# Overpriced and Underserved

## HOW THE MARKET IS FAILING LOW-WAGE BALTIMOREANS







2007 JOB OPPORTUNITIES TASK FORCE

## TABLE OF CONTENTS

# Overpriced and Underserved

## HOW THE MARKET IS FAILING LOW-WAGE BALTIMOREANS

2007 JOB OPPORTUNITIES TASK FORCE

# Acknowledgements

**THIS REPORT WAS MADE POSSIBLE BY THE ABELL FOUNDATION.**
We are grateful to Tracey Barbour for her ongoing guidance and support.
The report follows a national study and one completed for Philadelphia, both of which were funded by the Annie E. Casey Foundation and completed by the Brookings Institution. We are grateful for their wisdom in starting the effort and their generosity in both ideas and data. Special thanks go to Matt Fellowes, whose research laid the groundwork for this report.

Andrea Payne was the primary researcher for the report, which was written by David Jason Fischer. Jason Perkins-Cohen guided the report from start to finish, and Joanne Nathans assisted in editing. Glenn Dellon designed the finished product.

We would also like to thank the Caroline Center and the JumpStart Pre-apprenticeship program for helping to organize focus groups for us. Our analysis was enriched by Dr. Manuel Franco of the Johns Hopkins Bloomberg School of Public Health, who shared data and insight on the Baltimore food system.

Finally, we are grateful to our Advisory Committee who provided early input into the project and reviewed drafts of the report. Their participation is not an endorsement of our findings or recommendations.

## ADVISORY COMMITTEE

Bob Embry
President, Abell Foundation

Carol Gilbert
Assistant Secretary & Director,
Neighborhood Revitalization,
Maryland Department of Housing
and Community Development

John Godwin
Vice President of Business Development &
Strategic Alliances,
Municipal Employees Credit Union

Delegate Keith Haynes
Maryland House of Delegates,
44TH District, Baltimore City

Bonnie Howard
Senior Associate, Annie E. Casey Foundation

Cheryl Hystad
Director of Advocacy, Legal Aid Bureau

Robin McKinney
Director, Maryland Asset Building Initiative

Councilman Keiffer Mitchell
Baltimore City Council,
11TH District

Deborah Owens
Financial Lifestyle Expert
President, Owens Media Group

Anne Palmer
Program Director – Eating for the Future,
Johns Hopkins Center for a Livable Future

Sally Scott
Program Manager,
Baltimore Neighborhood Collaborative

Joanna Smith-Ramani
Director, Baltimore CASH Campaign

Margy Waller
Co-Director, Inclusion
Director, The Mobility Agenda

Cheryl Williams
Senior Director of Family and Community
Services, East Baltimore Development INC.

# Key Findings

Low-wage Baltimoreans tend to pay more than their wealthier neighbors for a wide range of goods and services, from groceries and financial transactions to cars and home mortgages. Every year, tens of thousands of area residents spend hundreds or thousands of dollars more on these items. In essence, the market charges consumers an added premium for being poor. And every dollar that goes toward this “poverty premium” is a dollar that can’t be saved or invested in education, home ownership, or retirement. For a family paying a car loan, a mortgage, and a variety of other basic expenses, this premium can total as much as $3,000 in additional costs per year.

### FINANCIAL SERVICES:

Low-wage Baltimoreans do not have easy access to banks or low-interest loans. Those that use banks often find their products and services inconvenient or unclear. As a result, when in need of cash or credit to make a major purchase or pay for an unanticipated expense, many Baltimoreans turn to check cashers, predatory lenders, and refund anticipation loans. This costs them significantly more, does not help them to establish good credit, and can lead to a snowballing of costs that makes it more difficult to get ahead financially. Policymakers looking to set the financial services market right in low-income communities have two primary tasks: extend the reach and appeal of mainstream financial services, and improve the knowledge base and information sources of consumers themselves.

### HOME-RELATED COSTS:

Low-wage homeowners pay more for their home loans, more for insurance, and more to heat and cool their homes than their wealthier neighbors. Furthermore, Baltimore renters live in a city with one of the highest eviction rates in the nation.

A statewide “Security in the Home” initiative, and a reassessment of the state’s predatory lending law, could help protect at-risk homeowners. At the same time, Baltimore area residents who are not in a position to buy homes would benefit enormously from government action to lower the incidence of eviction proceedings.

### AUTO-RELATED COSTS:

Low-wage Baltimore area residents pay more to buy a car and more to insure it than their neighbors with higher incomes. Maryland also has stringent requirements for obtaining a driver’s license that are particularly burdensome for people of lower incomes. Ensuring that families have relatively easy and inexpensive access to cars should be a top priority for city and state policymakers. This means looking at factors such as territorial rating and auto loan rate structures, and thinking again about whether the state’s current requirements around getting a driver’s license strike the proper balance between safety and access.

### GROCERIES:

The majority of food-selling establishments in Baltimore City are smaller stores that tend to charge higher prices and offer few healthy eating options. Studies across the country suggest a strong link between lack of access to healthy food and negative health consequences, including diabetes and obesity. There is no single action that policymakers can take to dramatically address problems of the high cost and low nutritional value of food in low-income Baltimore neighborhoods. But by widening the range of options available to local residents, and increasing consumers’ awareness of how diet and lifestyle choices relate to health outcomes, public officials and other interested parties can begin to make progress.

