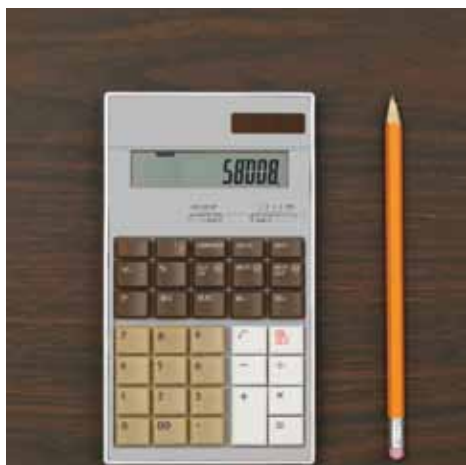


The Need for Financial Education

in New Bedford

by Michael D. Goodman
and the UMass Dartmouth
Policy Analysis Research Team



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New Bedford's unemployment rate stood at 12.5 percent, significantly above the statewide rate of 7.4 percent. Although the reasons for the lagging economic performance are complex, disinvestment is clearly major.

In New Bedford, traditional banking relationships are not common, despite the fact that both national and regional analysts have long highlighted their importance. Such relationships not only help to limit the expense of financial-services transactions (for example, check-cashing fees); they also can provide the opportunity to build credit and develop assets, prerequisites for economic mobility and entrepreneurial activity.² As a 2007 *Communities & Banking* article noted,

Formal saving is positively correlated with critical asset-building behavior. Individuals who save in a savings account are more likely to have other types of financial accounts, such as certificates of deposit and insurance contracts. They are more likely to own homes and cars, and they are also more likely to use formal sources of credit.³

In spring 2011, the Community Economic Development Center of South-eastern Massachusetts—a nonprofit or-

ganization that works with low-income populations in the New Bedford area—met with one of the authors to discuss the possibility of conducting a study of how low-income residents interact with traditional banks and credit unions—also with check-cashing outlets and other nonbanks in the region. The research project that emerged had a twofold goal: to improve the New Bedford community's understanding of the nature and scale of the challenges involved in assisting low-income residents to make wise financial-services choices, and to inform the development of evidence-based solutions to those challenges.

Information gathered in the subsequent UMass Dartmouth survey of 173 low-income residents was enriched by interviews with community members and by focus groups with low-income residents.⁴

New Bedford's Unbanked

As many as 18.2 percent of low-income residents of the New Bedford area previously used a bank but stopped; 9.1 percent have never had a formal relationship with a bank or credit union. Overall, an estimated 27.3

In spring 2011, the UMass Dartmouth Policy Analysis Research Team, an interdisciplinary group of public policy master's students, examined the ways in which low-income residents of Greater New Bedford, Massachusetts, use and interact with the region's financial-service providers—not only traditional banks and credit unions, but also nonbanks. Their findings highlight significant gaps in the financial literacy of the city's low-income population. They document a lack of awareness of local, low-cost banking options and a short-term perspective on financial matters. Ultimately, they underscore the need for more financial education targeted to low-income individuals and households.

Background

New Bedford, once the whaling capital of the world and still called the Whaling City, remains important to the New England fishing industry. According to 2011 National Oceanic and Atmospheric Administration (NOAA) data, the city is currently the number one U.S. fishing port ranked by the value of the catch.¹

New Bedford also is home to a large low-income population, and as is true of many urban centers across New England, its economic performance has lagged that of its suburban neighbors. In August 2011,

Why Cash Checks at Nonbanks?

	Percent (%)
I don't have a bank account	22.8
The hours are convenient	20.8
The locations are convenient	18.1
I can get my money faster	9.4
The place asks for fewer IDs	3.4
I can take care of other business at the same time	6.0
It costs less	4.0
More privacy	2.0
Lines are shorter	2.7
I feel more comfortable	2.7
Other	8.1

Source: Survey by authors.

percent are unbanked. Compare that with the roughly 20 percent rate for low-income people nationwide.⁵

Other demographics: Greater New Bedford's unbanked have had fewer years of education (73 percent have a high school diploma or less) than their neighbors with bank accounts. They are very low-income (61 percent have household incomes below \$25,000 per year) and generally young (53 percent are between 18 and 25 years old). They represent every racial and ethnic type. Fifty percent are white; 33 percent are Hispanic/Latino/Guatemalan/Mayan.

There is no evidence that access to low-cost banking services is the problem. All state-chartered banks are required by state law to provide a no-fee, no-minimum-balance account. Moreover, several area banks participate in the Massachusetts Community and Banking Council's Basic Banking Program, which provides customers with access to a low-fee (\$3 per month), no-minimum-balance account with ATM and check-writing privileges.⁶ Several of those banks are located within walking distance of New Bedford's most economically disadvantaged neighborhoods.

However, interviews and focus groups reveal a lack of awareness of such products and services, suggesting that special outreach efforts specifically targeted to the low-income community may be required.

Most low-income residents use nontraditional providers to cash checks, citing check-cashers' convenient hours and locations. Interestingly, 39 percent of *banked* low-income residents also report cashing checks at nonbanks, with 48 percent using supermarkets, 23 percent using check-cashing establishments, and 11 percent using Walmart. (See "Why Cash Checks at Nonbanks?")

