geographies	Description of maximum fee allowed by state regulations
California (Los Angeles and San Francisco)	For government and payroll checks, fees may not exceed 3% of the value of the check with customer I.D., and 3.5% or $3 (whichever is greater) without I.D. Fees may not exceed $15 for bounced checks. A one-time fee to set up an account may not exceed $10.
Colorado (Denver)	Not regulated
Connecticut (Hartford)	Fees may not exceed 1% of the face value of government and payroll checks, and may not exceed 2% of the face value of all other checks.
District of Columbia (Washington)	Check cashers may not charge an additional fee for verification, handling, and documentation processing totaling more than $5 on a personal check with a face value of up to $250; no more than $10 on a personal check with a face value of $250.01-$500; no more than $15 on a personal check with a face value of $500.01-$750; and no more than $20 on a personal check with a face value of $750.01-$1,000.
Georgia (Atlanta)	Fees may not exceed 3% of the face value of government checks, 10% of personal checks, and 5% of all other checks.
Illinois (Chicago)	Fees may not exceed 1.4% of the face value plus $0.90 for checks under $500, and 1.85% of the face value for checks greater than $500.
Indiana (Indianapolis)	Fees may not exceed 10% of the face value of the check.
Maryland (Baltimore)	Fees may not exceed 3% of the face value of government checks, 5% of payroll checks, and 10% of personal checks.
New York (New York)	Fees may not exceed 1.58% of the face value of the check or $1, whichever is greater.
Pennsylvania (Pittsburgh)	Fees may not exceed 2.5% of the face value of government checks, 3% of payroll checks, and 10% of personal checks. One-time fee to investigate credit of consumer may not exceed $10.
Washington (Seattle)	No limit

Sources: California Department of Financial Institutions; Colorado Department of Regulatory Agencies; State of Connecticut Department of Banking; District of Columbia Department of Insurance, Securities and Banking; Georgia Department of Banking and Finance; State of Illinois Department of Financial and Professional Regulation; Indiana Department of Financial Institutions; Maryland Department of Labor, Licensing, and Regulation; State of New York Banking Department; Pennsylvania Department of Banking; Washington State Department of Financial Institutions

checks, because they could do so through a banking account. Although no inventory exists of banking products offered by every bank and credit union in the metropolitan areas in this analysis, recent industry reports suggest that a growing number of banks have started offering accounts with no maintenance fees, no minimum balance requirements, and no check-cashing fees.[63] Although the banking industry has traditionally lost money on checking accounts (even with monthly maintenance fees), banks and credit unions now widely view these accounts as a gateway to the other, more profitable services they offer.[64] In turn, competition for checking customers means that a growing number of banks are offering accounts that lower income consumers could rationally use as a substitute for paying fees to a check casher.

Lower income consumers also are more likely than higher income consumers to pay higher prices for short-term loans because they rely on alternative, high-priced lenders. As with the premium for cashing checks, just how much more they pay for short-term loans also varies across the country; the amount is also partially dependent upon what type of business sells the lower

The maximum allowable fee for payday lending services varies widely among the states

Select Geographies	Description of Maximum Fee Allowed by State Regulations
California (Los Angeles and San Francisco)	Maximum Charge = 15%; Maximum Loan Amount = $300
Colorado (Denver)	Maximum Charge = May not exceed 20% of the first $300 loaned plus seven and one-half percent of any amount loaned in excess of $300; Maximum Loan Amount = $500
Connecticut (Hartford)	Prohibited
District of Columbia (Washington)	Maximum Charge = 10% of face amount + fee of $5: $0–$250; $10: $251–$500; $15: $501–$750; $20: $751–$1000; Maximum Loan Amount = $1,000
Georgia (Atlanta)	Prohibited
Illinois (Chicago)	Maximum Charge = $15.50 per $100 ; Maximum Loan Amount =$1,000 or 25 percent of a borrower's gross monthly income, whichever is less
Indiana (Indianapolis)	Maximum Charge = 15%: $0–$250; 13%: $251–$400; 10%: $401–$500; Maximum Loan Amount = $500
Maryland (Baltimore)	Prohibited
New York (New York)	Prohibited
Pennsylvania (Pittsburgh)	Prohibited
Washington (Seattle)	Maximum Charge = 15%: first $500; 10%: remaining portion of the loan in excess of $500 up to the $700 maximum; Maximum Loan Amount = n.a.

Source: National Conference of State Legislatures, Consumer Federation of America (www.paydayloaninfo.org)

income consumer an alternative short-term loan.

For the 31 million lower income households that have a checking account, millions of them turn every year to payday lenders for short-term loans.[65] In fact, about 81 percent of the customers that buy high-priced payday loans earn less than $50,000 a year.[66]

Payday lenders typically provide a two-week loan in exchange for a personal check that the lenders will cash on the borrower's payday. State departments of banking regulate rates charged by payday lending businesses, which means that rates vary widely across the country.[67]

Across the country, fees for payday loans range from nothing (because the industry is banned) to higher than 15 percent of a loan's value in Colorado, Delaware, South Dakota, and other states.[68] In Washington, for instance, total fees and interest cannot exceed 15 percent of a loan for $500 or less (a 390 percent APR). Similarly, Illinois allows payday lenders to charge $15.50 for every $100 borrowed (a 403 percent APR).

The 9 million lower income households that don't have a checking account can turn to one of 14,000 pawnshops or one of the growing number of car-title lenders.[69] Prices for pawnshop loans range from no limit (in Arkansas, Iowa, Idaho, Maryland, North Dakota, Nebraska, South Dakota, Utah, and West Virginia) to 2 percent or less in Indiana and Missouri.[70] Across our sample of 12 metropolitan areas, pawnshop loan rates range from a low of 2.5 percent in the California metro areas for loans up to $225, to 20 percent in Chicago for the exact same loan amount. Similarly, recent evidence indicates that auto title loans bear an APR around 400 percent.[71]

There is no information about the prices actually charged at establishments in these areas, but recent research suggests fees are generally set at the maximum allowed rate.[72] Assuming this research is generalizable, a Seattle family in which one salaried worker earns a net income of $30,000 a year would pay about $270 to borrow $300 six times year from a payday lender. In Chicago, that same family would pay about $280 to borrow the same amount of money.

The maximum allowable fee for pawnshop loans varies widely among the states

Geography	Description of Monthly Fees Allowed (Includes Interest and Other Fees)
California (Los Angeles and San Francisco)	2.5% per month on the amount up to $225; 2% on the portion over $225 up to $900; 1.5% on the portion over $900 up to $1,650; 1% on the portion over $1,650. Service charge may range from $1 on any loan for not more than 90 days in amount of less than $15, to $140 on any loan for not more than 90 days in amount of $2,100-$2,500; plus a $3 loan setup fee for loans smaller than $50, or a setup fee of $5 for loans greater than $50; plus a $5 storage fee for items larger than 1 cubic foot, $10 for items larger than 3 cubic feet, $20 for items larger than 6 cubic feet, and $1 for each additional cubic foot of space.
Colorado (Denver)	20% per month for loans smaller than $50; 10% per month for loans greater than $50
Connecticut (Hartford)	5% per month for loans smaller than $15; 3% per month for loans between $14.01 and $50; 2% per month for loans greater than $50
District of Columbia (Washington)	2% per month for loans smaller than $200; 1% per month for loans greater than $200 but less than $1,000; 0.67% per month for loans greater than $1,000
Georgia (Atlanta)	For the first 90 days, 25% per month at a minimum of $10 per month. After 90 days, 12.5% per month at a minimum of $5 per month.
Illinois (Chicago)	20% per month
Indiana (Indianapolis)	2% per month for loans smaller than $960; 1.75% per month for loan amounts between $960 and $3,200; 1.25% per month for amounts greater than $3,200. May charge an additional fee of up to 20% per month for storage, setup fees, etc.
Maryland (Baltimore)	No specified limits
New York (New York)	3% per month
Pennsylvania (Pittsburgh)	3% per month, plus a $1 charge per pledge
Washington (Seattle)	Sliding scale from $1 for loans smaller than $10 to 3% for loans of $100 or more; plus a one-time fee ranging from $0.50 for loans smaller than $5 to $90 for loans of $4,500 or more.

Source: Tenney, Glen. "The Effects of Government Regulation on Competition and Supply in the Pawn Industry: A Quantitative and Qualitative Study." 2004.

As with check-casher fees, lower income families that pay these costs could avoid them by purchasing the same services from mainstream companies in the form of credit cards, home equity loans, and overdraft protection plans, among other products. One 2005 survey measuring 146 different credit card products sold by 47 different companies found that the average APR was 12.6 percent, and industry reports suggest that the typical APR on a home equity loan is even lower.[73] These rates are just a fraction of those charged by payday lenders and other alternative loan vendors.

This does not hold true, however, when consumers overdraw their checking accounts, effectively using them as a source of short-term loans, and incur overdraft fees.[74] Although no industry-wide assess-

ment measures the average rate banks charge for fees, several reports suggest that they can be quite high.[75] For instance, one major company charges $31 per overdraft.[76] Used once per month, six times a year, the Seattle low-income family that pays $270 to borrow $300 six times year from a payday lender would pay about $186 at this bank for that same loan amount.[77] If that family splits that overdraft fee between two bounced checks, however, these fees can quickly outpace charges levied by alternative sources.

Together, lower income consumers rely more on alternative, high-priced check-cashing and short-term loan companies than do higher income households. The annual cost of this reliance can range from a few extra dollars to several thousand dollars for lower income families.

Lower income consumers are also more likely than higher income consumers to pay high fees to get their tax returns quickly.

Lower income consumers are about as likely as higher income consumers to pay for tax preparation services. Nationwide, about 57 percent of lower income tax filers used for-profit tax preparation services in 2003, compared to about 61 percent of non lower income tax filers.[78]

However, when lower income families use for-profit tax preparation firms, they are much more likely than high-income consumers to buy refund anticipation loans (RALs), which are essentially advance payments made to filers based on the refund check from the IRS that they expect to receive. Because the IRS can take several weeks to cut a refund check, these loans have a stronger appeal to lower income families, who, by definition, are on more limited budgets.

Nationwide, about five percent of middle and higher income tax filers take out RALs, compared to about 15 percent of the lower income market.[79] Our sample of metropolitan areas reflects this trend: among middle and higher income households, demand for refund anticipation loans ranged from a low of 3.2 percent of filers in San Francisco to a high of nearly 8 percent in Atlanta. Among lower income filers, however, demand for RALs was much higher in every metropolitan area we sampled, ranging from a low of 6 percent in San Francisco to a high of over 21 percent in Atlanta.

Though no nationwide or metropolitan estimate of the cost of RALs exists, one recent study suggests that a major tax preparation firm typically charges about 250 percent.[80] Other widely cited studies suggest that rates can range from 70 to more than 1,800 percent.[81] This can add up to over $100 in fees for short, two-week loans—a cost, again, that lower income consumers are much more likely than higher income consumers to incur.

Lower income tax filers are much more likely than higher income tax filers to buy refund anticipation loans

	Proportion of Tax Filers That Buy Refund Anticipation Loans (2003)	
Metropolitan Area	Lower Income Households	All Other Households
San Francisco	5.9%	3.2%
Pittsburgh	8.4%	3.4%
Hartford	8.6%	3.3%
Denver	9.7%	4.2%
Seattle	10.3%	5.2%
Los Angeles	10.4%	4.1%
New York	11.0%	4.4%
Washington, DC	12.2%	5.2%
Chicago	14.5%	6.2%
Baltimore	16.2%	5.4%
Indianapolis	18.6%	7.7%
Atlanta	21.2%	8.0%

Source: Unpublished IRS data from Alan Berube and Porsha Cropper, The Brookings Institution

Lower income consumers are likely to pay fees to wire funds to foreign countries, fees less likely to be incurred by higher income households.

Evidence also suggests that lower income consumers are more likely than higher income consumers to buy remittance products. These services allow immigrants to send money back to their country of origin, nearly always for some type of fee. According to a recent analysis by Bendixen and Associates, 80 percent of U.S. buyers who send remittances to Latin America—the most common destination by far—earn annual incomes below $30,000.[82] This points to the much higher demand among lower income households for this basic financial service.[83]

Prices for remittances vary widely across markets, companies, and by the destination for the remittance. According to one recent study, sending a remittance to Mexico costs about 7.32 percent of the amount of money sent.[84] To send $200 every other week over the course of a year, then, would amount to about $320 in fees for that year. Given that 35 percent of immigrants in 2002 earned less than $20,000 a year, and 68 percent earned less than $35,000, hundreds of dollars spent on fees for remittance products can have a significant effect on the budget of a regular, lower income user.[85]

IMPLICATIONS

The dense concentration of businesses that sell high-priced financial services in lower income neighborhoods can serve to limit the choices of poorer consumers.

Nearly all of the high-priced, basic financial service companies we discuss in this section—alternative check cashers and short-term loan providers, tax preparation firms, and wiring companies—tend to be much more densely concentrated in lower income neighborhoods than higher income neighborhoods. Overall, however, the majority of these establishments are located in moderate-income neighborhoods, suggesting that the saturation of lower income markets has provided an incentive for these companies to move into higher income neighborhoods. We review the evidence on each of these types of businesses below.

Check Cashing and Short Term Loans

The highest, per-capita concentration of alternative check cashing and short-term loan providers are found in the lowest income neighborhoods of metropolitan areas.[86] Take Denver, for instance. According to our data, there are approximately 334 core alternative financial service providers in the metro area. In Denver neighborhoods with median incomes below $30,000, there is one of these establishments for every 3,196 residents. As the median income in a Denver neighborhood increases, the number of alternative providers of financial services per person decreases: neighborhoods with

Alternative check cashers and short-term loan providers are densely concentrated in lower income neighborhoods

Population Per Alternative Check Casher and Short-Term Loan Provider, by Neighborhood Income

	Neighborhood Income				
Geography	**$0–29,999**	**$30,000–59,999**	**$60,000–89,999**	**$90,000–119,999**	**$120,000+**
Seattle metro	2,330	6,888	38,244	n.a.	n.a.
Denver metro	3,196	4,755	22,957	27,416	n.a.
Atlanta metro	4,230	5,297	19,019	66,154	33,702
Indianapolis metro	4,357	6,385	20,434	n.a.	n.a.
Baltimore metro	4,901	14,270	68,083	147,356	n.a.
Los Angeles metro	5,873	8,856	28,110	155,864	n.a.
San Francisco metro	5,899	11,938	39,071	74,456	n.a.
Hartford metro	5,985	28,849	55,624	n.a.	n.a.
Washington, DC metro	6,369	7,199	21,994	49,505	218,405
New York metro	9,314	15,303	32,203	116,847	108,350
Pittsburgh metro	10,825	23,392	218,803	n.a.	n.a.
Chicago metro	17,661	16,621	28,845	40,045	40,781
Metro Average	**7,130**	**10,061**	**29,663**	**77,366**	**133,221**
Seattle city	3,560	11,565	62,219	n.a.	n.a.
San Francisco city	3,655	13,179	68,810	n.a.	n.a.
Baltimore city	4,724	12,589	33,918	n.a.	n.a.
Indianapolis city	4,769	5,568	15,355	n.a.	n.a.
Denver city	5,054	7,281	66,690	10,528	n.a.
Atlanta city	6,363	16,804	n.a.	30,879	11,737
Los Angeles city	6,822	11,570	27,902	66,113	n.a.
Oakland city	7,861	12,084	n.a.	n.a.	n.a.
Hartford city	7,919	33,659	n.a.	n.a.	n.a.
Washington, DC city	8,833	8,086	10,156	5,553	n.a.
New York city	9,410	14,271	13,550	19,242	10,050
Pittsburgh city	9,891	132,560	n.a.	n.a.	n.a.
Chicago city	20,781	28,436	8,928	14,731	n.a.
City Average	**7,600**	**10,915**	**15,410**	**26,465**	**32,929**

Source: Author's analysis of 2005 data from InfoUSA, and 2000 Census Bureau Data

Note: Averages are population weighted

Most alternative check cashers and short-term loan providers are located in moderate-income neighborhoods

Distribution of Alternative Check Cashers and Short-Term Loan Providers by Neighborhood Income

	Neighborhood Income				
Geography	**$0–29,999**	**$30,000–59,999**	**$60,000–89,999**	**$90,000–119,999**	**$120,000+**
Washington, DC metro	8%	65%	23%	3%	0%
Chicago metro	11%	67%	19%	2%	1%
Atlanta metro	12%	77%	10%	1%	0%
Denver metro	12%	79%	8%	1%	0%
Seattle metro	16%	77%	7%	0%	0%
Indianapolis metro	18%	75%	8%	0%	0%
San Francisco metro	18%	61%	19%	3%	0%
Los Angeles metro	32%	62%	6%	0%	0%
New York metro	33%	51%	15%	1%	0%
Baltimore metro	43%	49%	7%	1%	0%
Hartford metro	43%	40%	17%	0%	0%
Pittsburgh metro	44%	55%	1%	0%	0%
Metro Average	**22%**	**62%**	**14%**	**1%**	**0%**
Denver city	18%	80%	1%	1%	0%
Indianapolis city	21%	72%	7%	n.a.	0%
Chicago city	25%	54%	20%	1%	0%
Washington, DC city	26%	55%	12%	8%	0%
Seattle city	28%	69%	4%	0%	0%
Oakland city	38%	62%	0%	0%	0%
New York city	42%	45%	12%	1%	0%
San Francisco city	43%	48%	9%	0%	0%
Los Angeles city	53%	43%	4%	0%	0%
Atlanta city	65%	33%	0%	2%	0%
Baltimore city	68%	31%	1%	0%	n.a.
Hartford city	86%	14%	n.a.	n.a.	n.a.
Pittsburgh city	92%	8%	0%	0%	n.a.
City Average	**38%**	**53%**	**8%**	**1%**	**0%**

Source: Author's analysis of 2005 data from InfoUSA, and 2000 Census Bureau Data

Note: Averages are population weighted

median incomes between $30,000 and $60,000 have one store for every 4,755 residents; those with median incomes between $60,000 and $90,000 have one storefront for every 22,957 residents; and so on. This points to the very high relative density of alternative providers of check cashing and short-term loan services in lower income neighborhoods.

While concentration is highest in lower income communities, the bulk of alternative financial service sector storefronts are found in moderate-income neighborhoods with median incomes between $30,000 and $60,000. In Chicago, for instance, although the city's lowest-income neighborhoods are home to a much higher per-capita number of vendors of alternative financial services, more than two-thirds of these establishments in the metro area are located in neighborhoods with moderate incomes.

This trend is replicated in nearly every metro area in our sample: While alternative check cashing and short-term loan providers are much more highly concentrated in cities' lowest-income neighborhoods, most of the establishments are located in neighborhoods with more moderate incomes.

Tax Preparation Firms

Tax preparation establishments tend to be the most densely concentrated in moderate-income neighborhoods with median incomes between $30,000 and $60,000, rather than in lower- and higher-income neighborhoods. Moderate-income neighborhoods within the Chicago metropolitan area, for instance, have one tax preparation establishment for every 5,011 residents. That compares to about 8,200 people in a lower income neighborhood, 5,716 people in neighborhoods with median incomes between $60,000 and $90,000, 6,204 people per-establishment in a neighborhood with a median income between $90,000 and $120,000, and so on.

Our sample does include exceptions to this trend, however. Tax preparation firms in Denver, Pittsburgh, San Francisco, and Seattle are most highly concentrated in the lowest-income neighborhoods of those cities. In Seattle, for instance, there is one tax establishment for every 3,035 residents of neighborhoods with median incomes under $30,000. Neighborhoods with median incomes between $30,000 and $60,000, on the other hand, have one establishment for every 4,009 residents, and neighborhoods with median incomes between $60,000 and $90,000 have one tax preparation firm for every 8,172 residents.

For-fee tax preparation firms are densely concentrated in moderate income neighborhoods

Population Per Tax Return Preparation and Filing Establishment, by Neighborhood Income

	Neighborhood Income				
Geography	**$0–29,999**	**$30,000–59,999**	**$60,000–89,999**	**$90,000–119,999**	**$120,000+**
Atlanta metro	5,091	3,331	4,934	12,028	n.a.
Baltimore metro	5,945	4,363	7,360	10,525	n.a.
Chicago metro	8,200	5,011	5,716	6,204	8,739
Denver metro	4,021	5,022	5,483	12,745	5,289
Hartford metro	5,205	4,282	5,115	15,467	n.a.
Indianapolis metro	5,559	4,713	10,547	17,179	n.a.
Los Angeles metro	4,201	3,357	4,240	5,720	6,785
New York metro	8,182	6,557	6,005	7,387	11,405
Pittsburgh metro	3,796	6,440	6,078	5,268	n.a.
San Francisco metro	2,282	2,937	3,688	4,856	3,375
Seattle metro	3,035	4,099	8,172	91,781	n.a.
Washington, DC metro	6,369	3,657	5,206	8,736	12,134
All Metros	**5,434**	**4,367**	**5,357**	**7,057**	**10,336**
Atlanta city	7,635	7,202	7,428	30,879	n.a.
Baltimore city	6,239	7,601	16,959	5,493	n.a.
Chicago city	8,906	6,995	4,310	29,462	n.a.
Denver city	5,686	7,374	16,673	5,264	n.a.
Hartford city	7,309	11,220	n.a.	n.a.	n.a.
Indianapolis city	5,621	5,197	16,890	n.a.	n.a.
Los Angeles city	4,987	4,943	5,131	6,010	16,879
New York city	8,964	8,378	6,606	6,791	30,149
Pittsburgh city	7,253	44,187	21,956	n.a.	n.a.
San Francisco city	2,335	3,533	6,036	2,490	n.a.
Oakland city	2,246	4,711	20,432	8,296	n.a.
Seattle city	3,337	4,755	5,656	n.a.	n.a.
Washington, DC city	9,298	4,299	8,309	4,165	5,791
All Cities	**6,269**	**5,267**	**5,265**	**6,107**	**11,622**

Source: Author's analysis of data from InfoUSA

Wiring Services

Like the tax preparation firms, nearly all of the core providers of remittance services are located in neighborhoods with median incomes of less than $60,000. In 2005, over 84 percent of the establishments were located in these neighborhoods.