# chapter one

# Introduction

## ANOTHER CHALLENGE FOR BALTIMORE

After a half-century of population decline, job loss, and erosion of neighborhoods, the city of Baltimore has recently taken the first steps toward a turnaround. Smart policies, focused leadership, and the determination of everyday Baltimoreans to bring their city back have helped reinvigorate the real estate market, lower the crime rate, raise the high school graduation rate, and shift from budget deficits to surpluses. Many neighborhoods have enjoyed an influx of new homeowners, raising property values and strengthening communities.

Many of the challenges that still face the city are well known and have drawn the attention of policy thinkers from every corner of the political compass: too few high-quality job opportunities, low wages, dysfunctional families, underperforming schools, unsafe communities, and social pathologies ranging from drug abuse to untreated mental health problems.

City leaders have yet to address another major obstacle along that path: the fact that low-wage individuals tend to pay more than their wealthier neighbors for a wide range of goods and services, from groceries and financial transactions to cars and home mortgages. Every year, tens of thousands of Baltimore residents – like millions of Americans nationwide – spend hundreds or thousands of dollars more on these items.

In essence, the market charges already low-wage consumers an added premium for being poor. And every dollar that goes toward this "poverty premium" is a dollar that can't be saved or invested in education, home ownership, retirement, or other options that help families build wealth. This report sets out the particulars of the poverty premium in Baltimore, focusing on four main categories: financial services, home-related expenses, transportation expenses, and groceries.

## THE HIGH PRICE OF POVERTY

Based on the cost differentials for a range of goods and services discussed throughout this report, we estimate that over the course of a year, low-wage Baltimoreans might pay a "poverty premium" of as much as $3,000 more than their wealthier neighbors for equivalent goods and services. This added amount can consume more than 10 percent of a low-wage family's total income. The magnitude and specifics of these added costs vary based on whether a family owns or rents their home, owns a car or relies upon public transit, or does their food shopping at a neighborhood corner store rather than a supermarket. But the systemic factors we examine below all but assure that they're paying more overall.

Before we take a closer look at the various factors that contribute to the pervasive phenomenon of higher prices for lower-wage consumers, it is helpful to break down the specifics of how being poor costs more. Consider the cost differential for a range of goods and services purchased by two families over the course of a year. The first lives in a neighborhood where median household income is less than $30,000 per year, uses a check-casher, purchases a Refund Anticipation Loan (RAL), and buys groceries at a small store nearby. The other lives in a neighborhood where median household income is over $100,000, has a checking account at the bank with a monthly charge, does not buy a RAL, and buys the same groceries at a supermarket. Both are homeowners and car owners, paying back loans for both. Using approximations and the best and most recent data available, **Table 1-1** details how much more the low-wage family might pay over the course of a year.

What could this extra $2,800 a year buy? A more reliable car, a year of tuition at Baltimore City Community College, an interest-generating investment in retirement, or part of a down payment on a home. Having to spend these dollars on necessities that are available to wealthier individuals for less represents a powerful barrier to economic advancement.

## WHY THE POOR PAY MORE

In the perfectly functioning market described in a college economics classroom, all buyers and sellers have easy access to all participants in the market, and all have complete information about what items are available and how much they cost through different vendors. Illegal or unscrupulous practices are not present, because any such behavior is immediately detected and punished.

Unfortunately, the reality of the market for low-wage consumers bears little resemblance to this ideal. Instead, the less well off typically contend with limited and high-cost shopping choices, are inadequately informed about how to navigate the market and negotiate, and must face predatory practices in a lax regulatory environment. With fewer financial institutions, supermarkets and other stores close at hand compared to wealthier neighborhoods, residents of low-income communities often must choose between expending the time and effort required to buy groceries and make financial transactions farther from home, or turning to closer but higher-priced options like check-cashers and convenience stores. And for products such as insurance, residents in low-income communities often face higher costs because of formulas that take location into account, generally assigning higher prices to applicants from poorer areas.

## TABLE 1-1: THE ADDED COSTS OF POVERTY IN BALTIMORE: A COMPARISON OF TWO FAMILY SCENARIOS

| Expense | Annual Added Cost |
|---|---|
| Check Cashing | $ 329 |
| Refund Anticipation Loan | 100 |
| High-Interest Mortgage Payment | 817 |
| High-Cost Home Insurance | 136 |
| Energy for an Older Home | 222 |
| High-Interest Auto Loan | 83 |
| High-Cost Car Insurance | 424 |
| Food at a Small Local Store | 704 |
| **TOTAL POVERTY PREMIUM** | **$ 2,815** |

*This table compares costs for two hypothetical families over the course of a year. These costs will vary based on whether a family owns a home or car and where they do their shopping and banking. For more detailed explanations of how these figures were determined, please see Appendix.*

As we delve deeper into the specifics of each cost area, a number of themes recur: neighborhoods with limited consumption choices and high actual and perceived risks and costs of doing business, predatory business practices (both legal and illegal), and under-informed consumers. These factors often combine to create a "snowball effect," through which one expense can lead to others. While these factors are closely intertwined and mutually reinforcing, it is worth briefly considering each in isolation.