Despite the disadvantages, being unbanked can appear to be a rational choice for those with very low incomes and a short-term perspective. If they cash checks infrequently, don't save or borrow money, and use supermarkets or other low-cost, non-bank check-cashing outlets, the cost of being unbanked is not high in the short run. However, as savings opportunities are missed and as income grows, the cost of being unbanked rises significantly.

Insights that the researchers gained through focus groups and interviews suggest a lack of understanding of the financial advantages of being banked, specifically the advantages of building a credit history and of tapping asset-development strategies. Basic financial literacy is clearly lacking.

Reported Reasons for Being Unbanked

	Percent (%)
Don't have enough money	23.6
Don't trust or like banks	8.7
Don't need this type of account	8.2
Fees are too high	6.7
Bank staff does not speak my language	6.7
Fees are unpredictable	5.8
Don't have proper ID/SSN	5.8
Fees are too confusing	5.8
Fear of overdrawing my account	5.8
Poor banking history/bank would deny me	5.8
Not sure how to open an account	3.9
Other	3.9
Minimum balance is too high	2.4
Don't have money banks require to open account	2.4
Interest rates are too low	1.4
Don't know how to manage this type of account	1.4
No bank has convenient hours or locations	1.0
Banks take too long to clear checks	1.0

Source: Survey by authors.

Sources of Credit

	Percent (%)
Family or friends	38.6
I don't want to borrow	19.8
Credit card	11.6
Auto/home/boat/school loan	10.1
Personal loan	8.2
Home equity loan/other credit line	5.8
I can't get credit	5.3
Community members	0.5

Source: Survey by authors.

When asked why they were unbanked, nearly 23.6 percent of respondents reported that they "do not have enough money" to use a bank. Other reasons cited included a "dislike or mistrust" of banks (8.7 percent),

Despite the disadvantages, being unbanked can appear to be a rational choice for those with very low incomes and a short-term perspective.

the lack of a need for a bank account (8.2 percent), and a belief that "fees are too high" (6.7 percent). (See "Reported Reasons for Being Unbanked.")

Many low-income residents of the area live in a cash economy. As many as 32.9 percent of renters reported paying their rent in cash. Some (15.4 percent) said that their landlords do not accept personal checks. Significant numbers of low-income residents rely on informal networks to access credit. Nearly 4 in 10 (38.6 percent) report family and friends as their preferred source of credit. Notably, an additional 19.8 percent have no desire to borrow money. (See "Sources of Credit.")⁷

Reaching the Unbanked

The research findings highlight significant gaps in the financial literacy of the Whaling City's low-income population, while docu-

menting a short-term perspective and lack of awareness of local, low-cost banking options, and underscoring the need for more financial education targeted to low-income individuals and households.

Efforts being made to incorporate financial education into primary and secondary school curricula should help. But it is important to keep in mind that in communities like New Bedford, where the Massachusetts Department of Elementary and Secondary Education says the four-year high school graduation rate is a mere 53 percent, new curricula may not be enough to reach everyone.

Particularly during these difficult economic times, we can ill afford to allow another generation of low-income families to suffer the consequences of financial ignorance. Our findings suggest that financial and economic education must be accompanied by a concerted effort to make low-income residents aware of the advantages of the low-cost products and services already available. Successfully empowering families with the knowledge to make better financial choices will result in multiple payoffs for them and for the communities where they reside.

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Endnotes

- ¹ See http://www.noaa.gov/stories/2011/20110907_usfisheriesreport.html.
- ² M. Fellowes and M. Mabanta, *Banking on Wealth: America's New Retail Banking Infrastructure and Its Wealth-Building Potential* (Washington, DC: Brookings Institution, 2008); and B. Forman and L. Sanders, *Going for Growth: Promoting Access to Wealth Building Financial Services in Massachusetts Gateway Cities* (Boston: MassINC, 2010).
- ³ Tyler Desmond and Charles Sprenger, "Estimating the Cost of Being Unbanked," *Communities & Banking* 18, no. 2 (spring 2007): 26.
- ⁴ See <http://www.umassd.edu/seppce/departments/publicpolicy/thepolicyanalysisresearchteampart/>. Our research was greatly informed by C. Berry, "To Bank or Not to Bank: A Survey of Low-Income

Households" (working paper 04-3, Joint Center for Housing Studies, Harvard University, Cambridge, Massachusetts, 2004).

- ⁵ "National Survey of Unbanked and Underbanked Households: Executive Summary" (Washington, DC: Federal Deposit Insurance Corporation, 2009), http://www.fdic.gov/householdsurvey/executive_summary.pdf. Note that although the share of low-income Massachusetts households who are unbanked is unknown, a recent analysis of FDIC data by the Pew Charitable Trusts estimates that 4.1 percent of all Massachusetts households were unbanked (as compared with 7.7 percent nationally) in 2009. See http://www.pewtrusts.org/our_work_report_detail.aspx?id=85899365577.
- ⁶ They include Bank Five, Rockland Trust, and Citizens Union Savings Bank.
- ⁷ Although the researchers heard many concerns about safety for people carrying cash, it was from partners and antipoverty groups, not from those who filled out the survey.

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Corrections

In the winter 2012 issue, page 5, the correct population of Springfield, Massachusetts, should be 153,000, not 112,000.

On page 17, Maine and *Connecticut* experienced the highest foreclosure rates in the region, not Maine and Vermont.