Again, however, these services are most densely concentrated in the lowest-income neighborhoods of all but two of the metropolitan areas in our sample. Chicago is typical of this general trend. There is about one business that sells wiring services for every 18,367 residents of Chicago's lowest income neighborhoods. As income rises, the density of these businesses drops. For instance, neighborhoods with a median income between $60,000 and $90,000 have about one wiring service for every 60,505 residents.

What's more, the concentration of these businesses varies systematically with the density of immigrants across our sample of 12 metropolitan areas. In particular, Chicago, Los Angeles, and New York, all with substantially larger numbers of foreign born citizens relative to all of the other areas in our sample, have greater density of these services in their lower income neighborhoods, reflecting higher potential demand among consumers in those communities.[87]

A substantial number of neighborhoods in each of the metros have no financial service establishments and no mainstream establishments in particular.

Banks and credit unions have footholds in place to compete with these higher-priced sellers of basic financial services.

About 29 percent of the lower income neighborhoods in our sample has at least one bank or credit union. Moreover, over 75 percent of the lower income neighborhoods we analyze are adjacent to a neighborhood with a bank or credit union.

This points to another important trend in the data: a majority of these alternative, high-priced check cashing and short-term loan businesses are meeting the demand for these basic financial services among lower income households literally down the street from mainstream banks and credit unions. In fact, of the 3,278 neighborhoods in our sample that included an alternative checking and short-term loan provider, 49 percent of these neighborhoods also had a bank or a credit union, and nearly 80 percent of these neighborhoods were adjacent to a neighborhood with a bank or credit union.

Still, a substantial number of neighborhoods in each of the metros have no financial service establishments and no mainstream establishments in particular.

In Atlanta, for instance, less than half of the lower income neighborhoods in the metro area are home to a bank or a credit union, compared to 100 percent of the neighborhoods with median incomes above $120,000. Clearly, while a large infrastructure for mainstream financial services is already in place, geographic gaps remain.

Wire transfer/remittance firms are densely concentrated in lower income neighborhoods

Population Per Remittance/Wire Transfer Service, by Neighborhood Income

	Neighborhood Income				
Geography	**$0–29,999**	**$30,000–59,999**	**$60,000–89,999**	**$90,000–119,999**	**$120,000+**
Chicago metro	18,367	31,900	60,505	220,249	122,343
Los Angeles metro	19,124	49,629	94,871	311,729	n.a.
Denver metro	31,160	89,318	642,801	109,663	n.a.
Seattle metro	32,625	92,648	956,105	n.a.	n.a.
New York metro	39,901	43,385	105,151	160,664	433,400
Hartford metro	39,902	109,628	n.a.	n.a.	n.a.
Atlanta metro	42,906	37,399	235,838	88,206	n.a.
San Francisco metro	48,376	74,885	117,214	n.a.	n.a.
Pittsburgh metro	83,509	122,360	218,803	n.a.	n.a.
Indianapolis metro	161,206	247,430	n.a.	n.a.	n.a.
Baltimore metro	181,319	93,306	136,166	n.a.	n.a.
Washington, DC metro	203,797	55,192	85,108	198,019	n.a.
Metro Average	**30,422**	**49,517**	**109,663**	**215,809**	**599,495**
Seattle city	13,349	42,791	124,438	n.a.	n.a.
Los Angeles city	17,509	45,543	74,406	132,226	n.a.
Chicago city	17,812	23,544	20,832	n.a.	n.a.
Denver city	22,745	71,895	66,690	n.a.	n.a.
Hartford city	31,674	67,317	n.a.	n.a.	n.a.
Oakland city	36,686	277,936	n.a.	n.a.	n.a.
San Francisco city	42,031	42,833	68,810	n.a.	n.a.
New York city	43,350	47,571	88,077	n.a.	n.a.
Atlanta city	76,353	75,617	74,280	30,879	n.a.
Pittsburgh city	108,799	132,560	n.a.	n.a.	n.a.
Indianapolis city	157,382	207,882	n.a.	n.a.	n.a.
Baltimore city	330,681	204,416	n.a.	n.a.	n.a.
Washington, DC city	n.a.	55,603	30,467	33,319	n.a.
City Average	**30,154**	**44,495**	**66,524**	**158,788**	**n.a.**

Source: Author's analysis of 2005 data from InfoUSA, and 2000 Census Bureau Data

Note: Averages are population weighted

On average, 30 percent of lower income neighborhoods across the 12 selected metro areas have at least one bank or credit union

Proportion of Neighborhoods with a Bank or Credit Union, by Neighborhood Income

	Neighborhood Income				
Geography	**$0–29,999**	**$30,000–59,999**	**$60,000–89,999**	**$90,000–119,999**	**$120,000+**
New York metro	18%	23%	29%	20%	19%
Chicago metro	23%	49%	67%	72%	59%
Los Angeles metro	30%	30%	26%	20%	15%
Baltimore metro	31%	60%	64%	52%	0%
Atlanta metro	41%	58%	73%	56%	88%
Hartford metro	41%	68%	56%	13%	100%
Washington, DC metro	41%	54%	60%	53%	43%
San Francisco metro	43%	44%	46%	42%	23%
Indianapolis metro	44%	65%	76%	80%	100%
Seattle metro	50%	39%	30%	20%	33%
Pittsburgh metro	55%	52%	52%	40%	100%
Denver metro	57%	48%	47%	54%	40%
Metro Average	**29%**	**40%**	**44%**	**36%**	**31%**
New York city	22%	30%	41%	52%	67%
Chicago city	24%	48%	71%	64%	67%
Baltimore city	28%	50%	50%	50%	n.a.
Oakland city	29%	33%	33%	47%	50%
Los Angeles city	32%	38%	48%	33%	12%
Washington, DC city	38%	43%	57%	63%	44%
Atlanta city	39%	56%	57%	67%	100%
Hartford city	41%	59%	n.a.	n.a.	n.a.
Indianapolis city	43%	68%	74%	0%	100%
Pittsburgh city	44%	38%	44%	100%	100%
Denver city	52%	50%	76%	67%	0%
San Francisco city	58%	47%	40%	70%	0%
Seattle city	93%	54%	43%	0%	50%
City Average	**29%**	**40%**	**49%**	**50%**	**39%**

Source: Author's analysis of 2005 data from InfoUSA, and 2000 Census Bureau Data

Note: Averages are population weighted

Why are financial services more costly for lower income consumers?

This section has shown that lower income families are generally much more likely than higher income families to buy costly basic financial services. This is reflected both by survey evidence and by the location of these businesses, which generally tend to be more densely concentrated in lower income neighborhoods than higher income neighborhoods.

To bring down these higher costs, policymakers will have to grapple with the myriad factors that drive lower income consumers to buy these high priced products.

First, banks and credit unions face both real and perceived higher costs of doing business with lower income consumers.

Today, for instance, over 23 percent of lower income households do not have a checking account, and another 64 percent do not have a savings account.[88] To be sure, these millions of lower income consumers represent an unmet market demand. While there is some banking presence in many lower income neighborhoods, many consumers do not use them either because of negative perceptions or lack of products to meet their needs.

Lower income consumers need financial products that make sense for them. That means banks need to offer no, or very low, minimum balance requirements, an affordable overdraft protection plan, and no, or very low, maintenance fees. Not all banks offer these services; those that do not face product development and marketing costs to bring these products into the market. Together, these market dynamics drive both real and perceived higher costs of doing business in lower income neighborhoods.

Second, unscrupulous business practices drive up prices in lower income markets.

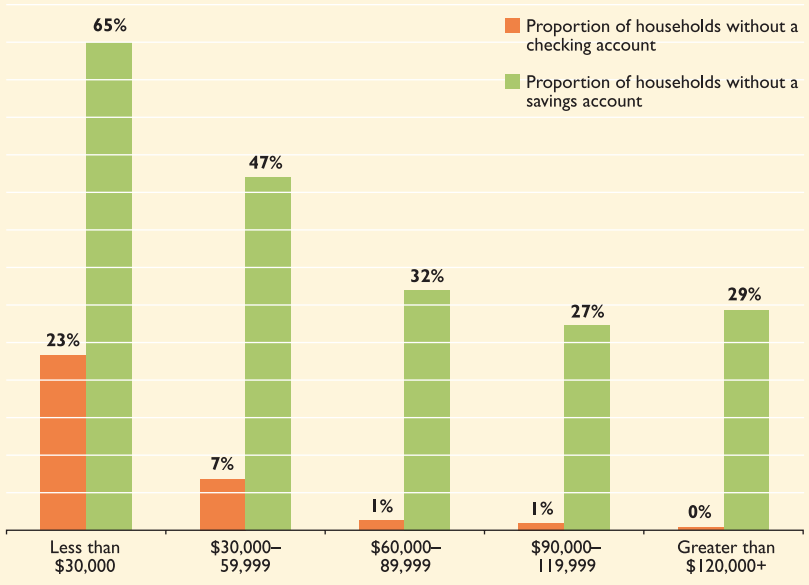
In some cases, this means that regulatory protections are insufficient. As this section has noted, for instance, companies can charge APRs of 400 to 500 percent for check-cashing services, short-term loans, and refund anticipation loans in some of the areas in this analysis. States that pass laws allowing those astronomical rates keep high-priced providers in business.

In other cases, regulatory complacency is reflected by the insufficiency of information given to regulated institutions. For instance, some experts report that there is widespread misunderstanding in the banking community about the paperwork requirements required for opening accounts.[89] Regulators can help banks move into these markets by more widely disseminating information about which specific types of identification are considered acceptable and not acceptable for banks to use when opening up bank accounts.

Finally, consumers lack information about banking services.

Numerous studies point to misperceptions lower income consumers hold about banks, possibly stemming from bad experiences or lack of interaction with banks or credit unions.[90] Studies also show that the lower a consumer's income, the less financial knowledge he or she is likely to have: for instance, some lower income families may not know that a checking account can often be a better financial deal than check cashers.[91] Finally, language barriers, along with cultural obstacles, can steer lower income families toward high-priced financial services.[92]

Lower income households are much less likely than higher income households to own a checking or savings account



Source: Author's analysis of the 2004 Survey of Consumer Finances

II. CARS

Lower- and moderate-income consumers are more likely than higher income households to pay higher prices for car-related products.

Lower income families consistently spend more to purchase cars and take out auto loans than do higher income families. On average, lower income households pay between $50 and $500 more in car prices and an extra two percentage points on an auto loan. Together, these higher prices can add up to over $1,000 every year, depending on the specific combination of products purchased.[93]

There is also evidence suggesting that lower income families tend to pay higher auto insurance prices, although insurance industry disclosure laws are too restrictive to reliably quantify the exact value of that premium. We do find, though, that it is generally much more expensive to insure a car in lower income neighborhoods within metropolitan areas than in higher income neighborhoods.

Consumers from lower income neighborhoods typically pay between $50 and $500 more for the same car as consumers from higher income neighborhoods.

The typical lower income car buyer pays more for a car than a higher income counterpart. While a number of studies have attempted to capture this dynamic, probably the best recent research is by Fiona Scott Morton and her colleagues, who recently analyzed a national sample of 650,000 car purchases.[94] After controlling for a number of factors that influence car prices, including the make and model of cars, the neighborhood income of the car buyer—their proxy for the income of the car buyer—had a significant effect on the final price of a car. They also found that race, and a number of characteristics associated with household income, like educational attainment and renter status, have a strong effect on the price of a car.

What these effects mean is that two customers who buy the exact same car will pay different prices that vary systematically based on certain characteristics. We can see the power of these effects by comparing two hypothetical car buyers.[95] The first is white, has a high school diploma, owns a house, and lives in a neighborhood with a median income of $80,000. The second customer is black, dropped out of high school, rents, and lives in a neighborhood with a median income of $20,000. According to the analysis by Morton and her colleagues, the second customer will pay about $500 more than the first customer for the exact same car.

Income only accounts for a small share of this direct effect because Morton and her colleagues control for a number of other car-buyer characteristics. But, income covaries with many of the other independent variables in this analysis, so the total effect of income adds

up to more than just the direct effect of income. For instance, the much larger effect is race, which accounts for over $300 more, on average, in additional costs, not charged to a white car buyer. Educational attainment and renter status also have significant effects, bringing the total effect to about $500 in extra charges for this hypothetical consumer.

On average, lower income consumers pay two percentage points more for auto loans than higher income consumers.

Every year, about 4.5 million lower income consumers pay a higher than average APR for their auto loans.[96] In 2004, the average annualized rate of interest paid by lower income households was about 9.2 percent. In contrast, households that earned between $30,000 and $60,000 a year paid an average rate of about 8.5 percent; households earning between $60,000 and $90,000 paid an average rate of about 7.2 percent; households earning between $90,000 and $120,000 paid about a 6.3 percent rate; and households that earned more than $120,000 paid about a 5.5 percent rate. Auto loan prices have a nearly perfect, linear relationship with household income.

This relationship has implications that go beyond what a typical household in each income category might pay for an auto loan. To see this, we analyzed the middle 50 percent of all households in each income category—those that fall between the 25th and 75th percentile—in terms of what APRs they paid. This captures a much bigger section of the population than does an analysis of the central tendency.

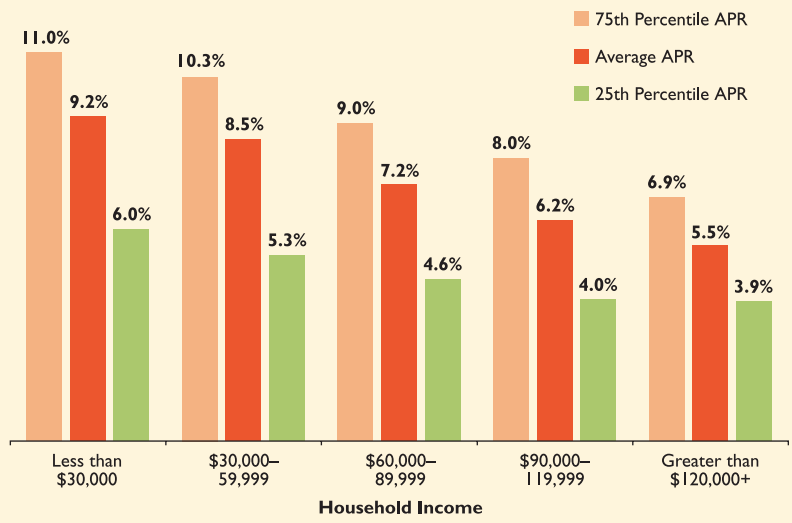
According to this analysis, the middle 50 percent of lower income households pay between 6.0 and 11.0 percent interest for their auto loans. That range systematically falls as household income increases. On the other side of the distribution, for instance, half of the households that earn more than $120,000 a year pay between 3.9 and 5.3 percent interest on their auto loan—both a smaller range and a much less expensive set of rates than those paid by lower income households.

The data also indicate that lower income households are much more likely to pay extremely high interest rates for auto loans, rather than just a higher average price. To see this, we considered the household income of all of the households that paid a higher average APR than 75 percent of all of the other households in 2004. This isolated the households that pay unusually high rates to maintain their auto loans.

Consistent with other results, we found that almost 40 percent of all lower income households with auto loans pay these extremely high rates. In contrast, just 30 percent of households with annual incomes between $30,000 and $60,000 pay these high rates; along with 20 percent of households with annual incomes between $60,000 and $90,000; 13 percent of households that earn between $90,000 and $120,000 annually; and just 6 percent of all households with annual incomes above $120,000.

Taken together, these data demonstrate conclusively that lower

Lower income consumers are more likely to pay higher prices for auto loans than higher income borrowers



Source: Author's analysis of 2004 Survey of Consumer Finances

Note: Dollar amounts are household income

income households tend to pay higher prices for auto loans than do higher income households. Just how much more varies widely across lower income consumers, but we can see how much more the typical lower income consumer pays for an auto loan. In particular, an auto loan of $5,000—about the median value of the typical car owned by a lower income household—would cost $1,256 in interest over the course of five years at a rate of 9.2 percent, the average charged to lower income borrowers. In contrast, a household earning more than $120,000 a year is charged an average rate of 5.5 percent, and thus pays just $730 in interest over five years. That represents a savings of over $500 to the higher income household relative to what the lower income household pays.

Holding other factors constant, drivers from lower income neighborhoods pay between $50 to over $1,000 more per year in higher prices for auto insurance than higher income drivers.

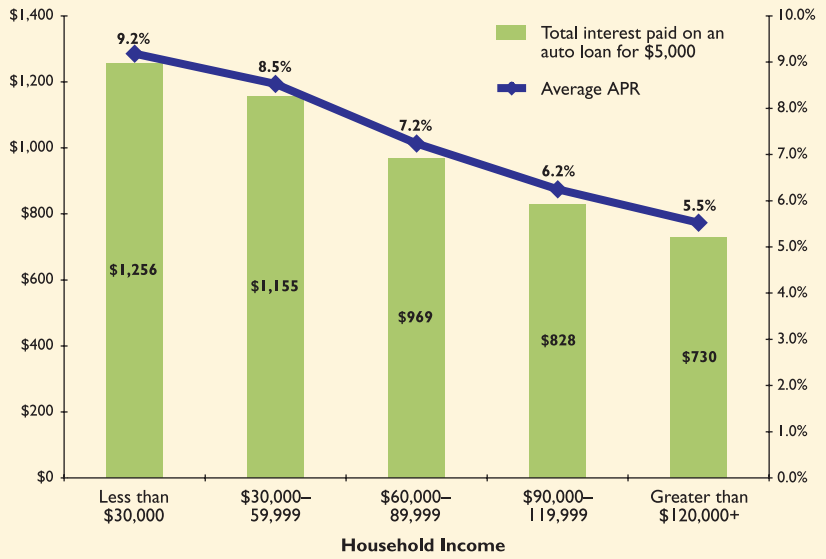
Because disclosure laws in the insurance industry are so limited, it is difficult to reliably quantify the national average prices different drivers pay for the same insurance policy. But we can look at our sample of metropolitan areas–home to nearly a quarter of Americans–to estimate how these price differences vary across neighborhoods.

Across our sample of metropolitan areas, we find that the highest prices for auto insurance are in the lowest income neighborhoods. New York, Hartford, and Baltimore had the highest price differentials across neighborhoods. In these three metros, 12 months of auto insurance in neighborhoods with median incomes of less than $30,000 costs over $400 more, on average, than in neighborhoods with median incomes between $90,000 and $120,000. New York has the highest price differential in our sample: it costs nearly $1,000 more every year, on average, to insure the exact same car and driver in a lower income neighborhood than in a moderate-income neighborhood, with a median income between $30,000 and $60,000.

In lower income neighborhoods within the eight other metros, the price differential was more modest, generally adding up to $50 to $150 extra every year. Chicago, where we found that it costs between $106 and $138 more every year to insure a car in the lowest income neighborhoods of the metropolitan area, was typical of this trend. Similarly, car insurance customers from the lowest income neighborhoods of Indianapolis pay anywhere from a $60 to $90 premium compared to higher income neighborhoods.