**Neighborhood factors** dissuade many businesses from operating in low-income communities, and often influence the business decisions of sellers who do operate there. These businesses frequently charge more based on their perception of higher risk – whether the perceived risk is of shoplifted food, unpaid bills, or higher rates of car accidents. For example, insurance companies often use a practice known as "territorial rating" – determining the statistical likelihood of claims by residents in a given area based on past claims filed, and setting rates with this calculation in mind. This often means that insurance buyers in poorer areas pay higher rates, even if their personal risk factors are low.

In some cases, business perceptions of higher risk are justified. Data show that lower wage consumers are more likely to fall behind on payments for loans and other products and services, and to declare bankruptcy. In many cases, however, businesses might overstate the risk – both depressing their potential sales volume and inflicting higher prices on local customers.

At the same time, firms underestimate the demand and buying power of low-income communities. There is considerable evidence to suggest that much of Baltimore City's purchasing power is "leaking" to surrounding communities: the University of Wisconsin at Milwaukee estimates that 20 percent of Baltimoreans' spending – one out of every five dollars – happens outside the city. That rate shoots up in the poorest census tracts of West Baltimore and other low-income neighborhoods in the city.[1] Groups such as Social Compact, a nonprofit coalition of business leaders that promotes business investment in lower-income communities, are working to help retailers better understand the true market potential of traditionally underserved urban communities, and mega-retailer Wal-Mart has begun a concerted effort to open stores in overlooked neighborhoods.[2]

**Limited choice** describes the sharply circumscribed consumption options available to residents of low-income communities. Though often inaccurate, the perception that these areas lack purchasing power deters banks, supermarkets, and other providers of needed goods and services from opening stores in those communities. The result is that local residents who want those items face the unpleasant choice of either paying more for limited nearby options or spending time and effort to shop at lower-priced businesses farther away.

The reality of limited choice means that low-wage individuals often have very rational reasons for patronizing check cashers, payday lenders, corner stores, and other higher-priced businesses. Convenience matters greatly: a single parent trying to balance work and family responsibilities might knowingly accept paying higher prices for food at the corner store rather than spend more time away from her kids while taking a bus to the supermarket in another part of town. Similarly, someone without the time to seek out different bank offerings or with irregular income might prefer a check casher, where costs are up front, to a bank that might assess harsh fines for failing to maintain a minimum balance or overdrawing an account.

There's a second way in which the dearth of stores in poor neighborhoods hurts Baltimore: residents who do leave the neighborhood to shop are likely to go outside the city altogether. Baltimore retailers are losing an estimated $370 million in purchasing power to nearby suburban retailers[3] – dollars that can't be taxed to bolster city revenues or reinvested in those same communities.

**Predatory practices,** both legal and illegal, represent an added hurdle for consumers in Baltimore. Negative consequences are all too rare for sellers who exploit consumers' lack of awareness of their rights and of market alternatives. Maryland laws regarding maximum fees and other regulations for check cashers, pawnshop loans and other alternative financial arrangements are relatively mild, *The constant strain of life on the economic margin creates real incentives for residents in low-income communities to make consumption decisions that in the long run can be counterproductive and needlessly expensive. Fortunately, there are programs underway in Baltimore and around the country that seek to help make the market work for low-wage consumers. As word of their success spreads, more residents of low-income communities will be able to break the cycle.*

as are constraints upon the terms on which lenders can grant home mortgages and auto loans, and enforcement is lax. As one would expect, vendors often charge the highest rates legally allowed – check cashers, for example, can charge 3 percent of the face value of government checks, 10 percent for personal checks, and 5 percent for all other checks.

Compounding these problems is the reality of **under-informed consumers.** In some cases, consumers fall into a spiral of fees and late payments because they lack financial experience and are unfamiliar with the rules and penalties associated with mainstream accounts. In other cases, businesses are able to charge inflated prices for everyday goods and services because consumers are not aware of alternative options. An example, discussed in Chapter Two, is the high frequency of low-wage workers paying for tax preparation despite the free availability of those services through nonprofit groups such as the Baltimore CASH (Creating Assets, Savings and Hope) campaign.

All these factors combine to keep consumers on a seemingly endless treadmill in which costs **"snowball"**: one extra expense begets another. In focus groups that we convened for this report, we heard repeatedly about how a family's inability to pay a utility bill one day might force them to pay a fee to quickly cash a check the next, or to pay an extra couple hundred dollars to secure a loan in advance of a tax refund. A family that can't afford to buy and maintain a car must rely on public transit; this makes conducting transactions too far from home time-consuming and burdensome, and might lead the family to utilize higher-priced but more convenient neighborhood options.

The constant strain of life on the economic margin creates real incentives for residents in low-income communities to make consumption decisions that in the long run can be counterproductive and needlessly expensive. Fortunately, there are programs underway in Baltimore and around the country that seek to help make the market work for low-wage consumers shopping for financial services, home-related goods, transportation, and groceries. As word of their success spreads, more residents of low-income communities will be able to break the cycle.

## ABOUT THIS REPORT

Using the best data available, we show how much more low-wage Baltimore residents are paying for financial services, home-related expenses, transportation, and groceries than their wealthier neighbors, and explain the factors that contribute to the higher prices. Unless otherwise stated, our analysis explores trends across all seven counties of the Baltimore-Towson Metropolitan Statistical Area.[4] We highlight promising practices in the city and around the country to reduce prices and provide alternatives for low-wage consumers. Finally, we offer a comprehensive action agenda for Baltimore residents and city and state leaders to lower prices, develop a wider range of buying options, punish unscrupulous business practices, improve the quality and quantity of market information, and take other steps to make the market work for Baltimore's low-income communities.

In preparation for this report, we collected data from a number of local and national sources, and conducted focus groups with low-wage Baltimore residents. Focus group participants were recruited through two local job training programs, and were given the opportunity to share their perspective on the availability and cost of everyday goods and services in an informal one-hour discussion, facilitated by Job Opportunities Task Force staff. Their input strongly informed our findings and conclusions.

The story we seek to tell for Baltimore stems largely from a project of the Brookings Institution and the groundbreaking work it has done in bringing to light the phenomenon of the poverty premium. In 2005, Brookings released "The Price is Wrong: Getting the Market Right in Philadelphia," a detailed study of higher prices in low-income areas of that city, focusing on the same categories of cost that we examine here. Last year, Brookings published a national report on the same issue, titled "From Poverty, Opportunity: Putting the Market to Work for Lower Income Families." That study examined 13 metropolitan areas across the country, including Baltimore, to flesh out the trends and factors that contribute to poorer residents paying higher prices. The Job Opportunities Task Force is deeply grateful to Brookings and especially to Matt Fellowes, the primary author of both reports, for their superb work and their assistance with our study. JOTF also would like to thank the many individuals who generously gave their time and expertise to serve on the advisory council that helped guide this report.

This report deviates from the Brookings template in one small but important respect: while "The Price is Wrong" and "From Poverty, Opportunity" focused sharply on price differentials for low-wage urban residents, this study takes a broader look at policies and conditions that lead to higher costs and more difficult decisions for low-income Baltimore families. To give one example, Maryland's stringent requirements for obtaining a driver's license don't cost poor individuals any more in time or money than their wealthier counterparts – but they are more likely to feel the sting of paying $300 for a mandatory safe driving course, and the opportunity cost of spending 60 hours of "practice time" behind the wheel.


21.70
42.29
01 0300
14.20
01 0200
34.10

# chapter two

# Financial Services

## UNBANKED NEIGHBORHOODS AND UNDERSERVED RESIDENTS

Many residents of Baltimore take banks and the services they offer largely for granted. Checking accounts are near universal in the economic mainstream, and savings accounts are almost as common. Stock portfolios, retirement plans, and loans are logical next steps for people with steady incomes and good credit.

Lower-wage consumers have many of the same needs for financial services as their wealthier neighbors, but it is considerably less certain that they can turn to banks for these services. When using a bank isn't a realistic option, they frequently pay hundreds of dollars more to obtain the same services from check cashers and other higher-priced alternatives. Additionally, in Baltimore, about two-thirds of the city's low-wage tax filers pay for tax preparation services, and 40 percent buy Refund Anticipation Loans, a short-term loan that bridges the gap between filing for a tax refund and its arrival. Lower-wage consumers often need

# *Credit Scoring*

## HOW CREDIT SCORING IMPACTS COSTS FOR LOW-WAGE CONSUMERS

Credit scoring is a process by which financial institutions determine whether to extend credit to potential borrowers, and what interest rates to charge. Creditors compile information about potential borrowers such as their bill-paying history, how many and what type of financial accounts they hold, their debt, and similar data. They then compare the picture that emerges to the credit performance of consumers with similar profiles.[5]

The "score" that results is used to determine if the potential borrower is creditworthy. Increasingly, it is also used as a proxy that informs everything from rental applications to hiring decisions to whether the local utility company will require a new customer to pay a deposit before starting service.

Since it allows businesses to more accurately assess risk, the practice of credit scoring has provided access to credit to some who could not get it before. Unfortunately, low-wage consumers are disadvantaged at every step of this process: they're less likely to have relationships with mainstream financial institutions, and what track record they do have is less likely to tell a positive story. Thus they frequently must pay higher rates – often much higher.[6]

Consumers with little to no credit history are often denied access to credit and services altogether. To deal with this problem, Pay Rent, Build Credit, INC. (PBRC), an Annapolis-based credit bureau, is working to develop an alternative credit model that takes a wider range of factors into account. Consumers can enroll with PBRC and demonstrate financial responsibility by making on-time bill payments and by meeting other indicators of financial stability, from maintaining a bank account to completing a financial literacy course. By participating in this model, consumers have a better chance of accessing credit at lower rates.[7]

access to this type of immediate, short-term credit that is not offered by traditional financial institutions. The frequent estrangement of low-wage consumers from banks also contributes to the higher prices they pay for a range of products that we examine later in this report, including home loans and auto loans.

In Baltimore as elsewhere, mainstream financial institutions and low-wage consumers tend to view each other with suspicion. Banks see little profit opportunity in poor communities, while residents of those communities see little value in their offerings. National data suggests that individuals in the lowest quintile of the income distribution are considerably less likely to have bank accounts of any kind (75.5 percent) than the population as a whole (91.3 percent).