Looking only at the central cities of these metropolitan areas, we saw the exact same trend play out in ten of the twelve cities: Purchasers in the lowest income areas paid the highest prices for auto insurance. New York, again, showed the highest price differential across neighborhoods. In neighborhoods where the median income is less than $30,000, average prices for twelve months of insurance were between $210 and $670 more expensive than in higher income neighborhoods within the city. More typical

Higher auto loan prices for lower income households can add up to hundreds of dollars in extra costs



Source: Author's analysis of the 2004 Survey of Consumer Finances

Note: Average APR is taken from the 2004 Survey of Consumer Finances; loan amount is shown for illustrative purposes only

Auto insurance tends to be more expensive in lower income neighborhoods than higher income neighborhoods

Average Price of Car Insurance, by Neighborhood Income

	Neighborhood Income				
Geography	**$0–29,999**	**$30,000–59,999**	**$60,000–89,999**	**$90,000–119,999**	**$120,000+**
Pittsburgh metro	$356	$356	$348	$330	n.a.
Indianapolis metro	458	384	392	366	366
San Francisco metro	604	542	538	508	496
Seattle metro	614	600	564	568	540
Chicago metro	628	522	490	492	500
Atlanta metro	662	554	566	574	n.a.
Denver metro	730	610	610	588	n.a.
Los Angeles metro	802	694	624	644	790
Washington, DC metro	806	594	552	550	566
Baltimore metro	944	616	544	520	n.a.
Hartford metro	1,268	800	720	750	n.a.
New York metro	1,660	1,110	678	854	848
Metro Average	**$831**	**$660**	**$678**	**$680**	**$724**
Pittsburgh city	396	382	n.a.	n.a.	n.a.
Indianapolis city	458	428	426	n.a.	n.a.
Seattle city	596	620	548	n.a.	n.a.
Oakland city	610	594	578	n.a.	n.a.
San Francisco city	652	602	614	588	n.a.
Chicago city	664	612	522	552	n.a.
Atlanta city	726	640	594	602	n.a.
Denver city	730	686	670	n.a.	n.a.
Washington, DC city	822	822	822	822	822
Los Angeles city	826	776	746	798	790
Baltimore city	1,042	818	n.a.	n.a.	n.a.
Hartford city	1,336	1,336	n.a.	n.a.	n.a.
New York city	1,766	1,556	1,214	1,096	n.a.
City Average	**$1,064**	**$927**	**$834**	**$802**	**$790**

Source: Author's analysis of data collected from three major insurance companies

Note: Averages are population weighted

across these ten cities was the gap in San Francisco, where buyers from the lowest income neighborhoods paid between $38 and $64 more for auto insurance than did those from the city's more expensive neighborhoods.

Prices could be even higher for lower income drivers because of a number of driver characteristics that are factored into pricing decisions made by insurance companies. Some of these factors, like credit scores, occupation, and education, are strongly associated with household income.[97] This suggests, though it certainly does not prove, that lower income drivers may systematically pay higher prices for auto insurance. But because there are so few disclosure laws in the insurance industry, there is not sufficient data to analyze the full impact of all of these factors. More than any other issue we discuss in this report, the dearth of good data impairs our understanding of the relationship between income and insurance prices.

Why are these auto and auto-related products more expensive for lower income households?

This section reviewed evidence of the higher prices lower income consumers tend to pay for cars, car loans, and car insurance. Three major causal factors exist for these higher prices.

First, sellers of these auto products face real and perceived risks of doing business in lower income neighborhoods.

Lower income consumers have proven more likely to miss loan payments and to live in areas where it is more expensive to insure drivers.[98] In addition to the real added costs these risks carry, they also foster a perception of higher costs of doing business with lower income consumers, particularly when measurements of these risks are not precise, such as with insurance pricing. Sellers pass on these higher costs—both real and perceived—to lower income consumers by charging them more. As we discuss in the recommendations section, there are both policy and market tools to lower these costs of doing business.

Second, unscrupulous businesses and business practices inflate the prices charged to lower income consumers for car-related necessities.

Some evidence suggests that car dealers may systematically discriminate against black car buyers when setting a sales price.[99] Also, the much higher interest rates lower income drivers pay for auto loans may be due to poor credit or payment histories but also may be due to unscrupulous businesses inflating prices. Because the rate of car ownership among lower income families has been growing at a much faster pace than among higher income families, the sheer volume of new purchasers for cars and related products suggests that a lot of these customers may not

have the experience or knowledge to spot and avoid unscrupulous businesses that overcharge.[100]

Finally, lower income consumers tend to be less well-informed than higher income consumers.

Lower income consumers are generally much less likely to compare prices before buying goods and services, which likely makes them more susceptible to bad deals. At the very least, this weakens the buyer's position when shopping for cars, car loans, and car insurance. Any customer who does not know, for instance, what price a dealer paid for a car, the various strategies dealers use to artificially inflate prices, or even that prices are negotiable, will be at a significant disadvantage when they want to purchase a car.

Similarly, lower income consumers are less likely to understand credit scores—an important factor in what sellers charge for loans and insurance—which may needlessly drive up the prices these consumers pay. For instance, one recent survey found that only 56 percent of the respondents with a low educational attainment, and 64 percent of respondents with a lower income, indicated that they knew that their credit rating weakened when they missed a credit card payment.[101] Knowing less about this market product may make it more difficult for lower income consumers to bring up their credit scores.

III. HOMES

Lower- and moderate-income consumers are more likely than higher income households to pay higher prices for home-related products.

Lower income consumers are more likely than higher income households to buy higher-priced home furniture and appliances. Together, these extra costs can add up to thousands of dollars for lower income families, depending on what combination of products they consume.

Similarly, evidence suggests that it is generally more expensive to insure a home in a lower income neighborhood than in a higher income neighborhood, and that lower income home insurers may pay an additional premium, above and beyond the premium they pay for the neighborhood they live in.

Lower income homeowners paid, on average, a percentage point more than higher income households in mortgage interest and fees.

Nationwide, more than 4.2 million lower income homeowners pay a higher than average APR for their mortgage.[102] In 2004, the average annualized rate of interest on a first mortgage for lower income households was about 6.9 percent.[103] By contrast, households that earned between $30,000 and $60,000 a year paid an average rate of about 6.5 percent; households earning between $60,000 and $90,000 paid an average rate of about 6.0 percent; households earning between $90,000 and $120,000 paid about a 5.9 percent rate; and households that earn more than $120,000 paid a rate of approximately 5.5 percent. The much smaller second mortgage market shows a nearly identical pattern. Over the course of a loan, these higher annual percentage rates paid by lower income households can add up to tens of thousands of dollars in additional charges.

Higher mortgage prices have implications for more than just the typical household with a mortgage in each income category. To see this, we analyzed the middle 50 percent of all households in each income category—those that fall between the 25th and 75th percentile—in terms of what APRs they paid. This illustrates the rates that the middle 50 percent of each income category pay for mortgages, which captures a much bigger section of the population than an analysis of the central tendency.

According to this analysis, the middle 50 percent of lower income households paid between 5.4 and 7.8 percent interest for their mortgages in 2004. That range systematically shrinks as household income increases. On the other

Lower income households pay higher prices for home loans than higher income households

Typical APR on First Mortgage, by Income Group

	Typical APR on First Mortgage, by Income Group		
Household Income	**25th Percentile**	**Mean**	**75th Percentile**
Less than $30,000	5.4%	6.9%	7.8%
$30,000–59,999	5.5%	6.5%	7.0%
$60,000–89,999	5.3%	6.0%	6.5%
$90,000–119,999	5.1%	5.9%	6.3%
Greater than 120,000+	4.9%	5.5%	6.0%
Total	**5.3%**	**6.2%**	**6.8%**
	Typical APR on Second Mortgage, by Income Group		
Household Income	**25th Percentile**	**Mean**	**75th Percentile**
Less than $30,000	7.0%	9.2%	10.0%
$30,000–59,999	5.8%	7.9%	10.0%
$60,000–89,999	4.5%	7.1%	8.5%
$90,000–119,999	4.5%	6.4%	8.0%
Greater than 120,000+	4.5%	6.0%	6.5%
Total	**4.8%**	**7.2%**	**8.8%**

Source: Author's analysis of the 2004 Survey of Consumer Finances

side of the distribution, for instance, half of the households that earn more than $120,000 a year pay between 4.9 and 6.0 percent interest on their mortgage loans. That range is smaller, and the rate much lower, than that paid by lower income households.

The data also indicate that lower income households are much more likely to pay *extremely* high rates for mortgages. To see this, we analyzed all of the households that pay a higher average APR than 75 percent of all other households in the sample. This isolated the households that pay unusually high rates to maintain their home loans. Consistent with other results, we find that over 54 percent of all lower income households with a mortgage pay these extremely high rates. By contrast, 46 percent of households with an annual income between $30,000 and $60,000 pay extremely high rates; along with about 36 percent of households with an annual income between $60,000 and $90,000; 35 percent of households between $90,000 and $120,000; and just 19 percent of all households with an annual income above $120,000.

Data from our sample of metropolitan areas reflects these nationwide trends. In 2004, among all home mortgage borrowers in nine of the 12 metro areas in our sample, lower income households were more likely than any other income group to purchase a high-cost mortgage.[104] And, in five of our 12 metropolitan areas, households earning less than $30,000 represented the largest market share for high-cost mortgages among all of the income groups. Both statistics point to the much greater likelihood that lower income borrowers will buy a higher priced mortgage product than higher income households.

These overall trends belie important differences across the metropolitan areas in our sample, however. Lower income borrowers in the metro areas of Atlanta, Baltimore, Indianapolis, and Pittsburgh show particularly high demand for high-cost loans: in those four metros, more than one in five mortgage borrowers earning less than $30,000 a year purchased high-cost mortgages. In Atlanta and Indianapolis, more than one in four lower income homeowners purchased a high cost mortgage.

To put that in perspective, consider the other side of the distribution. In high-cost areas like San Francisco and Seattle, for instance, only between 10 and 12 percent of all lower income mortgage borrowers in each area purchased a high-cost mortgage. Lower income borrowers are still among the most likely income group in these two metros to purchase a high-cost mortgage, but that probability was substantially lower than the four areas detailed above.

Although lower income borrowers do tend to be the most likely home buyers to purchase a high-cost loan, it is important to point out that the market for high-cost loans consists of many more middle and higher income households than lower income households. In fact, lower income borrowers comprised

Across the 12 metro areas, lower income households are much more likely than higher income households to buy high-cost mortgages

Proportion of High-Cost Loans, by Household Income and Metro Area

	Household Income						
Metro Area	$0–30,000	$30,000–45,000	$45,000–60,000	$60,000–75,000	$75,000–90,000	$90,000–105,000	$105,000+
San Francisco	11%	8%	8%	9%	10%	9%	6%
Seattle	12%	14%	14%	14%	12%	10%	8%
Los Angeles	12%	13%	14%	15%	14%	13%	9%
New York	12%	13%	14%	16%	16%	15%	10%
Denver	13%	16%	16%	15%	13%	10%	7%
Washington, DC	15%	17%	17%	16%	14%	12%	7%
Hartford	17%	18%	18%	16%	13%	11%	8%
Chicago	20%	21%	21%	19%	16%	14%	9%
Baltimore	23%	21%	19%	16%	14%	12%	8%
Pittsburgh	25%	21%	16%	13%	10%	8%	6%
Atlanta	25%	23%	21%	20%	16%	14%	11%
Indianapolis	25%	22%	19%	15%	13%	11%	9%

Source: Author's Analysis of 2004 Home Mortgage Disclosure Act Data.

Note: High Cost Loans are defined by the Federal Reserve; this table says, for instance, that 25 percent of the loans originated to a household in Atlanta with a median income between $0-30,000 were high cost.

more than a fifth of the high-cost mortgage market in each of the metropolitan areas in our sample. In eight of the 12 metros, borrowers earning less than $30,000 a year accounted for less than five percent of the total high-cost mortgage market in 2004.

Similarly, in nearly all of the metropolitan markets in our sample the largest portion of the high-cost mortgage market in 2004 earned considerably more than $30,000 a year. And, in Los Angeles, New York, and San Francisco, a majority of the high-cost mortgages were sold to borrowers with household incomes more than $105,000.

Because middle- and higher income households account for the majority of the market for high-cost mortgages, we can state that the demand for and supply of these products does not depend on low-income households. In fact, in nearly all of the metropolitan areas in our sample, these borrowers account for a very small portion of this high-cost market.

Holding other factors constant, homeowners in lower income neighborhoods can pay as much as $300 more for home insurance than those in higher income neighborhoods.

Because disclosure laws in the insurance industry are so limited, it is difficult to reliably quantify the national average prices homeowners in different income groups pay for the same insurance policy. But we can estimate these price differences by examining our sample of metropolitan areas—where nearly one out of every fourth person in this country lives.

In seven of the nine metropolitan areas where we could obtain home insurance quotes, homeowners in lower income neighborhoods paid the highest prices for insurance.

Chicago, where the average quote for a year of home insurance in the city's lowest income neighborhoods was about $1,043, had the sharpest price differentials across income groups. The next highest average quote in our sample was for households in neighborhoods with a median income between $30,000 and $60,000, for whom a year of home insurance would cost $755. This trend holds across most of the metropolitan areas in this sample, suggesting that home insurance premiums tend to be more expensive in lower income neighborhoods.

Lower income households represent a small share of the market for high cost loans in these 12 metros

Distribution of Market Demand for High-Cost Loans, by Household Income and Metro Area

	Household Income						
Metro Area	$0–30,000	$30,000–45,000	$45,000–60,000	$60,000–75,000	$75,000–90,000	$90,000–105,000	$105,000+
San Francisco	1%	3%	7%	13%	16%	16%	43%
New York	1%	6%	13%	19%	18%	14%	28%
Los Angeles	2%	7%	15%	19%	16%	13%	29%
Washington, DC	2%	11%	19%	21%	16%	11%	20%
Seattle	2%	14%	21%	21%	14%	9%	17%
Denver	4%	18%	22%	19%	12%	8%	16%
Hartford	4%	19%	25%	20%	12%	8%	11%
Chicago	4%	17%	24%	21%	13%	8%	13%
Baltimore	7%	19%	22%	18%	12%	8%	14%
Atlanta	8%	23%	23%	17%	10%	7%	12%
Indianapolis	15%	27%	21%	14%	8%	5%	9%
Pittsburgh	20%	28%	21%	14%	7%	4%	6%

Source: Author's Analysis of 2004 Home Mortgage Disclosure Act Data.

Note: High Cost Loans are defined by the Federal Reserve; this table says, for instance, that households in Atlanta that earned between $0–30,000 a year accounted for about 8 percent of all households in the Atlanta metropolitan area that purchased a high-cost loan in 2004.

As with auto insurance, home insurance prices could be much higher for lower income drivers because of a number of personal characteristics that insurance companies factor into pricing decisions. Some of these factors, like credit scores, occupation, and education, are closely correlated with household income.[105] But because there are so few disclosure laws in the insurance industry, we lack sufficient data to analyze the full impact of all of these factors.

Lower income consumers tend to pay more for furniture and appliances because they are much more likely than higher income households to shop at rent-to-own establishments.

Lower income consumers are much more likely than higher income consumers to buy furniture and appliances from rent-to-own stores. Depending on specific state regulations and the combination of products they buy, this shopping tendency can cost lower income families hundreds of extra dollars every year in higher prices for furniture and appliances.

A recent analysis by the Federal Trade Commission (FTC) found that 59 percent of rent-to-own customers earn less than $25,000 a year.[106] Renting to own means that consumers pay more for a piece of furniture or electronics than if they simply bought the item outright because of numerous fees these stores charge. For instance, the Wisconsin Department of Financial Institutions estimates that a $200 television might cost as much as $700 at one of the rent-to-own establishments in the state.[107] Similarly, the Maryland attorney general's office estimates that a new $400 washing machine would cost over $1000 if purchased from a rent-to-own business.[108] The myriad additional costs rent-to-own establishments pass on to their customers—including processing fees, delivery fees, installation fees, in-home collection fees, home pick-up fees, product insurance fees, and late payment fees—account for these bloated prices.[109] In contrast, a consumer who bought that same washing machine with a credit card charging a 24 percent interest rate would pay just $480 over an 18 month period.[110]

In the 12 metros, home insurance premiums tend to be higher in lower income neighborhoods than higher income neighborhoods

Home Insurance Premiums, by Area and Neighborhood Income

	Neighborhood Income				
Geography	**$0–29,999**	**$30,000–59,999**	**$60,000–89,999**	**$90,000–119,999**	**$120,000+**
Indianapolis metro	$694	$770	$722	$720	$720
New York metro	798	668	618	600	568
Denver metro	800	838	844	800	n.a.
Baltimore metro	840	812	740	704	n.a.
Atlanta metro	866	820	754	796	n.a.
Hartford metro	916	720	730	700	n.a.
Pittsburgh metro	978	998	976	1120	1082
Chicago metro	1130	748	676	720	704
Los Angeles metro	n.a.	n.a.	n.a.	n.a.	n.a.
San Francisco metro	n.a.	n.a.	n.a.	n.a.	n.a.
Seattle metro	n.a.	n.a.	n.a.	n.a.	n.a.
Washington, DC metro	n.a.	n.a.	n.a.	n.a.	n.a.
Metro Average	**$878**	**$776**	**$734**	**$743**	**$714**
Indianapolis city	694	692	740	n.a.	n.a.
Denver city	800	824	860	n.a.	n.a.
New York city	806	698	846	1,020	n.a.
Atlanta city	874	868	880	880	n.a.
Baltimore city	880	870	n.a.	n.a.	n.a.
Pittsburgh city	926	920	n.a.	n.a.	n.a.
Hartford city	960	960	n.a.	n.a.	n.a.
Chicago city	1,196	884	1,026	1,060	n.a.
Los Angeles city	n.a.	n.a.	n.a.	n.a.	n.a.
San Francisco city	n.a.	n.a.	n.a.	n.a.	n.a.
Oakland city	n.a.	n.a.	n.a.	n.a.	n.a.
Seattle city	n.a.	n.a.	n.a.	n.a.	n.a.
Washington, DC city	n.a.	n.a.	n.a.	n.a.	n.a.
City Average	**$892**	**$840**	**$870**	**$987**	**n.a.**

Source: Author's analysis of data collected from three major insurance companies

Note: Averages are population weighted

Why are home-related purchases more expensive for lower income consumers?

Evidence in this section has shown that lower income consumers are more likely than higher income households to buy higher-priced home loans, furniture, and appliances. Similarly, our analysis indicates that insuring a home in a lower income neighborhood is generally more expensive than in a higher income neighborhood, largely reflecting previous research on the higher costs of insuring urban homeowners. There is also evidence that at least suggests lower income home insurers may pay an additional premium, above and beyond the premium they pay for the neighborhood they live in.

To bring down these prices, leaders will need to grapple with three market dynamics that drive up these prices.

First, businesses do incur some real risks when serving lower income markets, increasing their costs.

Lower income homeowners are much more likely than higher income borrowers to fall behind on their payments, declare bankruptcy, and have low credit scores.[111] Within a metropolitan area, they are also more likely to live in urban areas, where insurance is more expensive. As is the case with all of the higher costs of doing business considered in this report, there are many good reasons for these higher costs. But as long as these higher costs of doing business exist, businesses will rationally pass those higher costs onto lower income consumers. Importantly, the existence of these higher costs will also drive perceptions of higher costs, even when there may not be data available to support those perceptions. This also drives up prices.

Second, rent-to-own establishments are more densely concentrated in lower income neighborhoods than elsewhere, driving and responding to higher demand in those communities for rent-to-own products.

In all but one of the 12 metropolitan areas in our sample, we find that the highest concentration of rent-to-own stores is in lower income neighborhoods. Atlanta is typical of this trend: For the entire metro area, there is about one establishment for every 15,808 lower income neighborhood residents. That compares to one rent-to-own establishment for approximately every 23,067 residents of neighborhoods with median incomes between $30,000 and $60,000, and one establishment for every 147,300 residents of a neighborhood with a median income between $60,000 and $90,000.

Importantly, these trends do not suggest that most rent-to-own stores are located in lower income neighborhoods. In fact, most of the 817 rent-to-own stores within the 12 metropolitan areas in our sample are located in moderate-income neighborhoods with a median income between $30,000 and $60,000, perhaps due to market saturation in lower income neighborhoods.

Third, unscrupulous businesses drive up housing prices for lower income families.