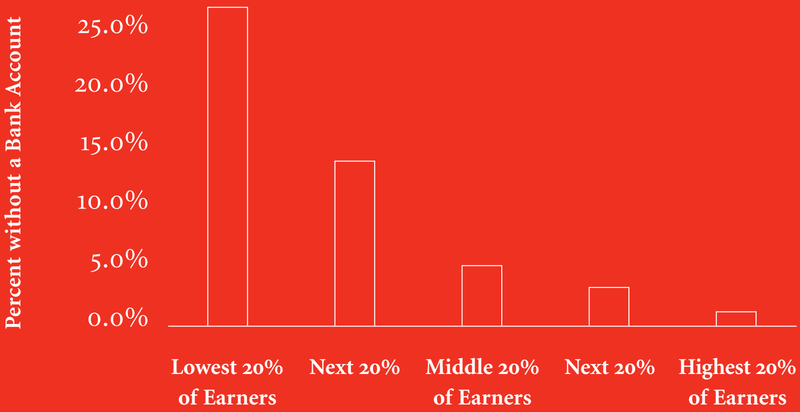
In the informal focus groups we conducted for this report, most participants had bank accounts, but it was clear from the discussion that complaints and misunderstandings about banking services were common. Thus, a sizable portion of even those who do have nominal relationships with mainstream financial institutions may be closer in attitude and comprehension of banking services to the "unbanked" than to wealthier individuals who hold bank accounts and avail themselves of other services banks offer.

One reason low-wage Baltimore residents pay more than their wealthier neighbors for all manner of financial transactions is that the cheaper mainstream options, such as banks and credit unions, are absent from more than two-thirds of low-income neighborhoods in the Baltimore metro area.[8] As **Table 2-1** shows, mainstream financial institutions are much less concentrated overall in the poorest neighborhoods of the Baltimore metro area than in middle-income communities. Their absence has left a void that check-cashers and other higher-priced providers of financial services have moved in to fill.

Of the 1,040 bank and credit union branches in the Baltimore MSA, 87 – 8.4 percent – are located in neighborhoods with median income under $30,000. By contrast, of the region's 101 check cashers, 43 of them are situated in the metro area's poorest neighborhoods.

### FIGURE 2-1: AMERICANS WITHOUT A BANK ACCOUNT, BY INCOME, USA

LOW-INCOME AMERICANS ARE FAR MORE LIKELY TO BE 'UNBANKED'




*Source: Survey of Consumer Finances, 2004*

### TABLE 2-1: CONCENTRATION OF BANKS/CREDIT UNIONS AND CHECK CASHERS, BY NEIGHBORHOOD MEDIAN INCOME, BALTIMORE MSA

| | BANKS AND CREDIT UNIONS | | CHECK CASHERS | |
|---|---|---|---|---|
| **Neighborhood Income** | **Population per Store** | **Total Storefronts** | **Population per Store** | **Total Storefronts** |
| $0-$29,999 | 3,474 | *87* | 7,030 | *43* |
| $30,000-$59,999 | 2,552 | *521* | 27,138 | *49* |
| $60,000-$89,999 | 2,049 | *407* | 104,264 | *8* |
| $90,000 and above | 2,854 | *25* | 71,345 | *1* |
| **TOTAL METRO AREA** | **2,440** | ***1,040*** | **25,123** | ***101*** |

*Source: InfoUSA, October 2006*

# *Promising Practices*

### BANK ON SAN FRANCISCO[10]

A joint effort of San Francisco city government and the local Federal Reserve Bank, Bank on San Francisco aims to bring 10,000 of the city's estimated 50,000 unbanked households "into the financial mainstream" by helping them to open low-cost bank accounts. The parties are working with the city's financial institutions to develop products that meet the needs of low-income families and work with them to build financial literacy and assets. The effort constitutes a recognition that banks have not aggressively sought the business of low-wage consumers, who are less likely to be comfortable with the standard set of charges and fees for failure to maintain a minimum balance, overdrawing an account, bouncing a check and other violations, and works to make consumers aware of the advantages of conducting their financial business with a bank as opposed to an alternative lender.

Focus groups with unbanked consumers in San Francisco indicated that participants would prefer to have bank accounts than to use check cashers, but that they do not know of banks that offer low cost accounts – or are worried that bad credit history or their lack of proper identification will block them from being able to open accounts. Partners have taken a number of steps to better serve this market and progress toward the goal of the initiative, including:

- Development of a checkless, low-cost product that meets the needs of unbanked consumers and alleviates some of the factors – including high minimum balances and fees – that keep consumers out of the financial mainstream;
- Expanded marketing in targeted San Francisco neighborhoods to increase awareness of appropriate banking products; and
- Partnerships with nonprofits in San Francisco to identify customers ready to enter the financial mainstream.

Since fall of 2006, Bank on San Francisco has helped open 2,260 new accounts. City treasurer José Cisneros, who oversees the program, claims, "We're giving people a way out of the spiral."[11]

# *Promising Practices*

### COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS[12]

It's a cliché to observe that the business of mainstream financial institutions is business, but it's also the truth: banks are often justified in concluding that low-income communities lack the wealth to support a certain level of profit. Fortunately, other models are beginning to emerge that place community interests first. Community Development Financial Institutions (CDFIS) "serve economically distressed communities by providing credit, capital and financial services that are often unavailable from mainstream financial institutions."[13] Across the country, over 1,000 CDFIS have successfully developed and marketed banking products for low-wage individuals while providing loans and leveraging private investment in distressed communities.

One of the most successful and best-known CDFIS is Alternatives Federal Credit Union (AFCU), based in Ithaca, New York. Since it opened in 1979, AFCU has grown to over 7,000 members. ACFU's mission is to provide access to transactional services, savings and community investment opportunities, consumer education, and capital investments to individuals, small businesses, and nonprofits. Through education and experience, they work to move consumers along the "Alternatives Credit Path" from transactor, to saver, to borrower, to owner.

Anyone who lives in the AFCU service region can join the credit union for a one-time $10 membership fee and a $5 savings contribution. Membership gives access to a range of products, including free checking, savings accounts with a $5 minimum, a low-cost line of credit to serve as an alternative to payday loans, credit cards with a maximum interest rate of 14.5 percent, and a variety of secured and unsecured loan products. Low-wage homebuyers whose credit histories prevent them from qualifying for one of the credit union's standard mortgage products can borrow through the "Fresh Start Mortgage" program. As of April 2007, the 30-year fixed rate was 7.375 percent, with no points. If the borrower makes 24 consecutive on-time monthly payments within the first four years of the loan, the rate drops by an additional one percent.

Much of this disparity is due to the fact that banks have ceded the playing field in many Baltimore City neighborhoods. The number of banking institutions in the Baltimore MSA as a whole has stayed more or less constant over the last decade-plus, with two fewer today than were present in 1994. But in Baltimore City, 7 of 43 institutions have closed since then – and more significantly, the number of bank offices within the city limits has declined by more than a third, from 176 in 1994 to 114 in 2006.[9]

As Figure 2-2 shows, the trend has accelerated in recent years. Before 2000, the number fluctuated but was in gradual decline; since then, the city has lost offices each year. Baltimore is not the only mid-Atlantic city to see a sharp decline in bank offices over the last decade-plus, but the trend has been much more pronounced here than in other urban centers. While Baltimore lost more than 60 bank offices, or 35.2 percent of its bank total, between 1994 and 2006, Washington, DC and Philadelphia experienced a net loss of 26 each, or 10.6 percent and 7.1 percent respectively.

The problem isn't just that banks are scarce in low-income communities; it's also that they don't offer tailored products and services that would make it worthwhile for banks and their potential clients to do business with each other. In the financial services industry, low-wage consumers are known as the "fee-driven" market. As this name implies, many banks seek to make this segment of the market profitable by relying on a variety of fee structures that can be difficult for a consumer without a steady income to avoid.

This approach might strengthen the bank's bottom line in the short term, but it neither builds a sustainable clientele nor serves those who face a steady accumulation of costs in trying to recover from steep charges for overdrawn accounts, bounced checks and other financial missteps. Minimum balance requirements present another disincentive for lower-wage consumers. The experience of San Francisco, which has made a conscious effort to connect its "unbanked" residents to mainstream financial institutions, shows that when banks tailor their products to the different needs and expectations of this market, consumers respond with greater demand.

**FIGURE 2-2: DISAPPEARING BANKS, BALTIMORE CITY**

BALTIMORE CITY HAS LOST ⅓ OF ITS BANKS SINCE 1994


*Source: FDIC Summary of Deposits Survey Data, 1994-2006, http://www2.fdic.gov/sod/index.asp*

# *Promising Practices*

## SALARY ADVANCE LOAN PROGRAM (SALO)[16]

Since 2001, the North Carolina State Employees Credit Union has offered its 1.2 million members a low-cost alternative to payday lending through the Salary Advance Loan Program (SALO). SALO allows members to take out salary advance loans of between $50 and $500 at an APR of 12 percent – far lower than the APRS between 200 and 900 percent that most payday lenders charge. For a $500 loan with a two-week repayment period, the charge is less than $2.50. Of the 40,000 Credit Union members who use SALO, about 70 percent do so once a month. The average loan amount is $367, and the average repayment period is 20 days.

The product was designed for maximum ease and convenience. There are no fees associated with SALO, and application and underwriting requirements are minimal. One reason the Credit Union can take this user-friendly approach is that SALO is available only to Credit Union members whose paychecks are directly deposited into accounts, and who are not in bankruptcy. This arrangement allows automatic repayment for SALO loans: the loan plus accrued interest is debited from the borrower's checking account on his or her next pay date. Members may request advances up to the credit ceiling, and can call them in by phone.

The program has a mandatory savings component as well, designed to create an incentive for members to change their financial habits: 5 percent of each advance must be placed in a special savings account. The account is unrestricted, but if the borrower withdraws savings, he cannot access a SALO for six months. A 2005 report from the Annie E. Casey Foundation noted that within 18 months, the mandatory savings component had resulted in more than $6 million in new deposit funds and was popular among Credit Union members, many of who had never previously amassed significant savings.[17]

### ALTERNATIVE PROVIDERS

It's not only a case of banks disdaining a market they don't believe offers much profit potential. In the poorer communities of Baltimore, as in other parts of the country, residents express considerable mistrust of banks. Some of this is the result of experience: focus group participants complained of high charges that they were not previously aware of and still did not understand.