For instance, research on mortgage pricing suggests that between 14 and 20 percent of all borrowers who purchased a high-cost mortgage could have qualified for a better priced mortgage product, saving them hundreds or thousands of dollars in interest charges every year.[112] Even for those who cannot qualify for prime loans, some bad apples in the mortgage market tack on additional features to mortgage products that unnecessarily drive up costs for consumers, like long-term prepayment penalties and

In the 12 metros, rent-to-own businesses are most densely concentrated in lower income neighborhoods

Population Per Rent-to-Own Furniture Establishment, by Neighborhood Income

	Median Neighborhood Income				
Geography	$0–29,999	$30,000–59,999	$60,000–89,999	$90,000–119,999	$120,000+
Atlanta metro	15,808	23,067	147,399	n.a.	n.a.
Denver metro	17,806	34,735	321,401	n.a.	n.a.
Indianapolis metro	17,912	23,565	326,950	n.a.	n.a.
Hartford metro	19,951	30,452	222,496	n.a.	n.a.
Seattle metro	21,750	44,118	191,221	n.a.	n.a.
Pittsburgh metro	23,382	66,278	218,803	n.a.	n.a.
Washington, DC metro	40,759	50,593	97,874	594,058	218,405
Chicago metro	51,019	64,199	206,724	220,249	61,172
Baltimore metro	60,440	36,757	272,332	n.a.	n.a.
New York metro	97,938	114,878	286,245	642,657	216,700
Los Angeles metro	119,524	123,187	325,273	207,819	n.a.
San Francisco metro	120,940	126,729	182,333	446,734	n.a.
Metro Average	**56,218**	**60,166**	**205,617**	**455,597**	**239,798**
Seattle city	17,799	106,976	n.a.	n.a.	n.a.
Indianapolis city	19,673	23,986	168,904	n.a.	n.a.
Atlanta city	20,824	50,411	n.a.	n.a.	n.a.
Pittsburgh city	21,760	132,560	n.a.	n.a.	n.a.
Denver city	22,745	95,861	n.a.	n.a.	n.a.
Hartford city	31,674	67,317	n.a.	n.a.	n.a.
Baltimore city	55,114	44,759	n.a.	n.a.	n.a.
Chicago city	74,811	121,643	124,994	n.a.	5,071
San Francisco city	84,062	342,662	344,052	n.a.	n.a.
Washington, DC city	88,329	84,904	n.a.	n.a.	n.a.
New York city	125,921	178,391	96,084	n.a.	15,075
Los Angeles city	262,636	164,654	446,436	66,113	n.a.
Oakland city	n.a.	92,645	n.a.	n.a.	n.a.
City Average	**70,795**	**78,437**	**136,375**	**238,183**	**65,857**

Source: Author's analysis of 2005 data from InfoUSA, and 2000 Census Bureau Data

Note: Averages are population weighted

Most rent-to-own businesses are located in moderate income neighborhoods

Distribution of Rent-to-Own Furniture Establishments, by Neighborhood Income

	Neighborhood Income				
Geography	**$0–29,999**	**$30,000–59,999**	**$60,000–89,999**	**$90,000–119,999**	**$120,000+**
San Francisco metro	8%	52%	36%	4%	0%
Washington, DC metro	8%	57%	32%	2%	2%
Seattle metro	11%	79%	9%	0%	0%
Atlanta metro	14%	80%	6%	0%	0%
Baltimore metro	14%	79%	7%	0%	0%
Chicago metro	16%	70%	11%	2%	2%
Denver metro	16%	80%	4%	0%	0%
Indianapolis metro	17%	81%	2%	0%	0%
Hartford metro	23%	69%	8%	0%	0%
Los Angeles metro	23%	65%	8%	3%	0%
New York metro	26%	56%	14%	2%	2%
Pittsburgh metro	50%	48%	2%	0%	0%
Metro Average	**20%**	**68%**	**11%**	**1%**	**1%**
Indianapolis city	23%	74%	3%	0%	0%
Los Angeles city	27%	59%	5%	9%	0%
Chicago city	32%	58%	6%	0%	3%
San Francisco city	33%	33%	33%	0%	0%
Washington, DC city	33%	67%	0%	0%	0%
New York city	36%	41%	19%	0%	3%
Baltimore city	40%	60%	0%	0%	n.a.
Denver city	40%	60%	0%	0%	0%
Seattle city	43%	57%	0%	0%	0%
Atlanta city	65%	35%	0%	0%	0%
Hartford city	75%	25%	0%	n.a.	n.a.
Pittsburgh city	83%	17%	0%	0%	0%
Oakland city	n.a.	n.a.	n.a.	n.a.	n.a.
City Average	**33%**	**57%**	**8%**	**1%**	**1%**

Source: Author's analysis of 2005 data from InfoUSA, and 2000 Census Bureau Data

Note: Averages are population weighted

needlessly broad insurance plans.[113] Similarly, rent-to-own businesses often charge two-to-three times the price of a product to mostly low- and moderate-income consumers.[114]

Finally, lower income consumers tend to be less informed than higher income consumers and have less access to the Internet, a key comparison shopping tool.

We've shown in previous sections, for instance, that lower income consumers generally do not shop around as much as higher income households when buying necessities; they also are less informed about credit reports. This lack of information puts them at a disadvantage when shopping in the housing market.

Additionally, lower income consumers have less access to the Internet.[115] Without this tool at their disposal, lower income families miss out on a world of opportunities to save money. Besides having access to online listings that allow consumers to comparatively shop for houses, several companies now provide online mortgage prices, and others comparatively shop mortgage prices for consumers.[116] Similarly, consumers can now order appliances, furniture, and electronics online, and get lower prices for those goods and services than they would pay in brick and mortar establishments.[117] These resources can save homeowners money—but as long as lower income consumers lack access to these resources, or knowledge about them, they will not be able to use these market tools to get lower prices.

IV. GROCERIES

Lower income consumers may pay more for groceries, either through higher prices or additional travel costs to reach discount grocery stores.

Grocery stores in lower income neighborhoods tend to be smaller and more expensive than in higher income neighborhoods.

Grocery stores are smaller and more expensive in lower income neighborhoods than in higher income neighborhoods. Though this does not necessarily mean that all lower income families pay those higher prices, it does mean that lower income families often have to commute to other neighborhoods to get to cheaper food, which adds to the total costs of food shopping.

The average grocery store in a lower income neighborhood is 2.5 times smaller than the average grocery store in a higher income neighborhood.

Grocery stores tend be much smaller in lower income neighborhoods than those found in higher income neighborhoods.[118] As was the case throughout the country up until at least the 1960s, lower income neighborhoods tend to be still densely clustered with tiny convenience stores rather than the new, supercenter-style grocery store.

In fact, across our sample of 12 metropolitan areas, there is about one mid-sized or large grocery store (greater than 10,000 square feet) in a lower-income neighborhood for every 69,055 residents in those neighborhoods, compared to one mid-sized to large grocery store for every 29,005 residents of a non lower-income neighborhood.

The Atlanta metro area illustrates these general market trends. In particular, there is one mid-sized or large grocery store in one of the metro's lower-income neighborhoods for every 30,034 residents of these neighborhoods, compared to one store for every 23,734 residents of a neighborhood with a median income between $30,000 and $60,000. The density of these mid-sized to large grocery stores continues to increase with household income. In fact, on the other side of the income distribution, there is about one mid-sized to large grocery store in the area's highest income neighborhoods for every 8,426 residents of these neighborhoods.

This reinforces the fact that lower income neighborhoods generally have much less access than higher income neighborhoods to mid- to large-grocery stores, which have the space to sell lower priced goods and a more diverse variety of goods.

In the 12 metros, lower income neighborhoods have fewer mid-sized and large grocery stores than higher income neighborhoods

Population per Mid-Size and Large Grocery Store (Greater than 10,000 square feet), by Store Size and Neighborhood Income

	Neighborhood Income				
Geography	$0–29,999	$30,000–59,999	$60,000–89,999	$90,000–119,999	$120,000+
Denver metro	15,580	22,736	23,807	27,416	19,117
Atlanta metro	30,034	23,734	12,545	14,701	8,426
Pittsburgh metro	30,766	21,209	21,880	n.a.	n.a.
Washington, DC metro	50,949	24,950	23,872	22,848	36,401
Baltimore metro	51,805	25,270	23,343	49,119	n.a.
Los Angeles metro	61,294	49,275	33,484	29,688	56,543
Seattle metro	65,250	21,800	29,878	91,781	n.a.
Chicago metro	83,486	28,854	20,333	25,912	20,391
Hartford metro	119,707	24,915	29,666	n.a.	n.a.
New York metro	134,665	44,088	30,669	31,349	72,233
Indianapolis metro	161,206	19,033	21,797	34,358	12,870
San Francisco metro	241,879	29,954	33,490	37,228	73,327
Metro Average	**69,055**	**31,318**	**25,236**	**28,475**	**38,677**
Denver city	12,997	35,948	n.a.	n.a.	n.a.
Seattle city	26,698	26,744	20,740	n.a.	n.a.
Pittsburgh city	36,266	37,874	n.a.	n.a.	n.a.
Atlanta city	38,177	25,206	18,570	15,440	n.a.
Washington, DC city	44,165	55,603	91,400	16,660	35,454
Baltimore city	55,114	80,566	33,918	n.a.	n.a.
Chicago city	74,811	37,752	24,999	29,462	2,536
Los Angeles city	75,039	71,350	31,888	33,057	42,199
Indianapolis city	157,382	19,704	45,786	n.a.	n.a.
New York city	176,290	101,938	88,077	38,484	30,149
Hartford city	n.a.	n.a.	n.a.	n.a.	n.a.
San Francisco city	n.a.	34,266	28,671	34,859	n.a.
Oakland city	n.a.	138,968	40,863	29,035	n.a.
City Average	**79,429**	**41,061**	**30,994**	**29,773**	**24,697**

Source: Author's analysis of 2005 data from InfoUSA, and 2000 Census Bureau Data

Note: Averages are population weighted

The greater proximity and concentration of smaller grocery stores drives up food prices in lower income neighborhoods.

With groceries available mostly in smaller stores, lower income neighborhoods tend to have higher food prices than higher income neighborhoods. Prices tend to be higher in smaller grocery stores than in larger grocery stores because of the lower economies of scale, the smaller distribution channels, and because their customers tend to be more captive.

To examine this trend, we considered the price of 132 different products sold at over 3,000 grocery stores.[119] The methods section of this report provides an overview of our criteria for selecting both grocery products and stores.

The dearth of big-box, low-cost grocery stores in lower income neighborhoods indicate an unmet market opportunity.

Of the 132 products in our sample, 67 percent were more expensive in stores smaller than 10,000 square feet than in larger stores. For instance, the average price of a dozen eggs in stores less than 10,000 square feet was $3.03. That exact same brand of eggs cost, on average, $2.89 in stores greater than 10,000 square feet. Similarly, the average price of a box of Honey Nut Cheerios, which was one of the best-selling products in the sample, was $4.71 at stores with less than 10,000 square feet of retail space; $4.56 in stores greater than 10,000 square feet. We found this strong relationship between average price and store size in all of the eleven major food categories in our sample.

Multiplied over the course of a year, and added to the premiums for other basic food items, this evidence suggests lower income families shopping at small local grocery stores can end up paying hundreds of dollars extra for food. The typical dense concentration of small stores, and the frequent absence of any grocery stores greater than 10,000 square feet, suggests that many lower income families bear this added cost.

All of this evidence supports the conventional wisdom that smaller stores charge higher prices. Our finding that smaller stores account for almost all grocery stores in lower income neighborhoods leads

to the conclusion that consumers in those neighborhoods pay more for groceries. Even when lower income consumers want to avoid these higher prices, they often have to commute to larger grocery stores found in higher income neighborhoods—and this commute may very well negate much of the savings they find at these larger stores.

Besides the immediate differences in prices across neighborhoods, the absence of modern, large grocery stores in lower income neighborhoods also means that there tends to be a lower a) quantity of food items, b) availability of other services, such as a pharmacy, across our population of grocery stores, and perhaps a lower overall quality as well. An analysis by Philadelphia-based Food Trust found that these important grocery store differences across neighborhoods add up to substantial (and costly) differences in the diets and health of the people in these neighborhoods.[120] Through these ways, examining just the average price difference across stores may significantly underestimate the true, higher cost of buying groceries in lower income neighborhoods.

Why do lower income neighborhoods face higher food costs?
The dearth of big-box, low-cost grocery stores in lower income neighborhoods indicate an unmet market opportunity. The reasons for this include higher costs of doing business, as well as systematic undercounts of demand, or perceived high crime rates in these neighborhoods that lead to false perceptions of high costs.

Recent evidence suggests, however, that this is generally not the case in stores that sell food to high proportions of lower income families.[121] Higher costs might also relate to strict urban zoning requirements and the expense of urban land and development, which do not match the trends in this industry for bigger stores.

Frequently though, higher costs of doing business have to do with misperceptions driven by inaccurate data assessments of market demand in lower income neighborhoods. Social Compact, for instance, has illustrated in numerous studies that traditional methods of estimating market demand systematically undercount demand in lower income neighborhoods.[122] One company that sees enormous opportunity in lower income neighborhoods is Wal-Mart, which recently announced plans to open 150 stores in underserved lower income markets.[123] ■

89¢ CUP
4 for
2 for 60¢

An Agenda and Models for Better Meeting the Market Needs of Lower Income Consumers

The hundreds or thousands of dollars that lower income families lose by paying higher prices every year should go back in their pockets, to be invested in income-growing assets, like education, housing, or retirement. Savings from lower prices can also be used to pay down debt, and to reduce demand for high-priced credit, like payday loans and rent-to-own establishments.

Public and private sector leaders have an opportunity to help connect lower income consumers to the mainstream economy to reduce these higher costs of living for lower income families.

Such a strategy would compliment existing efforts aimed to boost the incomes of lower income families. In recent years, the first step along this process was welfare reform, which sent millions of low-income adults into the workforce. Now, leaders have turned their attention to the question of whether those wages and benefits are sufficient to lift these new workers out of poverty; the result has been newly energized debates over boosting minimum wages, greater public investment in job-training, whether and how to prod low-paying businesses to lift wages and benefits, and attention on family strictures that may curb mobility into more remunerative jobs.

But a strategy to reduce household expenditures will bring needed attention to the other side of a family's ledger as well. By bringing down unnecessary out-of-pocket expenses and costs of living, leaders can give families the resources they need to save, invest, pay off debt, and avoid high-cost credit.

To address these issues and capitalize on the opportunity to help families get ahead, leaders must pursue three key goals. First, policymakers and community stakeholders should promote the market opportunity in lower income neighborhoods among mainstream businesses that have failed to recognize it or have been deterred by the higher costs of doing business in lower income neighborhoods. To address the particular opportunities that exist in their communities, leaders need to be fair-minded, fact-driven, and entrepreneurial. Businesses will respond to profitable opportunities. Political and community leaders must reach out to business leaders and determine actions to remove the barriers companies face in reaching lower income consumers. Additionally, as mainstream businesses enter these markets, their presence should

come in concert with community outreach efforts to dispel myths and misperceptions.

Second, leaders must weed out the alternative, high-priced businesses that have blossomed in lower income neighborhoods. At the local level, leaders can use their licensing and zoning authority to curb the development of these businesses. At the state and federal level, leaders can enact regulation that attacks the business model of unscrupulous businesses, while funding research that exposes questionable business practices.

Finally, leaders at all levels of government should identify strategies to inform and educate lower income consumers struggling with the complexity of making choices in the market today. Ultimately, consumers need to take responsibility for making smart bets on getting ahead, which means knowing how to compare prices, what goods and services to avoid, and how to manage day to day budget demands. In a world with hundreds of different mortgage products, dozens of mortgage and insurance companies, aggressive alternative financial service providers, and growing applications of credit reports and scores, this isn't easy. To take advantage of the benefits this complexity can yield, lower income consumers need more information about the markets they shop in.

We elaborate on each of these recommendations below.

GOAL ONE: PROMOTE MARKET OPPORTUNITIES IN LOWER INCOME NEIGHBORHOODS

As noted at the outset of this report, lower income households collectively have about $655 billion in buying power.[124] Unlike higher income households, they spend nearly all of that money on basic necessities, including food, financial services, transportation, housing, and insurance.[125] Collectively, these hundreds of billions of dollars spent by lower income households represent a massive market opportunity.

But mainstream businesses have largely overlooked these communities, leaving a vacuum, and alternative high-priced businesses thrive in that vacuum meeting the bulk of lower income demand. This is why the first, key step leaders need to take to lower costs of living for their lower income constituents is to promote mainstream businesses in lower income markets. In this section, we outline examples from around the country of leaders promoting an array of mainstream products for lower income families.

Promote Mainstream Basic Financial Services

Contrary to popular perceptions, mainstream banks and credit unions are located in or near lower income neighborhoods in competition with alternative providers of basic financial services.[126] In such neighborhoods, promoting mainstream financial services is about developing product lines and customer service norms that work for lower income families. In other areas, though, where there are neither mainstream nor alternative providers of basic financial services, leaders must focus on attracting mainstream financial institutions, while connecting lower income consumers with appropriate financial service products.

Form Public-Private Partnerships to Bank the Unbanked,
Bank on San Francisco

San Francisco is now taking action to develop appropriate banking products for lower income consumers and then connecting lower income, unbanked consumers to those products. The office of the mayor, the office of the treasurer, the Federal Reserve Bank of San Francisco, and twenty participating banks and credit unions, have come together to form four working groups to reach these goals. The first focuses on developing appropriate market products, the second group is devising strategies to market those products, the third is working to bring community voices into this process, and the fourth will benchmark the progress made in this effort.[127] To motivate everyone, the group of business, political, and research leaders has set a goal of bringing in 10,000 new lower income banking customers, out of a current estimated unbanked population of 50,000 households.

More than any other example in the country, Bank on San Francisco is built on the principle that alerting business leaders to the market opportunity in lower income neighborhoods, and then helping businesses connect to those opportunities, will help these families get connected to the mainstream economy.

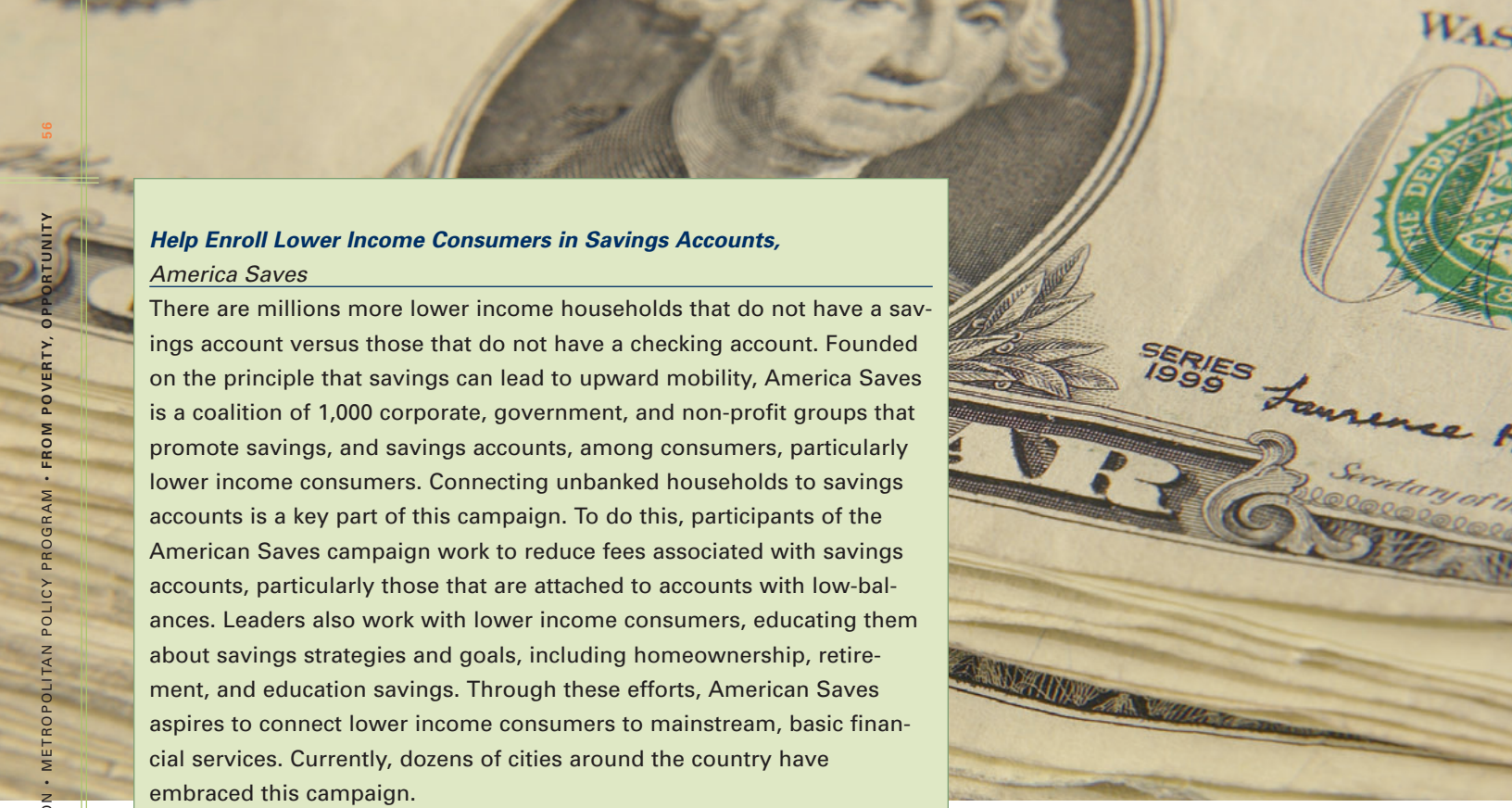
For more information: **www.frbsf.org/community/resources/agendajan20.pdf**

Adopt Innovative, Bi-Partisan Policies,
New York's Banking Development Districts

There are still hundreds of lower income neighborhoods that lack any type of financial service provider. To address this market gap, the state of New York uses its considerable depository power to subsidize banks that open up branches in designated underserved neighborhoods.

In particular, local governments partner with banks and the New York State Banking Department to identify specific neighborhoods that lack banks, but may not have enough depository power to attract banks on their own. If state and local government choose to designate these neighborhoods as "banking development districts," they will then provide below-market rate deposits, along with market-rate deposits, to the banks that move into these communities. As Diana Taylor, the superintendent of the state banking department, says, "The state has all this money, and it has to be put somewhere. Why not put this money to work for something?"[128] Through this innovative program, the state has already signed up 26 banks and thrifts, each of which is now committed to opening up new branches in underserved markets throughout the state.