It is also important to note that check cashers and pawnshop lenders have the virtue of simplicity and speed; the costs are higher, but they are unambiguous and upfront. Furthermore, while banks often place a hold on funds while they wait for a check to clear, the check casher provides the full amount on the spot. If the power is about to be shut off or the car might be repossessed, a low-wage consumer doesn't have the luxury of waiting the few days a bank may require. Until banks approach the low-wage market with a different mindset – emphasizing innovative products and focusing on customer service – this likely will remain the case.

The volume of business done by check cashers and pawnshops is unknown, but the concentration of these stores in Baltimore's low-income neighborhoods strongly suggests that they serve a sizable segment of the local market. These alternative providers charge more – often considerably more – for the same services, but offer greater convenience, easier access, and often a much more comfortable environment for customers who might not feel at home in banks.

Maryland, like most states, sets limits on what check cashers can charge for their services: the maximum allowable rates are 3 percent of the face value of government checks, 5 percent of payroll checks, and 10 percent of personal checks. These rates put Maryland in the middle among mid-Atlantic states: Delaware's rate caps range between 2 and 4 percent; Pennsylvania's rate caps are slightly lower for government and payroll checks; Washington, DC allows charges of up to 5 percent for government or payroll checks, 7 percent for insurance, and 10 percent for personal checks; and Virginia has no legal limit.[14] An individual in Baltimore who takes home $30,000 per year and chooses to cash payroll checks at a check casher could pay as much as $1,500 over the course of a year for the privilege of doing so – 5 percent of each payroll check.

*Policymakers looking to set the financial services market right in low-income communities have two primary tasks: extend the reach and appeal of banks and other mainstream financial service providers, and improve the knowledge base and information sources of consumers themselves.*

Maryland has taken several important steps to protect low-wage earners through regulation of the alternate financial services market. For-profit credit counseling is illegal in the state, as are auto title loans – short-term loans, typically with triple-digit annual interest rates, in which borrowers use their cars as collateral. The state also effectively outlawed "payday lending" – the practice of providing a short-term loan in exchange for a borrower's next paycheck – by setting a maximum rate of 33 percent on small loans, significantly lower than the triple-digit APRs payday lenders typically charge. There are ways around this, however: some lenders charge excessive fees to make up for what they can't charge in rates, and out-of-state businesses often ignore state interest rate caps and make illegal loans to Maryland consumers online. Furthermore, the state has not set any limits on pawnshop loans. A survey of pawnshops in no-limit states published in 2004 found that rates generally run between 18 and 28 percent per month, for an APR of 216 to 336 percent.[15] In comparison, the District of Columbia has set its pawnshop rate cap at 2 percent per month, for an APR of 24 percent.

Those who use alternative financial services are faced with rates that are commonly far higher than even the most costly credit cards. Unfortunately, low-wage consumers often have few alternatives. At some point, almost every family needs access to short-term credit, whether to cover an unexpected medical expense, make ends meet during a spell of unemployment, or pay for a car repair. While Maryland has taken positive steps to protect consumers from the most usurious practices, few local businesses have stepped forward with competitively priced alternatives to serve the low-wage market.

### TAX PREPARATION AND REFUND ANTICIPATION LOANS

The Earned Income Tax Credit (EITC) is perhaps the most broadly popular anti-poverty initiative of the past 40 years, enjoying support from both conservatives and liberals. In 2003, nearly 167,000 Baltimore metro area residents filed for the EITC, and 97 percent of them received refunds – typically a payment of several thousand dollars that a family can put toward a long-delayed home repair, a reliable car, or dozens of other uses that improve day-to-day quality of life. Unfortunately, many EITC filers received less than they could have because they paid for tax preparation, purchased a Refund Anticipation Loan (RAL), or both. Nationally, it is estimated that 1.5 billion EITC dollars were funneled directly to tax preparers in 2005.[18]

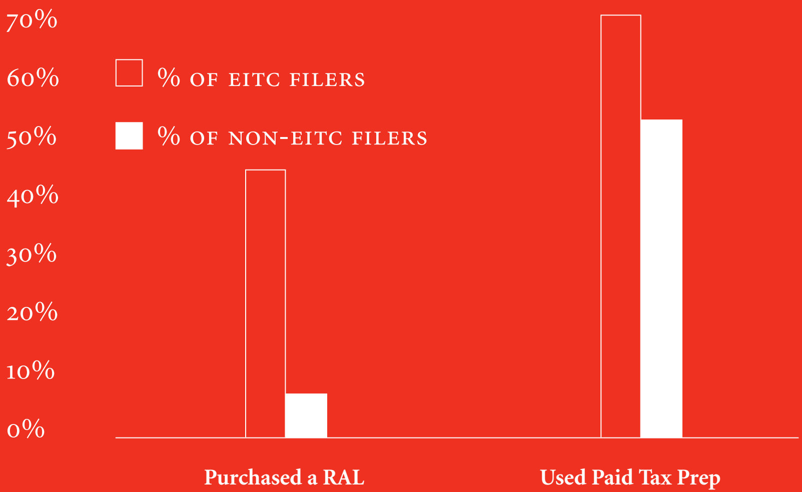
Figure 2-3 shows that those who file for the EITC pay for tax preparation and purchase RALs at significantly higher rates than do others. (Note: since many individuals who qualify for the EITC do not file for it, the distinction between EITC filers and non-filers does not necessarily indicate lower and higher-income taxpayers respectively.)