For more information: **http://www.banking.state.ny.us/bdd.htm**



Help Enroll Lower Income Consumers in Savings Accounts, America Saves

There are millions more lower income households that do not have a savings account versus those that do not have a checking account. Founded on the principle that savings can lead to upward mobility, America Saves is a coalition of 1,000 corporate, government, and non-profit groups that promote savings, and savings accounts, among consumers, particularly lower income consumers. Connecting unbanked households to savings accounts is a key part of this campaign. To do this, participants of the American Saves campaign work to reduce fees associated with savings accounts, particularly those that are attached to accounts with low-balances. Leaders also work with lower income consumers, educating them about savings strategies and goals, including homeownership, retirement, and education savings. Through these efforts, American Saves aspires to connect lower income consumers to mainstream, basic financial services. Currently, dozens of cities around the country have embraced this campaign.

For more information: **http://www.americasaves.org/**

Create Low-Priced Market Alternatives

Where there are unreasonably high prices, there often is a market opportunity to retail a lower cost market product. Recognizing that market opportunity, entrepreneurs in a handful of metropolitan areas around the country, including San Francisco and Seattle, have been working on creating a business alternative to high-priced businesses, like check cashers, payday lenders, and pawnshops. These entrepreneurs are constructing their businesses to be profitable and scalable, rather than as charitable enterprises. At the same time, these efforts are designed to prove that lower cost alternatives to high-priced financial services are a profitable opportunity for banks and credit unions. It is still too early to assess the viability of these business models, but each is certainly built on strong intuitive reasoning that there is a market opportunity created today by the exorbitant prices of alternative financial services.[129]

Promote Market Opportunities for Low-Priced Products in Automobile Markets

In the auto industry, the lines between alternative and mainstream businesses are not as clearly drawn as in the financial services industry due to the sheer variety in car prices and their lack of transparency. Thus, responsible companies are intermingled with unscrupulous businesses. With demand for autos on the upswing among lower income consumers, leaders have an opportunity to hatch new, mainstream market alternatives in markets not currently served by responsible businesses. In other cases, leaders need to promote market alternatives that bring down the costs of lower income car ownership.

Promote Low-Cost Alternatives to Car Dealers,
Targeted Car-Ownership Programs

Many car ownership programs for lower income consumers have evolved as far-sighted leaders promoted experimentation with new business models to meet the rising demand for cars in that market. According to one recent count, over 150 programs across the country are now working to expand car ownership among lower income families.[130] Some of these are based on non-scalable business models, surviving only on foundation contributions, charity, and good will. Others may very well be scalable. Vehicles for Change, for instance, is a Baltimore-based program that sells 40 to 50 cars a month to lower income households. This company also sells auto-loan products to qualified, lower income car-buyers, along with a six-month warranty. The program has carefully carved out a market niche to appeal to lower income drivers looking for responsible car dealers who will not overcharge for cars. Vehicles for Change works closely with community leaders to market the company and has connected with national organizations to raise the visibility of its effort.

For more information: **http://vehiclesforchange.org/**

Develop Low-Cost Insurance Pools,
The California Low-Cost Automobile Insurance Program

In response to the growing need among lower income consumers for auto-insurance, California now requires insurers in eight high-priced counties within the state to offer a low-cost auto-liability insurance policy to qualified lower income drivers, defined within the program as drivers that live in households that earn less than 250 percent of the poverty line.[131] In Los Angeles, the minimum state-required insurance costs $347 a year, compared to about $314 a year in San Francisco. State law requires any insurance company that fields a consumer inquiry about purchasing the minimum level of required insurance to inform the consumer about this market product. By limiting enrollment in the program to drivers who have perfect or nearly perfect driving records, California has been able to hold down costs.

This model is unique from the others discussed in this section because the state is requiring mainstream businesses to serve this market with a below market-rate product. Still, this state program provides a model for how government can engage mainstream insurance companies to sell low-priced services to lower income drivers.

For more information: **http://www.insurance.ca.gov/0400-news/0100-press-releases/0070-2006/release051-06.cfm**

Where there are unreasonably high prices, there should be a market opportunity to retail a lower cost market product.

Promote Lower Cost Insurance Companies, *New York's Home Insurance Shopping Guide*

Mindful of their mission to serve consumers, a growing number of state departments of insurance have developed online shopping guides to homeowners insurance.[133] Besides explaining the differences between policy options, these guides frequently include comparative price information. The homeowners insurance shopping guide published by the New York Department of Insurance is typical of these efforts. Using filings submitted to the state by insurance companies, the guide lists every company that sells insurance in the state, and the prices they charge for the same line of insurance in every insurance territory in the state. Annual premiums for the exact same line of insurance can vary by over $1,000, depending on the seller. Some of this price variance is explained by the different mixes of risk that insurance companies are exposed to in the market, but it also has to do with different pricing strategies across companies.

Key to this effort is outreach: Leaders can use this information to promote competitively priced home insurance products in their communities,mayors can set this agenda by speaking about the availability of these products, community organizations can integrate into their outreach campaigns, and the media can publicize higher and lower-priced companies.

For more information: **http://www.ins.state.ny.us/homeown/html/hmonguid.htm**

Promote Responsible Mortgage Companies, *University of Pennsylvania's Guaranteed Mortgage Program*

Another way to reduce homeownership costs is to promote responsible lenders in the lower income market. To do this, the University of Pennsylvania created the Guaranteed Mortgage Program to promote homeownership among its employees. The University entered into an agreement with Advance Bank, GMAC Mortgage Corporation, and Citizens Bank, three lenders in the Philadelphia market, to administer this program. To lower potential costs of business for the lending institutions, the University requires that applicants attend a home counseling session, where they review the financial tools families need to responsibly manage mortgage debt in their budget.

By connecting families to pre-approved lenders, the university is ensuring that its employees are connected to responsible mortgage companies that offer fair prices. This very deliberately promotes mainstream companies in Philadelphia's housing markets.

For more information: **http://www.business-services.upenn.edu/communityhousing/mortgagePrograms.html**

Promote Low-Cost Mortgage Alternatives, *the PHIL-Plus and Mini-PHIL Loan Program*

Leaders can also bring down homeownership costs by working with lenders to sell alternative, low-cost loan alternatives. In Philadelphia, the mayor's office, the Greater Philadelphia Urban Affairs Coalition and eight banks (Beneficial Savings Bank, Citizens Bank, Commerce Bank, Fleet Bank, PNC Bank, National Penn Bank, Sovereign Bank, United Bank of Philadelphia, and Wachovia) created two loan products for lower income consumers with weak credit histories. Since these consumers are the mostly likely among all consumers to overpay for mortgage products, this program is designed to promote a competitively-priced product to effectively crowd out higher-priced lenders. Besides the product, these programs also identify responsible lenders in Philadelphia, and work with community groups to inform their clients about these lenders.

For more information: **http://www.phila.gov/ohnp/miniPHIL.htm**

Promote Market Opportunity for Mid-Sized to Large Grocery Stores in Lower Income Neighborhoods

Collectively, the grocery stores in the sample of metropolitan areas in this report earned $100 billion in revenue last year. Nationwide, that revenue is increasingly being earned in large grocery stores that enjoy the economies of scale to offer low prices, and the space to stock a wide variety of goods, from generic food items to an ample selection of nutritious food. In many lower income neighborhoods, however, these changes have not taken root, and the grocery market still looks today as it did in the 1960s everywhere: Stores are smaller, prices are higher, and nutritious food items are scarce.

This is a market opportunity for mid-sized and large grocery stores. Leaders can promote this market opportunity by creating incentives for these grocery stores to move into lower income neighborhoods. States can marshal development funds, cities can streamline their zoning process, and leaders everywhere can work with businesses to quantify the potential market demand in these neighborhoods for bigger grocery stores. Here are a few examples of successful efforts:

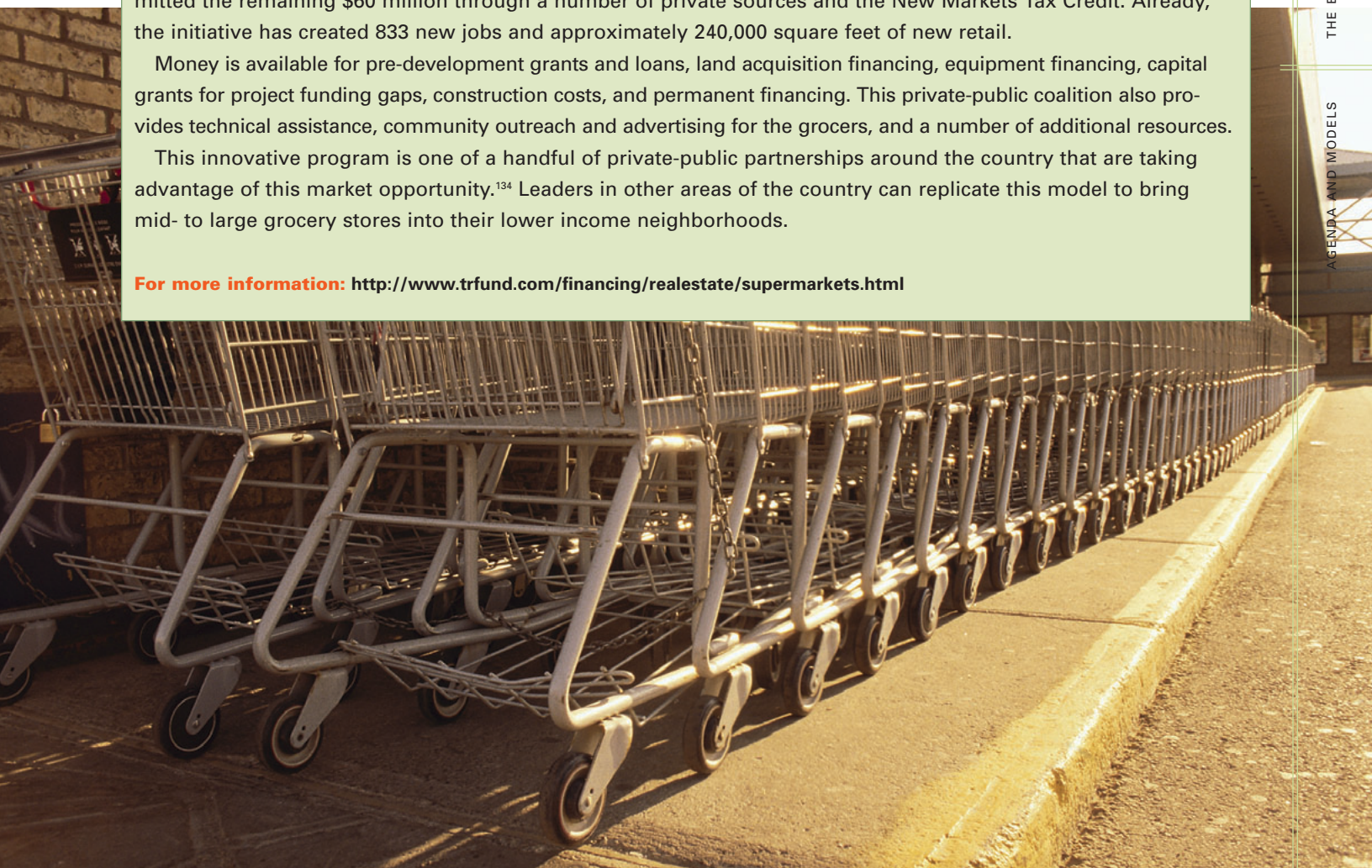
Help Finance Large Grocers in Underserved Markets, *Pennsylvania's Fresh Food Financing Initiative*

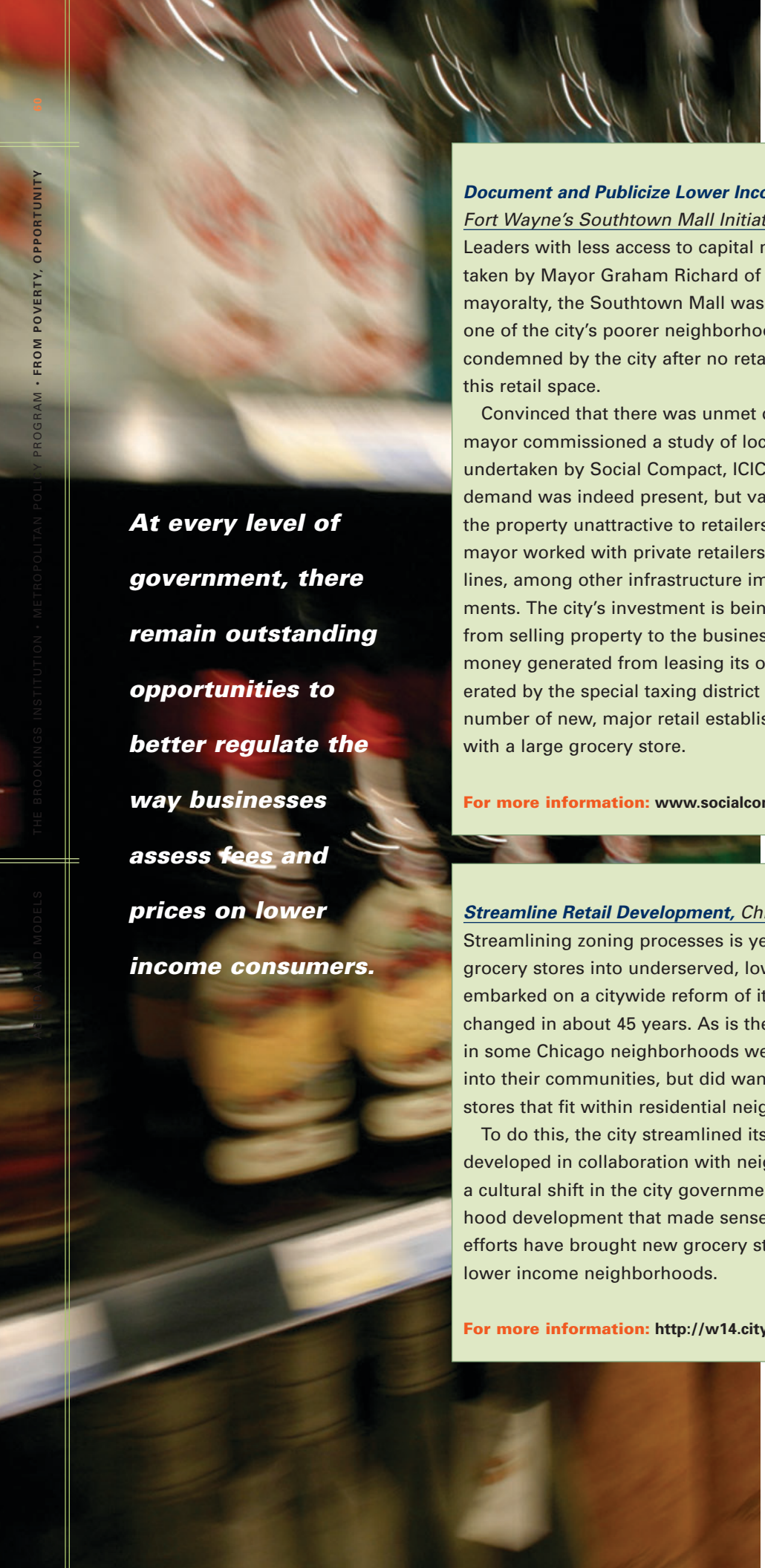
Leaders with access to capital can use a variety of incentives to bring mid- to large- grocery stores into lower income neighborhoods. In Pennsylvania, a public-private partnership formed in 2005 already has spurred the development of seven new grocery stores in Philadelphia's underserved neighborhoods. Along with The Food Trust and the Greater Philadelphia Urban Affairs Coalition (GPUAC), The Reinvestment Fund (TRF) formed this coalition, with crucial leadership provided by State Representative Dwight Evans. Together, this coalition put together an $80 million financing pool to attract mid- to large grocers into Philadelphia's underserved markets. Under the leadership of Representative Evans, the state appropriated $20 million for this initiative, while TRF committed the remaining $60 million through a number of private sources and the New Markets Tax Credit. Already, the initiative has created 833 new jobs and approximately 240,000 square feet of new retail.

Money is available for pre-development grants and loans, land acquisition financing, equipment financing, capital grants for project funding gaps, construction costs, and permanent financing. This private-public coalition also provides technical assistance, community outreach and advertising for the grocers, and a number of additional resources.

This innovative program is one of a handful of private-public partnerships around the country that are taking advantage of this market opportunity.[134] Leaders in other areas of the country can replicate this model to bring mid- to large grocery stores into their lower income neighborhoods.

For more information: **http://www.trfund.com/financing/realestate/supermarkets.html**





At every level of government, there remain outstanding opportunities to better regulate the way businesses assess fees and prices on lower income consumers.

Document and Publicize Lower Income Market Demand, *Fort Wayne's Southtown Mall Initiative*

Leaders with less access to capital might consider an alternative path taken by Mayor Graham Richard of Fort Wayne, Indiana. During Richard's mayoralty, the Southtown Mall was abandoned by its owner. Located in one of the city's poorer neighborhoods, this decaying infrastructure was condemned by the city after no retailers expressed interest in taking over this retail space.

Convinced that there was unmet demand in the neighborhood, the mayor commissioned a study of local buying power, similar to studies undertaken by Social Compact, ICIC, and Metro Edge. He found that demand was indeed present, but various costs made redevelopment of the property unattractive to retailers. To overcome these difficulties, the mayor worked with private retailers, and invested in new water and sewer lines, among other infrastructure improvements and resource investments. The city's investment is being paid back through profits generated from selling property to the businesses that located at the site, along with money generated from leasing its old electric utility, and from taxes generated by the special taxing district at the site. The site is now home to a number of new, major retail establishments, including a new supercenter with a large grocery store.

For more information: **www.socialcompact.org**

Streamline Retail Development, *Chicago's Zoning Reform Initiative*

Streamlining zoning processes is yet another way to attract mid- to large grocery stores into underserved, lower income markets. In 2001, Chicago embarked on a citywide reform of its zoning codes, which had not been changed in about 45 years. As is the case in many large cities, residents in some Chicago neighborhoods were opposed to bringing supercenters into their communities, but did want to attract mid-sized to large grocery stores that fit within residential neighborhoods.

To do this, the city streamlined its zoning process to create new codes developed in collaboration with neighborhood groups. At the same time, a cultural shift in the city government led to greater focus on neighborhood development that made sense for local residents. Together, these efforts have brought new grocery stores into Chicago's underserved lower income neighborhoods.

For more information: **http://w14.cityofchicago.org:8080/zoning/default.jsp**

GOAL TWO: CURB UNSCRUPULOUS BUSINESS PRACTICES IN THE LOWER INCOME MARKETPLACE

Just as important as incentives to promote responsible business practices, governments at the local, state, and federal levels are also increasingly utilizing sticks to crack down on predatory practices that increase the out-of-pocket-costs of lower income families.

Alternative, price-gouging businesses have blossomed in the vacuum left by some mainstream businesses. At every level of government, there remain outstanding opportunities to better regulate the way businesses assess fees and prices on lower income consumers.

Moreover, middle income consumers also benefit from these strategies as check cashers, rent-to-own stores, and other high-priced basic services increasing locating in moderate- and middle-income neighborhoods.

Curb Unscrupulous Businesses and Practices in the Basic Financial Services Market

Alternative financial services are very densely concentrated in lower income neighborhoods. These check cashers and short-term loan providers often charge higher prices for comparable services than mainstream companies. Other expensive services, mainly tax preparation firms and wire services, are more likely to be used by lower income consumers. However, some high-priced products in the mainstream financial marketplace have particularly punitive features for low-income households.

Cities, states, and even the federal government have taken steps to curb these businesses and practices. Here are some examples of pioneering efforts by leaders to curb these high-priced products in lower income markets, along with some recommendations for new initiatives.

Limit Development of High-Priced Businesses, *San Francisco's Moratorium on Check Cashers and Payday Lenders*

Stopping the entry of the alternative financial service sector into a lower income market is the surest way to cut demand for these high-priced services, and city officials in San Francisco have made this a top priority. In conjunction with the Bank on San Francisco initiative reviewed earlier, the city issued a temporary moratorium on licensing new check cashers and payday lenders in January 2006. Together, these initiatives opened up the market opportunity for banks and credit unions, while temporarily removing the ability of the alternative, higher-priced businesses to expand. The city has since renewed this moratorium and is now considering regulations to further curb the market share of check cashers and payday lenders.

A growing number of state and local governments have launched similar efforts. For instance, New Mexico issued a moratorium against any additional licenses for check cashers and payday lenders in early 2006. Similarly, the Pima County government voted to ban payday lenders and check cashers from locating within 1,200 feet of a similar business, and within 500 feet of any property zoned as a private residence.

For more information: **http://www.sfgov.org/site/treasurer_page.asp?id=36902**

Lower income consumers are much more likely than higher income tax-filers to purchase a refund anticipation loan.

Tighten State Regulations on Prices and Fees Charged by Financial Businesses, *Georgia's Amendments to the Industrial Loan Act*

Regulating the prices alternative financial service businesses charge, or their right to do business in an area, is another way to curb demand for the high-priced products they sell. A handful of states have either refused to authorize payday lending or have banned this business outright. But loose regulation of this industry is the norm across the country, with caps on interest rates but not on fees, for instance. In 2004, Georgia bucked this trend by passing one of the strictest state bills in the country. Among its many features, this measure capped the annual percentage rate for short-term loans sold in the state at 16 percent. The law also eliminated the ability of these businesses to rent the charter of banks in states with less stringent laws. Just as important, the law gave the state authority to seek stringent civil penalties when businesses violate these laws.

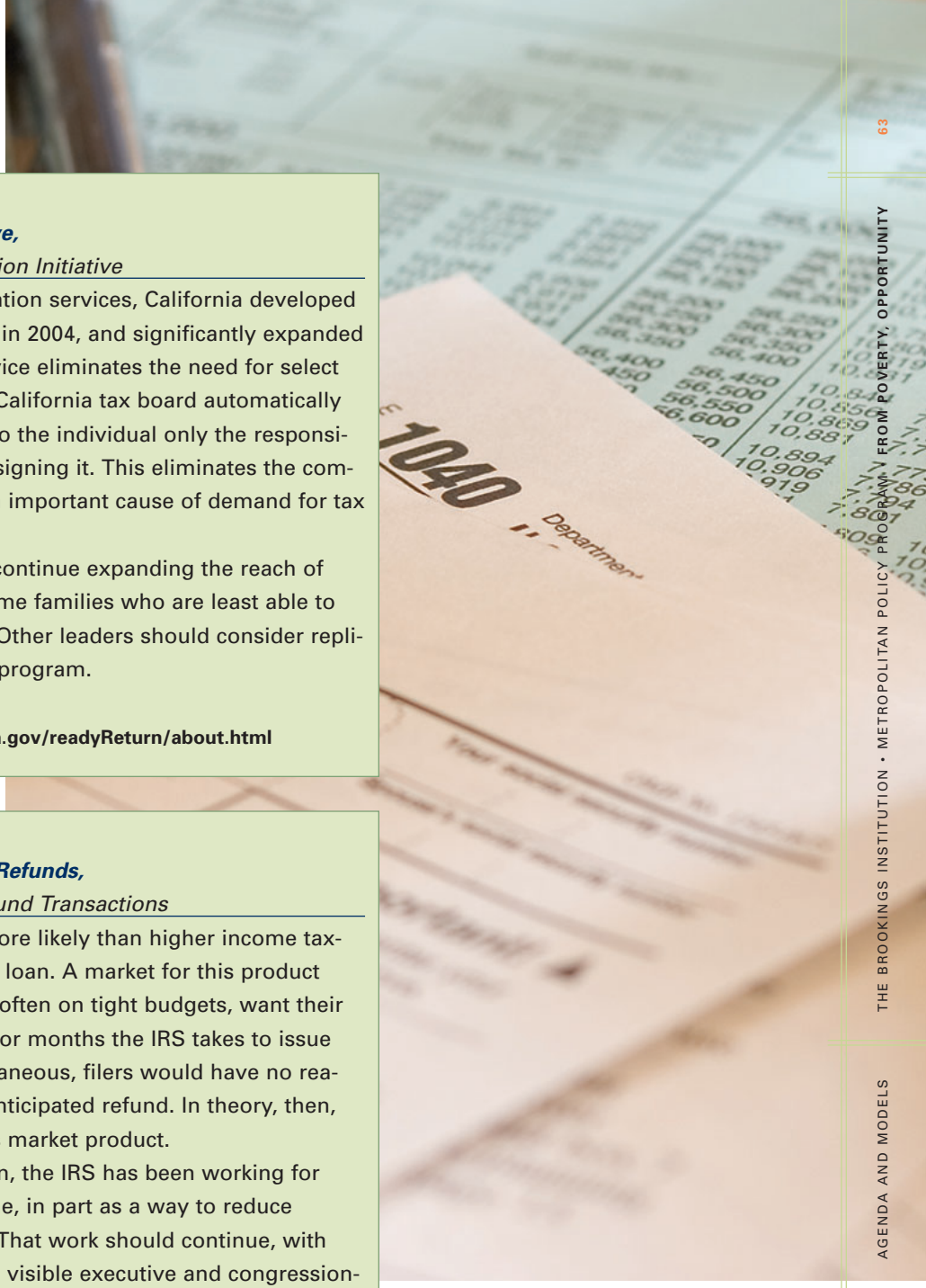
For more information: **http://www.ganet.org/dbf/dbf.html**

Don't Overlook Mainstream Financial Institutions,
The Need to Update Regulation Z

While the alternative financial services sector comprises a large share of the high-priced market in lower income neighborhoods, customers at mainstream institutions can also pay high rates for short-term loans if they regularly overdraw their accounts and do not enroll in overdraft protection plans. If used once per month, most overdraft protections will be modestly less expensive than short-term loans. But lower income consumers often struggle to meet payments, and may be more likely to use these services with greater frequency. In this case, they can pay substantially higher prices for what are effectively short-term loans than if they were to use a payday lender.

Because banks often find these fees an important source of additional income, it is not in their best interest to unilaterally lower them. To spur the market to move in a more responsible direction, the Federal Reserve suggested in a May 2004 statement that there may be a need to revisit the exemption of overdraft services from Regulation Z, which implements the Truth in Lending Act. Extending the regulation would oblige institutions to prominently advertise the cost of these policies, something they are currently not required to do. By more prominently advertising the costs of these policies, consumers may be better able to make cost-saving decisions.

For more information: **http://www.federalreserve.gov/Regulations/#z**



Offer a Free Tax Preparation Alternative,
California's Ready Return Tax Preparation Initiative

To reduce demand for paid tax preparation services, California developed the Ready Return tax preparation pilot in 2004, and significantly expanded it in 2005. This free state-provided service eliminates the need for select filers to fill out tax forms. Instead, the California tax board automatically prepares the filer's tax forms, leaving to the individual only the responsibility for reviewing the form and then signing it. This eliminates the complexity associated with filing taxes—an important cause of demand for tax preparation services.

For California, the next steps are to continue expanding the reach of this service, particularly for lower income families who are least able to afford for-profit tax preparation firms. Other leaders should consider replicating and extending California's pilot program.

For more information: **http://www.ftb.ca.gov/readyReturn/about.html**

Accelerate the Release of Federal Tax Refunds,
The Need for the IRS to Speed-Up Refund Transactions

Lower income consumers are much more likely than higher income taxfilers to purchase a refund anticipation loan. A market for this product exists because lower income workers, often on tight budgets, want their refunds sooner than the typical weeks or months the IRS takes to issue checks. If that transaction were instantaneous, filers would have no reason to purchase a loan based on the anticipated refund. In theory, then, the IRS has the power to eliminate this market product.

Although technical limitations remain, the IRS has been working for several years to shorten the refund time, in part as a way to reduce demand for refund anticipation loans. That work should continue, with reinforcement from stronger and more visible executive and congressional leadership.

Identify and Weed Out Unscrupulous Business Practices in the Auto-Market

We have documented in this report how lower income families routinely pay higher prices for many car-related products. While some of these higher prices have to do with real, higher costs businesses incur when operating in these markets, unscrupulous behavior also plays a role as businesses exploit information gaps and other market failures to charge higher prices to lower income consumers.

State and local governments have responded to these market dynamics by passing new laws, tightening regulation, and, just as importantly, commissioning research about price-inflating practices. But as in other regulatory examples discussed in this report, progress is mostly uneven, leaving much work in this area for leaders around the country.

A car buyer's race and income affects the price he or she pays for cars, even after controlling for a number of other effects.

Curb Abuses by Car Dealers, *California's Car Buyer Bill of Rights*

California's new car buyer bill of rights law became effective on July 1, 2006, putting the state at the forefront of efforts to address abusive practices by automobile dealers and auto loan providers. Lower income consumers pay higher prices for both cars and loans, making this bill a particularly valuable tool to bring down automobile costs for lower income consumers in the Golden State.

Among its numerous provisions, the law requires dealers to itemize components of their monthly installment bill, and makes it illegal for them to add terms of the contract without first disclosing additions to the consumer. Along those same lines, the law caps the incentive financial institutions can provide to dealers for selling high-priced loans and requires dealers to submit information to the consumer about the role of credit scores in determining auto loan rates. The measure also provides for an optional cooling-off period, through which the consumer can pay a fee for the right to return the car within 48 hours. Together, these efforts mark an important step forward in cutting into the ability of car dealers to drive up costs for lower income consumers.

For more information: **http://www.dca.ca.gov/legis/2005/miscconsumer.htm**

Limit the Ability of Prices to Vary With Income,
Hawaii's Department of Insurance Credit Score Regulation

State legislatures are increasingly asking why credit scores should be used to determine insurance rates. Of course, lower income households are going to be paying higher prices using this method because they typically have lower credit scores than higher income drivers.

In part because the use of credit scores automatically assigns a higher premium to many lower income families, Maryland and Hawaii have banned insurance companies from using them to set rates.[136] Over the past two years, state legislatures in at least Washington, Michigan, and West Virginia have proposed bills that would do the same. Additionally, bills under consideration in Tennessee, Missouri, and North Dakota would prevent premium increases based on credit scores—a change that would protect people who fall on hard times after they already have been underwritten.

For more information: **http://www.insurance.wa.gov/publications/news/Final_SESRC_Report.pdf**

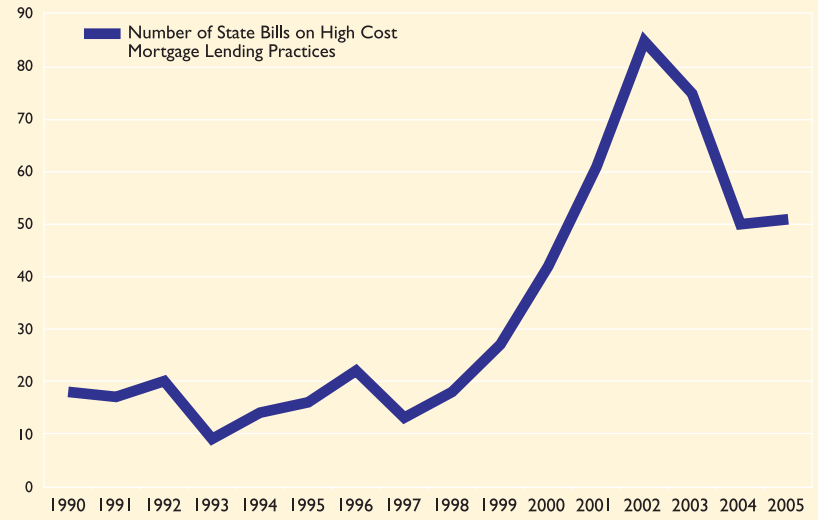
Consider Bold Disclosure Rules, *Car Price Disclosure Act*

A car buyer's race and income affects the price he or she pays for cars, even after controlling for a number of other effects. In the 1970s, similar evidence about the effect of race in the mortgage market prompted Congress to pass the Home Mortgage Disclosure Act (HMDA), chiefly designed to shine a spotlight on credit availability in neighborhoods with high concentrations of minorities. Since then, concern about pricing discrimination prompted the Federal Reserve to expand the HMDA to include information about high-cost loans.

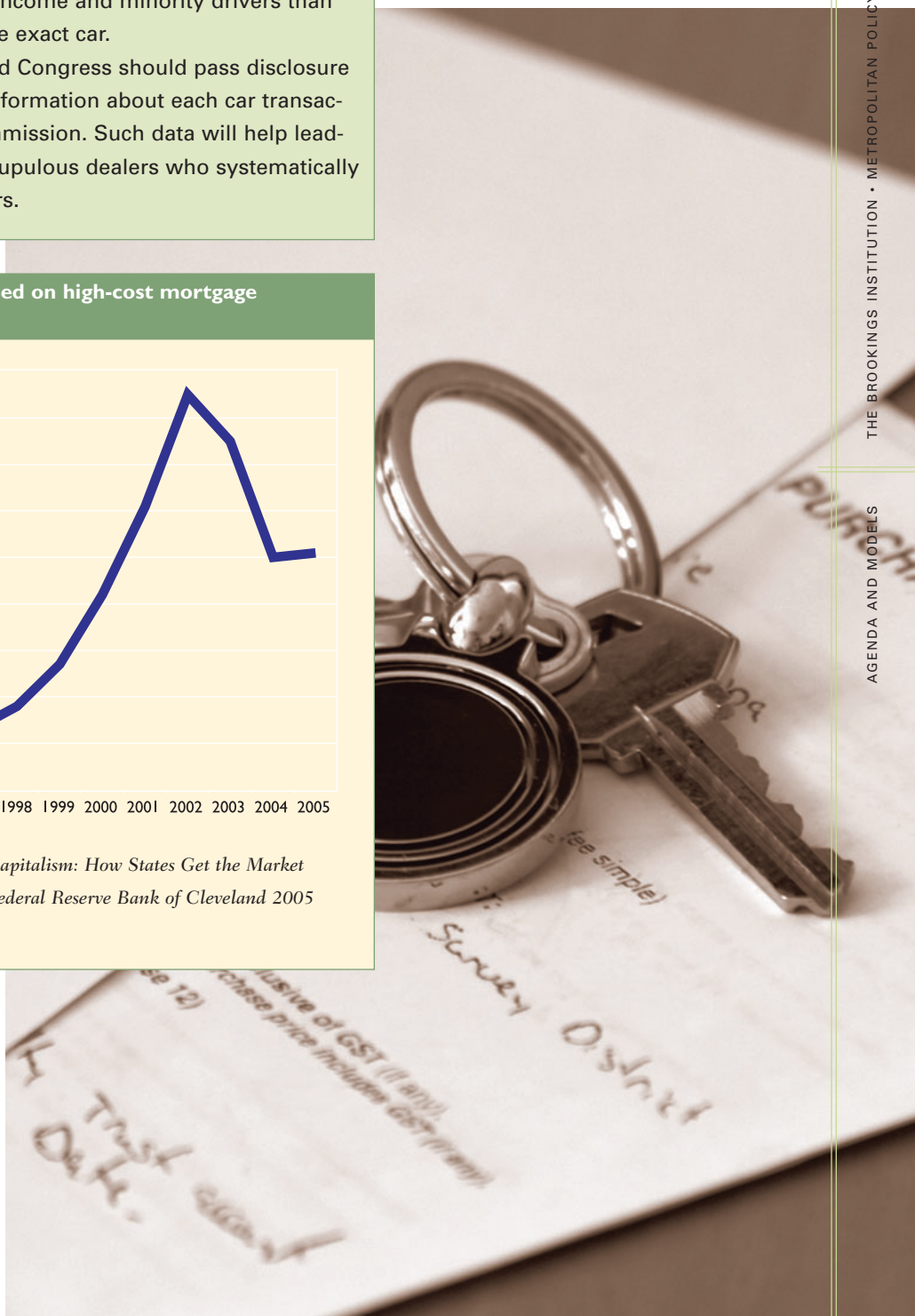
A similar effort is needed in the auto market. No justification exists for systematically higher prices for lower income and minority drivers than what better-off buyers pay for the same exact car.

To curb this practice, statehouses and Congress should pass disclosure laws that require dealers to transmit information about each car transaction to a state or federal oversight commission. Such data will help leaders (and consumers) identify the unscrupulous dealers who systematically drive up prices for lower income drivers.

States have increasingly become focused on high-cost mortgage lending practices



Source: Matt Fellowes 2005. "Laboratories of Capitalism: How States Get the Market Right for Working Families." Presented at the Federal Reserve Bank of Cleveland 2005 Policy Summit



Curb Unscrupulous Business Practices in the Housing Markets

Estimates suggest that between 14 and 20 percent of all borrowers of high-priced mortgages could have qualified for a prime mortgage product, saving them hundreds or thousands of dollars in interest charges every year.[137] Even for those who cannot qualify for prime loans, some companies tack on additional features to mortgage products that unnecessarily drive up costs for consumers. Together, these forces help drive a highly variable price spread among consumers for the same amount of borrowed money. As this report has shown, lower income consumers are particularly likely to pay higher prices.

To reduce these higher costs for lower income families, leaders can promote more competitively priced products. But government should also pass regulations to weed out unscrupulous lenders and practices. This section includes a number of examples from states and the federal government that do just this.

Even for those who cannot qualify for prime loans, some companies tack on additional features to mortgage products that unnecessarily drive up costs for consumers.

Limit Fees and Provide More Information for Mortgage Buyers,
New Mexico's Mortgage Lending Law

In 2005, nineteen states considered nearly 50 different bills proposing revisions to their mortgage lending laws. This intense state-level focus on mortgage lending has been building steadily since the mid-1990s. Among the numerous laws now on the books, New Mexico's Home Loan Protection Act ranks among the strongest efforts to curb unscrupulous practices that drive up prices for lower income consumers. Provisions in this measure include restrictions on pre-payment penalties, limits on refinancing practices that strip equity from homeowners, and a requirement that borrowers receive financial counseling prior to buying a high-cost mortgage.

Since this law was passed, a recent analysis found that the proportion of all loans in New Mexico with these price-inflating features has fallen by nearly 40 percentage points, compared to the average percentage change among all states without these protections. At the same time, the volume of sub-prime lending has not changed, suggesting that the market is working more efficiently with this regulation.

For more information: http://www.rld.state.nm.us/fid/News/Home%20Loan%20Protection%20Act.htm

Analyze the Need for Regulation,
Pennsylvania State Department of Banking Study

To inform the need for regulation and additional laws, a number of states have commissioned analyses of their mortgage market. Under the leadership of Secretary William Schenck, the Pennsylvania Department of Banking commissioned The Reinvestment Fund, a non-partisan group based in Philadelphia, to assess lending in Pennsylvania. Their study confirmed that much of the market for high-cost loans is based on refinanced mortgages, particularly for homes owned by minorities, the elderly, and those with low incomes. Using this study, the state is now developing stronger regulations to curtail lending abuses that drive up costs for homebuyers, including lower income ones. Leaders can replicate this effort by connecting with independent, highly respected institutions to conduct research in this area.

For more information: www.trfund.com/resource/downloads/policypubs/Mortgage-Forclosure-Filings.pdf

Limit Prices at High-Priced Businesses, *Rent-to-Own State Laws*

Rent-to-own stores are regulated by specific rent-to-own statutes or by general state regulations that govern credit transactions. The stringency of these regulations varies widely across the states. In New York, for instance, rent-to-own businesses cannot charge more than 50 percent of a product's total worth in interest. On the other hand, Connecticut sets the limit at 100 percent, and Wisconsin sets it at 30 percent.

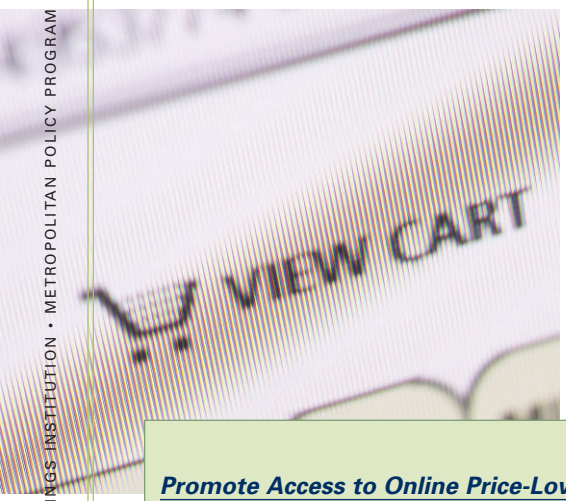
Leaders can bring down prices for consumers by implementing stricter caps on fees and interest charged by rent-to-own establishments, and by requiring these companies to fully disclose their pricing.

GOAL THREE: PROMOTE CONSUMER RESPONSIBILITY AND THE POWER OF LOWER INCOME SHOPPERS

The first two strategies for bringing down higher costs address the suppliers of basic necessities. Leaders need to grow the mainstream, price-competitive suppliers to force the alternative, higher-priced businesses to compete.

The other side of this equation is to assist the lower income consumers who buy high-priced goods and services from these suppliers. Here, leaders need to provide incentives for consumers to assume more responsibility for their buying decisions. At the same time, leaders need to strengthen consumers' capacity to do so by increasing the amount of information buyers can use to comparatively shop and making smarter strategies more available.

While some of these strategies are targeted to specific markets, many of the steps needed to strengthen consumer responsibility and the power of lower income consumers work across the board. This section reviews a handful of examples from around the country.



Promote Access to Online Price-Lowering Tools, and Internet Access and High Level Uses

Consumers save money when they can comparatively shop, particularly if they can do it in a timely fashion. Today, there are countless web-based companies designed to do just that, by pooling together the range of prices in a market for the exact same good or service. Lendingtree.com, for instance, provides comparative information on mortgages; einsurance.com and progressive.com provide comparative prices for insurance premiums; carbargain.com and cars.com provides prices for new and used cars; and shopping.com provides comparative prices for appliances and electronics. Similarly, a growing number of state departments of insurance offer drivers annual insurance shopping guides including prices for different premiums. Numerous consumer publications that rate the service and quality of local businesses are also available, and beehive.org provides an excellent portal for price-lowering information.

Lower income consumers can utilize all these extremely valuable market products to bring down the prices they pay for basic necessities. These resources may also inspire lower income families to take more responsibility for their budget decisions. Also, by steering consumers toward the best prices in the market, leaders can help curb the higher-priced businesses that thrive from charging lower income consumers unnecessarily high prices.

To start with, access to the Internet among lower income households still lags behind higher income households, although there have been significant gains over the past decade. This points to the many important gaps that need to be filled by promoting computer ownership and access among lower income households. It is also important to connect families to high-quality, high-impact uses of the Internet.

One way this could happen is through Idea Stores. Started in London, these are high-impact, transformative investments in libraries located in lower income neighborhoods. Part cutting-edge architecture, part community meeting place, part cafe, Idea Stores have emerged as new community institutions in lower income neighborhoods. Part of this effort could include investments in local, online, shopping infrastructure for lower income families, combined with incentives for families to use these resources. These would be go-to resources for families that are buying big-ticket items, like houses, cars, and insurance, along with smaller-ticket items like groceries, appliances, and bank accounts. Together, these tools could harness the potential that the Internet holds to make markets more efficient and competitive in lower income neighborhoods—and save untold sums for lower income consumers.

For more information: **http://www.ideastore.co.uk/**

Invest in Consumer Education, Promote Financial Education

A financial education should give clients basic money management skills, along with the know-how to find trusted information resources when they need to make a major financial decision, like buying insurance or a new car. These skills can help lower income families make financially responsible decisions and help them ward off offers by unscrupulous businesses that charge higher than necessary prices.[141]

The need for financial education has increased as markets have become more complex, credit has become more available, and costs of living have increased. Making savvy, smart decisions today is much more difficult as a result of these changes.

Importantly, this need for an investment in financial education comes at a time when a great many institutions have already invested in financial education. There are countless providers of financial education today, for instance, including banks, employers, public schools, community colleges, faith-based groups, community groups, and the military. There are also hundreds of thousands of pages devoted to financial education online, including excellent web pages like beehive.org that are targeted to lower income families; and nearly every state has at least considered legislation over the past year related to financial education. Some states, like Pennsylvania, have even established a separate state Office of Financial Education dedicated to promoting financial management skills throughout the state.

Going forward, public and private leaders need to build on these investments by a) evaluating the gaps in financial education delivery in their jurisdictions; b) determining the best practices that can be used to fill those gaps; and c) establishing a methodology for benchmarking the impact of investments in financial education.

The proliferation of financial education programs and initiatives across the country does not mean that the need for financial education has been addressed. There is wide diversity in the quality of financial education.[142] There are also glaring gaps in the delivery of financial education.[143] For instance, most public schools have abandoned their financial literacy curricula, even though there is evidence that kids that participate in a financial education program are more likely to save, and achieve a higher net worth. Similarly, few consumers receive counseling before they buy a sub-prime mortgage, even though these loans are substantially more likely than prime loans to become delinquent.[145] These types of gaps need to be filled by public and private investment.

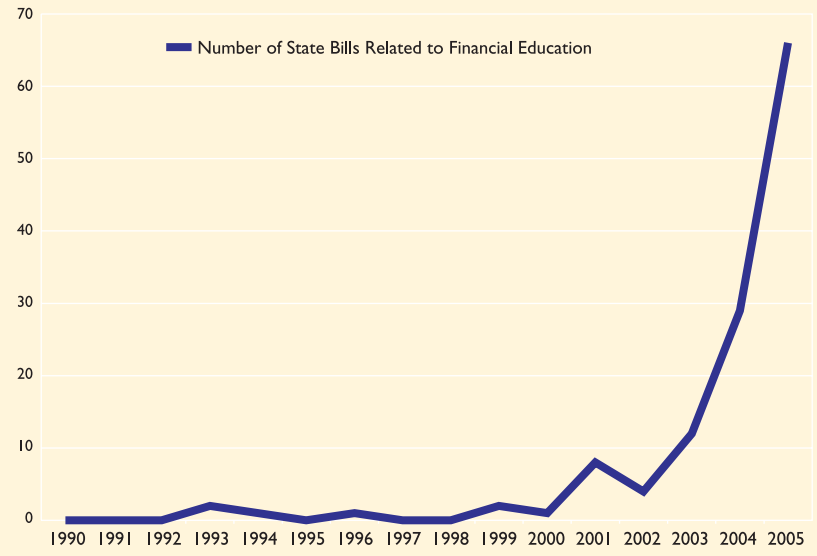
Public and private leaders also need to invest in researching and then publicizing best practices in financial education at different delivery points. These delivery points are often generalized into two different categories: those that provide a general financial education and those that provide an education targeted toward a specific purchase, like buying a home or investing in an Individual Development Account. Many of the assessments into the efficacy of financial education programs have been stunted by a number of methodological problems, including selection bias (i.e., recipients of financial education may self-select into these programs, and thus be systematically different non-recipients) and by validity (i.e., there are so many outlets for financial education, it is difficult to generalize findings based on an assessment of a single program). Going forward, public and private leaders should take an inventory of the most successful financial education programs, and then invest in those programs.[146]

Finally, leaders need to benchmark the impact that their investments have had on consumers. This type of evidence is absolutely critical to motivate continued or additional spending, and to ward off investing scarce resources in unproductive programs or partners.

Together, these three steps can give lowerincome consumers the resources to make more responsible decisions, and the power to fend-off the dynamic, often very entrepreneurial efforts of unscrupulous businesses.

For more information: **http://www.chicagofed.org/cedric/financial_education_research_center.cfm**

States have increasingly become focused on providing financial education to consumers



Source: Matt Fellowes. 2005. "Laboratories of Capitalism: How States Get the Market Right for Working Families." Presented at the Federal Reserve Bank of Cleveland 2005 Policy Summit.

Overall, Promote Trusted, Dynamic Resources for Market Information, Invest in Community Experiments

Markets are incredibly dynamic and complicated. There are now hundreds of different mortgage products, for instance. Consumers also often have dozens of insurance companies to choose from and the option of using the Internet or brick and mortar establishments to buy a growing number of necessities. Understanding how to manage the accuracy of three different credit reports is also crucial.

Financial education can go a long way towards helping lower income consumers ward off some of the risks associated with these market characteristics, while also positioning lower income consumers to capture the benefits it yields. But financial education is, by definition, static. Consumers participate in a financial education class, complete it, and then are sent off into the world. Meanwhile, markets continue to evolve. This means that consumers, and lower income consumers in particular (because they have the smallest margin of budgeting error), need a financial education resource that is just as dynamic and comprehensive as the market. Importantly, that resource also needs to be trusted by lower income consumers who, together, represent an incredibly diverse set of backgrounds and circumstances.

Such a resource such has not yet emerged. It might be the Idea Stores, reviewed earlier. It might be a website like beehive.org. It might be some type of free, publicly-monitored financial services, such as found in court rooms today. Or, it might be some type of faith-based service. Whatever it looks like, public and private leaders need to invest in thinking about how to deliver a trusted, dynamic resource for lower income consumers to keep pace with the incredibly complicated marketplace of today. ■

Endnotes

1. Author's analysis of the 2004 Survey of Consumer Finances. In this report, low-income households are defined as all households that earn less than $30,000 a year, and lower income neighborhoods are defined as any neighborhood with a median income less than $30,000. The empirical reasoning for this definition is reviewed in the methods section of this report.
2. See, for instance, David Caplovitz. 1967. *The Poor Pay More.* New York: The Free Press.
3. Pamela Loprest. 2003. "Fewer Welfare Leavers Employed in Weak Economy." Washington: Urban Institute; Gary Burtless. 2000. "Can the Labor Market Absorb Three Million Welfare Recipients?" Washington, DC: The Brookings Institution; Rebecca M. Blank and David Card. 2000. *Finding Jobs: Work and Welfare Reform.* New York: Russell Sage Foundation; Bruce Katz. 2004. "The Evolution of American Neighborhood Policy and What It Means for the United Kingdom." Washington, DC: The Brookings Institution; Alan Berube. 2006. "The New Safety Net: How the Tax Code Helped Low-Income Working Families During the Early 2000s." Washington, DC: The Brookings Institution; Audrey Singer. 2005. "The Rise of New Immigrant Gateways." Washington, DC: The Brookings Institution.
4. Matt Fellowes. 2006. "Credit Scores, Reports, and Getting Ahead in America." Washington, DC: The Brookings Institution. Other important changes in the financial service industry over the past decade include automated underwriting systems and automated account management systems.
5. William Fulton, Rolf Pendall, Mai Nguyen, and Alicia Harrison. 2001. "Who Sprawls Most? How Growth Patterns Differ Across the U.S." Washington, DC: The Brookings Institution.
6. Keith R. Ihlanfeldt and David L. Sjoquist. 1998. "The Spatial Mismatch Hypothesis: A Review of Recent Studies and Their Implications for Welfare Reform." *Housing Policy Debate,* 9: 849-93. Also see: Michael A. Stoll. 2005. "Job Sprawl and the Spatial Mismatch between Blacks and Jobs." Washington, DC: The Brookings Institution.
7. Bureau of Transportation Statistics. 2005. *Transportation Statistics Annual Report.* U.S. Department of Transportation, Research and Innovative Technology Administration, Bureau of Transportation Statistics.
8. We borrow this language of the world flattening from: Thomas Friedman. 2005. *The World Is Flat: A Brief History of the Twenty-First Century.* New York: Farrar, Straus and Giroux.
9. Lawrence Mishel, Jared Bernstein, and Sylvia Allegretto. 2005. *The State of Working America.* Washington, DC: The Economic Policy Institute.
10. Balloon mortgages are those where the monthly payment substantially increases after a pre-determined set of time.
11. For instance, please see: Matt Fellowes. 2006. "Grounds for Competition: The Basic Financial Service Infrastructure in Low-Income Neighborhoods." Presented at the 2006 Louis L. Redding Public Policy Forum, University of Delaware. Available at: **http://www.brookings.edu/metro/speeches/20060317_financialserv.htm** [accessed April 2006].
12. For an interesting assessment of these changes please refer to: Nicolas P. Retsinas and Eric S. Belsky, eds. 2005. *Building Assets, Building Credit: Creating Wealth in Low-Income Communities.* Washington, DC: The Brookings Institution, and Cambridge, MA: Center Joint Center for Housing Studies, Harvard University.
13. See, for instance: Robert Berner. 2006. "Wal-Mart's Urban Renewal." *Business Week,* April 4, 2006.
14. See, for instance, the numerous studies by Social Compact, which point to unmet market demand in lower income neighborhoods: **www.socialcompact.org**.
15. See annual survey administered by Providian Financial and the Consumer Federation of America; or GAO, "Credit Reporting Literacy: Consumers Understood the Basics but Could Benefit from Targeted Educational Efforts" GAO-05-223 (2005); and Kathryn Gwatkin and George McCarthy. 2003. "A Critical Examination of Financial Literacy Education." Presented at the 2003 Building Assets, Building Credit: A Symposium on Improving Financial Services in Low-Income Communities.
16. For these upper and lower bound estimates, please refer to: Wei Li and Keith S. Ernst. 2006. "The Best Value in the Subprime Market: State Predatory Lending Reforms." Washington, DC: Center for Responsible Lending; M. Hudson and E.S. Reckard, More Homeowners with Good Credit Getting Stuck with Higher-Rate Loans. *Los Angeles Times:* A-1 (October 24, 2005).
17. Certainly, this has at least something to do with the fewer number of choices in some lower income neighborhoods. But, it also has to do with real behavioral differences among consumers.
18. For instance, see: Ephraim S. Leibtag and Phil R. Kaufman. 2003. "Exploring Food Purchase Behavior of Low-Income Households: How Do They Economize?" AIB-747-07, USDA, Economic Research Service.
19. U.S. Census Bureau, 2004 American Community Survey, and the Decennial Census for the Hartford metropolitan area population count. We chose these areas because they represent a diverse sample. Several are also areas where the Annie E. Casey Foundation, which generously supported this project, has heavily invested in neighborhoods.
20. The ACCRA cost-of-living metro index is available at **www.accra.org** [accessed April 2006]. Also see: Leah B. Curran, Harold Wolman, Edward W. Hill, and Kimberly Furdell. 2006. "Economic Wellbeing and Where We Live." Washington, DC: The Brookings Institution.
21. Author's analysis of data from the Bureau of Labor Statistics.
22. Author's analysis of the 2004 Survey of Consumer Expenditures.
23. For instance, see: Ephraim S. Leibtag and Phil R. Kaufman. 2003. "Exploring Food Purchase Behavior of Low-Income Households: How Do They Economize?" AIB-747-07, USDA, Economic Research Service.
24. The NAICs definition used by InfoUSA for grocery stores is: "This industry comprises establishments generally known as supermarkets and grocery stores primarily engaged in retailing a general line of food, such as canned and frozen foods; fresh fruits and vegetables; and fresh and prepared meats, fish, and poultry. Included in this industry are delicatessen-type establishments primarily engaged in retailing a general line of food." Note that this definition DOES NOT contain convenience stores. For more information, please refer to the Census webpage on NAICs: **http://www.census.gov/epcd/www/naics.html** [accessed April 2006).
25. In some states there was also public, license data. These data are not always available in electronic format, the data are not always updated, and it can be unclear whether businesses licensed to sell a service sell that service in all of their establishments. Also, these

data are not always available across states. For all of these reasons, we use private data in this report to assess the population of establishments. Importantly, the InfoUSA data is also different from state license data because it categorizes establishments by their primary and secondary business service, and not all of the business services they sell. This means, for instance, that a gas station that sells gas as its primary business, food as its second business, and check-cashing services as its third, will not be listed in the InfoUSA database as a check-cashing business. Both public and private data consequently have limitations.

26. Evidence suggests that smaller stores charge higher prices than larger stores. Since low-income neighborhoods generally have much less access to larger stores than higher income neighborhoods, we can infer that food is, on average, more expensive in lower income neighborhoods. For evidence of the relationship between store size and price see the results section of this report, and: 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; and Howard Kunreuther. 1973. "Why the Poor Pay More for Food: Theoretical and Empirical Evidence." *Journal of Business.* 46:368-83.

27. Mari Gallagher. 2005. "Chain Reaction: Income, Race, and Access to Chicago's Major Player Grocers. Chicago: Metro Chicago Information Center.

28. For other examples of grocery baskets used in this line of research see: Lashawan Richburg Hayes. 2000. "Do the Poor Pay More? An Empirical Investigation of Price Dispersion in Food Retailing." Industrial Relations Section Working Paper #446. Princeton University; Phillip R. Kaufman, James M. MacDonald, Steven M. Lutz, and David M. Smallwood. 1997. "Do the Poor Pay More for Food? Item Selection and Price Differences Affect Low-Income Household Food Costs." Agriculture Economic Report Number 759. Washington, DC: U.S. Department of Agriculture, Economic Research Service; Trinity Center for Neighborhoods. 2002. "Food Pricing in Hartford, Connecticut: Supplement to the Self Sufficiency Study."

29. The strength of this method is that it yields a very large, cross-store comparison. The important downside, however, is that we delimit the range of the products considered. This is important because large stores generally use the large floor space to sell a greater diversity of products than smaller stores.

30. This means, for instance, that we compared the price of a six-pack of Coke across each of these 3,000 grocery stores. The product categories represented by these 132 products include: eggs, milk, cheese, coffee, canned tuna, margarine, frozen potatoes, frozen poultry, carbonated beverages, frozen dinners, and cereal.

31. U.S. Census Bureau, 2004 American Community Survey.

32. There may be other types of higher auto-related costs, like the cost of gasoline and the cost of maintaining a car. Gas may cost more in lower income neighborhoods because of the higher costs of security and because they are more likely to be located in urban neighborhoods. Maintaining a car may be more expensive because lower income households are much more likely to drive a used car than higher income households. Unfortunately, we were unable to find data on these costs.

33. 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. Also see: Ian Ayers and Peter Siegelman. 1995. "Race and Gender Discrimination in Bargaining for a New Car." *The American Economic Review,* 85:304-21; and David W. Harless and George Hoffer. 2002. "Do Women Pay More for New Vehicles? Evidence from Transportation Price Data." *The American Economic Review,* 92:270-79.

34. For more information about direct, indirect, and total effects, please see: Rex Kline. 1998. Principles and Practice of Structural Equation Modeling. New York: The Guilford Press.

35. But, for a local market assessment see: Anne Kim. 2002. "Taken for a Ride: Subprime Lenders, Automobility, and the Working Poor." Washington, DC: Progressive Policy Institute.

36. For more information about this survey, please refer to: Brian K. Bucks, Arthur B. Kennickell, and Kevin B. Moore. 2006. "Recent Changes in U.S. Family Finances: Evidence from the 2001 and 2004 Survey of Consumer Finances." Federal Reserve Bulletin. vol. 92 (February 2006), pp. A1-A38.

37. For instance, a 2003 report by the Washington Office of the Insurance Commissioner found that driver income is significantly related to credit scores—one variable considered by some insurance companies. In particular, they "concluded that credit scores, and consequently, insurance premiums, improve as income rises." For more information, see: Washington Insurance Underwriting and Pricing." Submitted to the State Legislator in December 2003.

38. According to the Insurance Information Institute, Allstate has about 10 percent of the auto insurance market, Progressive has about 7 percent, and Geico has about a 6 percent market share [accessed April 2006: **http://www.iii.org/media/facts/statsbyissue/auto/**]

39. We did this because we wanted as conservative an estimate as possible. A downside, however, is that these estimates should not be compared across the metropolitan areas in our analysis, since we consider a different amount of insurance across each of these areas. For a comparable assessment of average prices, please see publications by the National Association of Insurance Commissioners, or data available from the Insurance Information Institute [**www.iii.com**, accessed April 2006].

40. Insurance quotes were not available for all of the ZIP codes in these areas. We also dropped any ZIP codes with a population less than 500 in these metropolitan areas.

41. This methodology is derived from a series of studies that have analyzed price variance across ZIP codes. See for instance: Scott E. Harrington and Greg Niehaus. 1998. "Race, Redlining, and Automobile Insurance Prices." Journal of Business. 71(3): 439-69; R. Klein. 1995. "Urban homeowners insurance markets: Problems and possible solutions." Working Paper. National Association of Insurance Commissioners; and Missouri Department of Insurance. 2004. "Affordability and Availability of Personal Lines Insurance in Underserved Communities."

42. The Washington Office of the Insurance Commissioner, Texas Department of Insurance, the Michigan Office of Financial and Insurance Services, and the Missouri Department of Insurance have all undertaken analyses to estimate the relationship between credit scores and driver income. A forthcoming Federal Trade Commision analysis of this issue promises to be a generalizable assessment of this issue.

43. For instance, see: Albert B. Crenshaw and Caroline E. Mayer. 2006. "Geico's Risk Criteria Challenged: Insurer Denies That Education and Occupation Are Used to Discriminate" *Washington Post:* D01, March 21, 2006.

44. Credit cards and debit cards are two other financial service products often thought of as "basic," but no data is available to compare prices for these products.

45. For instance, please see: www.banking.pennslyvania.gov.

46. In some cases public license data is also available, but we chose not to use these for a number of reasons: these data are not always available in electronic format, the data are not always updated, it is sometimes unclear

whether businesses licensed to sell a service do so in all of their establishments;these data are not always available across states, and these data are not compatible with the InfoUSA data. Importantly, the InfoUSA data is also different from state license data because it categorizes establishments by their primary and secondary business service, not all of the business services they sell. This means, for instance, that a gas station that sells gas as its primary business, food as its second business, and check-cashing services as its third, will not be listed in the InfoUSA database as a check-cashing business.

47. Please see previous note for an explanation of the pros and cons associated with different data sources.

48. But, see evidence of systematic differences in tax assessments: Matt Fellowes and Bruce Katz. 2005. *The Price is Wrong: Getting the Market Right for Philadelphia's Working Families.* Washington, DC: The Brookings Institution.

49. Robert B. Avery, Glenn Canner, and Robert E. Cook. 2005. "New Information Reported Under HMDA and Its Application in Fair Lending Enforcement." *Federal Reserve Bulletin,* Summer 2005.

50. For more information about this comparison please refer to Keith S. Ernst and Deborah N. Goldstein. 2005. "Comment on Federal Reserve Analysis of Home Mortgage Disclosure Act Data." Center for Responsible Lending, CRL Comment #1.

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

52. For instance, see: Iceland, John (Rapporteur). 2005. *Workshop on Experimental Poverty Measures.* Washington, D.C.: National Academy Press. Also see: Gary Burtless. 1999. "Political Consequences of an Improved Poverty Measure," *The LaFollette Policy Report,* Vol. 10, no. 1, Spring/Summer 1999

53. Neighborhood is defined in this report as a census tract. When using the 2004 Survey of Consumer Finance data this represented about 71 percent of the median household income (and about 44 percent of the mean income). When using the 2000 Census for median neighborhood income estimates in our sample of 12 metropolitan areas, our measure of lower income neighborhoods represented about 16 percent of the 14,903 neighborhoods in our analysis.

54. HUD estimates that the median income in 2006 is $59,600. For more information please see: **http://www.hud.gov/local/shared/working/localpo/xestmedinc.cfm?state=us** [accessed May 2006].

55. For instance, a family in Atlanta with a net annual income of $30,000 earned from one salaried worker can pay $1,500 over the course of a year to cash checks at a check casher. If they also occasionally took out a payday loan or a pawnshop loan, in addition to paying for a tax preparation service and refund anticipation loan, this family would pay at least $2,000 in fees for all of these basic financial services.

56. We jointly analyze these companies because an increasing number of establishments that serve one service, also sell the other service. For evidence of this market trend, please refer to Patrick Bolton and Howard Rosenthal (eds). 2005. *Credit Markets for the Poor.* New York: Russell Sage Foundation. Also, see: Sheila Bair. 2005. "Low Cost Payday Loans: the Opportunities, the Obstacles," Report prepared for the Annie E. Casey Foundation.

57. For instance, a family in Atlanta with a net income of $30,000 a year earned from one salaried worker can pay $1,500 to cash checks from a private company if they lived and worked in Atlanta. If they also occasionally took out a payday loan or a pawnshop loan, in addition to paying for a tax preparation service and refund anticipation loan, this family would pay at least $2,000 in fees.

58. John P. Caskey. 2002. "Check-Cashing Outlets in a Changing Financial System." Working Paper #02-4. Federal Reserve Bank of Philadelphia; John P. Caskey. 2002. "The Economics of Payday Lending." Monograph. Madison, WI: Filene Research Institute; and Robert W. Johnson and Dixie P. Johnson. 1998. "Pawnbroking in the U.S.: A Profile of Customers." Washington, DC: Georgetown University Credit Research Center. Please keep in mind that the income values here all reflect the year that these surveys were conducted.

59. See discussion of overdraft fees in this section for an example of an exception to this trend.

60. For a full listing of current state regulations please refer to the "Check Casher Fee Schedule," maintained by the Financial Service Centers of America, Inc. – a trade association for the industry. Note that these regulations were compiled in September 2005.

61. Colorado and Washington, two states whose regulations determine policies in two of our sample cities, have no specific regulations governing these fees, making it difficult to know exactly how much is charged in these states. Also, research has found that most establishments raise prices to the maximum amount allowed under state law, defying traditional price pressures engendered by competition. See, for instance: Mark Flannery and Katherine Samolyk. 2005. "Payday Lending: Do the Costs Justify the Price." FDIC Center for Financial Research. Working Paper. No. 2005-09.

62. Mark Flannery and Katherine Samolyk. 2005. "Payday Lending: Do the Costs Justify the Price?" FDIC Center for Financial Research Working Paper No. 2005-09.

63. Jane J. Kim. April 2, 2006. "Banks sweeten promotions for new checking customers; rates creating profit pressures—bounced-check fees, other penalties rising.

64. William Streeter and Steve Cocheo. April 2006. Deposit battle: "Winning at a zero-sum game." ABA Banking Journal, American Bankers Association.

65. Author's analysis of the 2004 Survey of Consumer Finances; and Sheila Bair. 2005. "Low-Cost, Payday Loans: Opportunities and Obstacles." Baltimore, MD: The Annie E. Casey Foundation.

66. Results from a 2004 survey administered by the Center for Financial Services Association, cited from Sheila Bair. 2005. "Low-Cost, Payday Loans: Opportunities and Obstacles." Baltimore, MD: The Annie E. Casey Foundation

67. Importantly, though, payday lenders in many of these states can legally avoid these limits by renting the charter of a bank located in another state. State limits should often be interpreted as rough guides to the very high prices these payday loan establishments charge. All federal regulatory agencies ban or strongly discourage banks from engaging in this practice.

68. For more information, please see: **http://www.ncsl.org/programs/banking/paydaylend-intro.htm** and **www.paydayloaninfo.org** [accessed May 2006]

69 John P. Caskey. 2005. "Fringe Banking and the Rise of Payday Lending," in Patrick Bolton and Howard Rosenthal (eds), *Credit Markets for the Poor.* New York: Russell Sage Foundation; author's analysis of the 2004 Survey of Consumer Finances.

70. Glen Tenney. 2004. The Effects of Government Regulation on Competition and Supply in the Pawn Industry: A Quantitative and Qualitative Study. Touro University International Doctoral Dissertation. P2—202. Amanda Quester and Jean Ann Fox. 2005. "Car Title Lending: Driving Borrowers to Financial Ruin." Washington, DC: Consumer Federation of America. Note that these compilations of state regulations are at least one year old.

71. Amanda Quester and Jean Ann Fox. 2005. "Car Title Lending: Driving Borrowers to Financial Ruin." Washington, DC: Consumer Federation of America.

72. Mark Flannery and Katherine Samolyk. 2005. "Payday Lending: Do the Costs Justify the Price?" FDIC Center for Financial Research Working Paper No. 2005-09. Also see: Michael A. Stegman and Robert Faris. 2003. "Payday Lending: A Business Model

That Encourages Chronic Borrowing." *Economic Development Quarterly.* 17: 8-32. Also, for an informative consumer profile and assessment of this industry, please see: Washington State Department of Financial Institutions. 2006. "Payday Lending Report Statistics & Trends 2004." Washington State Department of Financial Institutions, Division of Consumer Services.

73. San Francisco Consumer Action. 2005. "2005 Credit Card Survey."; Chase Bank [**http://mortgage02.chase.com/pages/homeequity/hefaqs.jsp**], accessed April 2006.

74. Late payments on a credit card can also exceed the APR charged by these alternative short-term loan companies.

75. For instance, see: Sheila Bair. 2005. "Low-Cost, Payday Loans: Opportunities and Obstacles." Baltimore, MD: The Annie E. Casey Foundation; Jean Ann Fox and Eric Halperin. 2005. New Study: Most Big Banks Level High "Courtesy Overdraft" Loan Fees Without Consumers' Permission. Washington, DC: The Consumer Federation of America; and Lisa James and Peter Smith. 2006. "Overdraft Loans: Survey Finds Growing Problem for Consumers." Center for Responsible Lending, Issue Paper No. 13.

76. Quoted from: Dean Foust. 2005. "Banks: "Protection" Racket?" Business Week, May 2, 2005.

77. Quoted from: Dean Foust. 2005. "Banks: "Protection" Racket?" Business Week, May 2, 2005.

78. In this section only, we use a different definition of "lower income" because of data limitations. In particular, we use all households with an income that qualifies them for the earned-income tax credit, or an income less than or equal to 34,678 in 2003. These data come from unpublished data from Alan Berube, a fellow at the The Brookings Institution's Metropolitan Policy Program.

79. Alan Berube, The Brookings Institution, unpublished data.

80. Alan Berube, Anne Kim, Benjamin Forman, and Megan Burns. 2002. "The Price of Paying Taxes: How Tax Preparation and Refund Loan Fees Erode the Benefits of the EITC." Washington, DC: The Brookings Institution.

81. Illinois, Office of the Attorney General, **http://www.ag.state.il.us/consumers/rals.html** [accessed April 2006]; California, Office of the Attorney General, February 15, 2006 Press Release, "Attorney General Lockyer Files Lawsuit Against H&R Block for Illegally Marketing and Selling High-Cost Loans as 'Instant' Tax Refunds." Chi Chi Wu and Jean Ann Fox. 2006. "Refund Anticipation Loans: Updated Facts and Figures." Washington, DC: The Consumer Federation of America.

82. Bendixen and Associates. 2004. State by State Survey of Remittance Senders: U.S. to Latin America. Coral Gables, Florida.

83. We are not aware of comparable, metropolitan-level information.

84. Dr. Manuel Orozco. 2004. "The Remittance Marketplace: Prices, Policy and Financial Institutions." Washington, DC: Pew Hispanic Center Report.

85. Also see: Marrianne A. Hilgert et. al. 2005. "Banking on Remittances: Increasing Market Efficiencies for Consumers and Financial Institutions." Federal Reserve Community Affairs Research Conference; and the Multilateral Investment Fund, Remittances as a Development Tool Project.

86. We jointly analyze these companies because an increasing number of establishments that offer one service, also sell the other service. For evidence of this market trend, please refer to Patrick Bolton and Howard Rosenthal (eds). 2005. *Credit Markets for the Poor.* New York: Russell Sage Foundation.

87. Audrey Singer. 2005. "The Rise of New Immigrant Gateways." Washington, DC: The Brookings Institution.

88. Author's analysis of the Survey of Consumer Finances.

89. This assessment was provided on background.

90. For instance, see: Anna Paulson, Audrey Singer, Robin Newberger, and Jeremy Smith. 2006. "Financial Access for Immigrants: Lessons from Diverse Perspectives." The Brookings Institution and The Federal Reserve Bank of Chicago. Also, see publications by the Center for Financial Service Innovation.

91. For instance, see annual survey administered by Providian Financial and the Consumer Federation of America; or GAO, "Credit Reporting Literacy: Consumers Understood the Basics but Could Benefit from Targeted Educational Efforts" GAO-05-223 (2005); Elizabeth Bell and Robert Lerman. 2005. "Can Financial Literacy Enhance Asset Building?" Washington, DC: The Urban Institute; Lois Vitt, Gwen Reichbach, Jamie Kent, and Jurg K. Siegenthaler. 2005. "Goodbye to Complacency: Financial Literacy Education in the U.S. 2000-2005." Washington, DC: AARP; and Marsha Courchane and Peter Zorn. 2005. "Consumer Literacy and Credit Worthiness." Paper presented at the 2005 Federal Reserve System Community Affairs Research Conference, Promises & Pitfalls: As Consumer Finance Options Multiply, Who Is Being Served and at What Cost?

92. Anna Paulson, Audrey Singer, Robin Newberger, and Jeremy Smith. 2006. "Financial Access for Immigrants: Lessons from Diverse Perspectives." The Brookings Institution and The Federal Reserve Bank of Chicago.

93. In New York, for instance, it costs nearly $1,000 more every year, on average, to insure the exact same car and driver in lower income neighborhoods than in a moderate-income neighborhood, with a median income between $30,000–60,000. This does not include all of the other higher costs reviewed in this section, which can make this premium even higher than we report here.

94. 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. Also see: Ian Ayers and Peter Siegelman. 1995. "Race and Gender Discrimination in Bargaining for a New Car." *The American Economic Review,* 85:304-21; and David W. Harless and George Hoffer. 2002. "Do Women Pay More for New Vehicles? Evidence from Transportation Price Data." *The American Economic Review,* 92:270-79.

95. Taken from: Matt Fellowes and Bruce Katz. 2005. *The Price is Wrong: Getting the Market Right for Philadelphia's Working Families.* Washington, DC: The Brookings Institution.

96. This average was generated by taking the average of all auto loans reported in the Survey of Consumer Finances for each household. For instance, for a household with three auto loans, we considered the average APR charged across all three loans.

97. For instance, see Albert B. Crenshaw and Caroline E. Mayer. March 21, 2006. "Geico's Risk Criteria Challenged," *The Washington Post,* p D01;

98. Author's analysis of the 2004 Survey of Consumer Finances.

99. Ian Ayers and Peter Siegelman. 1995. "Race and Gender Discrimination in Bargaining for a New Car." *The American Economic Review,* 85:304-21.

100. Bureau of Transportation Statistics. 2005. *Transportation Statistics Annual Report.* U.S. Department of Transportation, Research and Innovative Technology Administration, Bureau of Transportation Statistics.

101. Providian Financial and the Consumer Federation of America. See also: GAO, "Credit Reporting Literacy: Consumers Understood the Basics but Could Benefit from Targeted Educational Efforts" GAO-05-223 (2005).

102. This estimate includes the combined results of both the first and second mortgages carried on a home.

103. The Survey of Consumer Finances asks a sequence of questions to determine the number of loans a person has taken out using their primary residence as collateral. The first question inquires whether the respondent has a loan on the primary resi-

dence; the second asks if there is an additional mortgage; and then a third asks if the respondent has any other loan that uses the property as collateral. Approximately 5.6 percent of respondents who initially indicated they had a mortgage answered the second question by stating that they have a second loan.

104. These loans are defined by the Federal Reserve Board as three percentage points above comparable Treasury notes for first liens and 5 percentage points above for junior liens. In using this definition, the Board estimated they would capture over 95 percent of the sub prime market. For more information, please refer to: Robert B. Avery, Glenn Canner, and Robert E. Cook. 2005. "New Information Reported Under HMDA and Its Application in Fair Lending Enforcement." *Federal Reserve Bulletin,* Summer 2005. But, please note that recent comparisons of private sector data with these public data suggest that the Federal Reserve's definition of "high cost" mortgages misses a large proportion of this market. For more information about this comparison please refer to Keith S. Ernst and Deborah N. Goldstein. 2005. "Comment on Federal Reserve Analysis of Home Mortgage Disclosure Act Data." Center for Responsible Lending, CRL Comment #1.

105. For instance, see Albert B. Crenshaw and Caroline E. Mayer. March 21, 2006. *The Washington Post,* p. D1; Matt Fellowes. 2006. "Credit Scores, Reports, and Getting Ahead in America." Washington, DC: The Brookings Institution; and Washington Office of the Insurance Commissioner. "Washington Insurance Underwriting and Pricing." Submitted to the State Legislator in December 2003.

106. James M. Lacko, Signe-Mary McKernan and Monoj Hastak. 2000. "Survey of Rent-to-Own Customers." Federal Trade Commission, Bureau of Economics Staff Report. But, see The Association of Progressive Rental Organizations [**http://www.rtohq.org**, accessed April 2006], for an industry perspective on its customer base.

107. State of Wisconsin, Department of Financial Institutions, **http://www.wdfi.org/wca/consumer_credit/credit_guides/rent-to-own.htm** [accessed April 2006].

108. State of Maryland, Office of the Attorney General, **http://www.oag.state.md.us/consumer/edge109.htm**

109. State of Wisconsin, Department of Financial Institutions, **http://www.wdfi.org/wca/consumer_credit/credit_guides/rent-to-own.htm** [accessed April 2006].

110. According to one recent survey, the average credit card APR was 12.6 percent in 2004 across 146 different credit card products. For more information, see: San Francisco Consumer Action. 2005. "2005 Credit Card Survey."

111. Matt Fellowes. 2006. "Credit Scores, Reports, and Getting Ahead in America." Washington, DC: The Brookings Institution. Also see: Alan Berube, Matt Fellowes, Mia Mabanta. 2006. "Low-Income Credit Roadblocks," forthcoming.

112. Wei Li and Keith S. Ernst. 2006. "The Best Value in the Subprime Market: State Predatory Lending Reforms." Washington, DC: Center for Responsible Lending; M. Hudson and E.S. Reckard, More Homeowners with Good Credit Getting Stuck with Higher-Rate Loans. *Los Angeles Times:* A-1 (October 24, 2005).

113. The Center for Responsible Lending has a number of excellent studies that address these issues. Please refer to their homepage for more information: **www.responsiblelending.org**.

114. Please refer to the previous section, and the evidence from the Wisconsin Department of Financial Institution's and the Maryland's Attorney General Office, in particular.

115. Susannah Fox. 2005. *Digital Divisions: There are clear differences among those with broadband connections, dial-up connections, and no connections at all to the internet.* New York: Pew Internet and American Life Project.

116. For instance, see **http://www.lendingtree.com** [accessed April 2006].

117. For instance, see: **http://www.overstock.com, http://www.shoplocal.com, http://www.smartshopper.com, http://www.shop.com, http://www.pricescan.com** [accessed April 2006].

118. Please refer to the methodology section of this report for the NAICs definition of grocery stores that we use in this analysis.

119. Please refer to the section that reviews our methodology for information about these products.

120. For access to this report, and more information, please refer to: **http://www.thefoodtrust.org/php/programs/super.market.campaign.php#3** [accessed May 2006].

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

122. Please refer to their homepage to view these studies, www.socialcompact.org

123. Robert Berner. 2006. "Wal-Mart's Urban Renewal." *Business Week,* April 4, 2006.

124. Author's analysis of the 2004 Survey of Consumer Finances.

125. Author's analysis of the 2004 Survey of Consumer Expenditures. See also William D. Passero. 1995. "An Examination Of Spending Patterns Of Families Receiving Forms Of Public Assistance." Washington, DC: Bureau of Labor Statistics.

126. The Center for Financial Services Innovation assists the financial services industry in meeting this market opportunity. They have excellent, in depth, resources available on their webpage at: http://www.cfsinnovation.com.

127. For an excellent assessment of recent efforts by banks and credit unions to compete against high-priced alternative short-term loan providers, please see: Sheila Bair. 2005. "Low Cost Payday Loans: the Opportunities, the Obstacles," Report prepared for the Annie E. Casey Foundation.

128. As quoted in Clint Riley, March 21, 2006, "New York uses banks to kick-start renewal." *Wall Street Journal;* See also community efforts in Seattle and San Francisco to provide profitable alternatives to high-priced financial services.

129. For an assessment of the feasibility of basic financial service delivery in lower income neighborhoods, please see: Daniel M. Leibsohn. 2005. *Analysis of the Business Models and Financial Feasibility of Fringe Banking Institutions.* New Hampshire: Community Economic Development Press. Note, though, that recent research by the FDIC found that the high fixed costs of operating payday loan establishments partially explains why these loans are so expensive. This suggests that taking advantage of the massive existing infrastructure of banks and credit unions in lower income neighborhoods may be a more cost-effective way to bring mainstream, lower-priced basic financial service products into lower income neighborhoods. Please see: Mark Flannery and Katherine Samolyk. 2005. "Payday Lending: Do the Costs Justify the Price." FDIC Center for Financial Research. Working Paper. No. 2005-09.

130. National Economic Development and Law Center, Low Income Car Ownership (LICO) Clearinghouse. [www.nedlc.org, accessed February 2006].

131. The auto insurance quotes from California presented in the results section of this report were open-market quotes, and do not reflect the substantial cost savings available through this program.

132. Matt Fellowes. 2006. "Credit Scores, Reports, and Getting Ahead in America." Washington, DC: The Brookings Institution. See also: Nichola P. Retsinas and Eric S. Belsky. 2005. *Building Assets, Building Credit: Creating Wealth in Low-Income*

Communities. Washington, DC: The Brookings Institution; Patrick Bolton and Howard Rosenthal. 2005. *Credits Markets for the Poor.* New York: the Russell Sage Foundation.

133. New York's Department of Insurance. 2002. Consumer Shopping Guide for Homeowners and Tenants Insurance. Albany: New York Department of Insurance.

134. See, for instance: Tony Proscio. 2006. *Food, Markets, and Healthy Communities: How food stores accelerate local development and enrich residents' lives.* New York, New York: Local Initiatives Support Corporation.

135. Shutting down all the check cashers will not help poor families if they have nowhere else to go to conduct their financial business. In fact, without also pairing these regulatory efforts with aggressive campaigns to connect lower income consumers to mainstream businesses, these efforts could even raise prices by reducing competition for lower and moderate-income consumers.

136. For evidence of this point, please refer to the Washington Office of the Insurance Commissioner study cited in the results section of this report.

137. Wei Li and Keith S. Ernst. 2006. "The Best Value in the Subprime Market: State Predatory Lending Reforms." Washington, DC: Center for Responsible Lending; M. Hudson and E.S. Reckard, More Homeowners with Good Credit Getting Stuck with Higher-Rate Loans. *Los Angeles Times:* A-1 (October 24, 2005).

138. For an excellent, careful review of these bills, and the effect that they have had on the market, please see Wei Li and Keith S. Ernst. 2006. "The Best Value in the Subprime Market: State Predatory Lending Reforms." Washington, DC: Center for Responsible Lending.

139. As with most empirical research, outstanding questions remain. One important issue here is that there is no true, null alternative; although this analysis very reasonably assumes that states without these provisions can serve as a proxy.

140. Susannah Fox. 2005. *Digital Divisions: There are clear differences among those with broadband connections, dial-up connections, and no connections at all to the internet.* New York: Pew Internet and American Life Project.

141. The assessment of the efficacy of financial education programs has been stunted by a number of methodological problems, including selection bias (i.e., recipients of financial education may self-select, and thus be systematically different non-recipients) and by validity (i.e., there are so many outlets for financial education, it is difficult to generalize findings based on an assessment of a single program. Still, available evidence does suggest a positive impact. For more information, please refer to: Elizabeth Bell and Robert I. Lerman. 2005. "Can Financial Literacy Enhance Asset Building?" The Urban Institute, Opportunity and Ownership Project, No.6; and Saundra Braunstein and Carolyn Welch. 2002. "Financial Literacy: An Overview of Practice, Research, and Policy." *Federal Reserve Bulletin,* November 2002.

142. See, for instance: Kathryn Gwatkin and George McCarthy. 2003. "A Critical Examination of Financial Literacy Education." Presented at the 2003 Building Assets, Building Credit: A Symposium on Improving Financial Services in Low-Income Communities.

143. Elizabeth Bell and Robert I. Lerman. 2005. "Can Financial Literacy Enhance Asset Building?" The Urban Institute.

144. Douglas B. Bernhein, Daniel M. Garret, and Dean M. Maki. 2001. "Education and Savings: The Long Term Effects of High School Financial Curriculum Mandates." *Journal of Public Economics.* Volume 80, p435-65.

145. For an excellent review of state laws related to mortgage lending, as well as an assessment of the impact of these laws, please refer to: Wei Li and Keith S. Ernst. 2006. "The Best Value in the Subprime Market: State Predatory Lending Reforms." Washington, DC: Center for Responsible Lending.

146. The Bernhein et. al. paper is an excellent example of a very well designed assessment of a public education curriculum – one, potentially important delivery point for financial education.

ABOUT THE METROPOLITAN POLICY PROGRAM

The Metropolitan Policy Program was launched in 1996 to provide decisionmakers cutting-edge research and policy analysis on the shifting realities of cities and metropolitan areas.

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