Firms such as H&R Block and Jackson-Hewitt typically charge around $150 for tax preparation.[19] Low-wage taxpayers are less likely to prepare their own tax returns, particularly as additional forms are required to file for the EITC. Unfortunately, while it costs the consumer more, using a paid preparer does not guarantee the accuracy of the taxpayer's return, since preparers are neither licensed nor regulated. Mistakes are common – found in 89 percent of a sample of returns filed by paid preparers and assessed by the General Accountability Office – and frequently result in an inflated refund that the taxpayer could be forced to re-pay if audited.[20]

Most low-wage taxpayers, though, qualify for free tax preparation services through trained and IRS-certified volunteers. In 2007, the Baltimore CASH Campaign prepared more than 7,200 returns free of charge at 15 sites around the city. It is estimated that the CASH Campaign has saved nearly $4 million in tax preparation costs for low-wage Baltimore taxpayers. One priority for local and state policymakers in addressing the higher costs poorer Baltimoreans pay for financial services should be to broaden awareness of free tax preparation services available for low-wage residents.

Refund Anticipation Loans are a tempting option for consumers who cannot or do not want to wait for the IRS to send their refunds – a process that typically takes less than two weeks for those who file electronically, or six to eight weeks for paper filers. With a RAL, they get the money in advance from the tax preparer, which then keeps the IRS refund in addition to a charge for facilitating the loan. A RAL for $3,000 might cost the borrower an additional $100. Since the tax preparer is quickly re-paid when the refund arrives, the effective APR for a RAL can range

FIGURE 2-3: AMERICANS WITHOUT A BANK ACCOUNT, BY INCOME, USA




*Source: Brookings Tax Return Data Interactive Website, Zip Code Tax Return Data, 2003. (Derived from Internal Revenue Service's Stakeholder Partnerships, Education, and Communication (IRS-SPEC) Return Information Databases, compiled by the IRS Wage and Investment Research Unit) Found online at http://webapps.brookings.edu/eitc/*

from 40 percent to as much as 500 percent. As Figure 2-3 shows, nearly 42 percent of local EITC filers purchased a RAL in 2003, compared to less than 6 percent of non-EITC filers. Nationally, consumers took out approximately 9.6 million RALS in the 2005 tax preparation season – 5.9 million by EITC filers.[21]

## RECOMMENDATIONS

Two fundamental problems help explain why low-wage consumers pay more for financial services. First, banks have not creatively or aggressively sought the business of low-wage consumers, who are less likely to be comfortable with the standard charges and fees for failing to maintain a minimum balance, overdrawing an account, bouncing a check and other violations. Second, low-wage consumers are often disconnected from and unaware of the lower cost mainstream options that may be available to them. Thus, policymakers looking to set the financial services market right in low-income communities have two primary tasks: extend the reach and appeal of banks and other mainstream financial service providers, and improve the knowledge base and information sources of consumers themselves.

**Increase consumer access to lower-cost mainstream financial services.** Government can partner with the financial industry, using models such as Bank on San Francisco, to establish stronger connections between low-income families and communities and mainstream financial institutions. Specific strategies to achieve this might include creating incentives for banks to operate in lower-income communities, such as access to public deposits or partnerships with community or faith-based groups in poorer neighborhoods that can promote bank services and products to residents.

**Improve the financial literacy of low-wage Baltimoreans.** In the focus groups we conducted for this report, there was a dramatic difference in the understanding of how financial services work – and a much greater awareness of lower-cost options such as free tax preparation services – among participants who had taken financial literacy courses. City and state officials can partner with schools, churches, community groups and broadcasters to make this information much more widely available, at least to the point of letting consumers know where and how they can learn more. Financial literacy is increasingly being integrated into high school curriculum. Baltimore, Harford, and Carroll counties have already made personal finance a mandatory graduation requirement. Other local school boards should follow their lead.[22] In addition, organizations that offer job training and other social service programs can better serve their clients by integrating a financial literacy component.

**Develop and market financial products that address the needs of low-wage Baltimore consumers.** Examples could include no- or minimal-balance savings or checking accounts, more convenient check cashing policies, or short-term loan products, possibly similar in nature to the Salary Advance Loan Program, that offer much lower rates than the illegal auto-title or payday loans. Banks and credit unions could raise awareness of these products using some of the same approaches detailed in the recommendations above.

**Enforce Maryland's existing lending laws to limit Refund Anticipation Loan interest rates, and expand consumer protections by capping the rates pawnshops are legally permitted to charge.** More vigorous oversight of the RAL industry – enforcing existing interest rate limits, and ensuring that customers are aware of the alternatives – could save Baltimore residents from needlessly overpaying for these services. Specifically, Maryland regulators should enforce the 33 percent cap on small loan rates in RAL transactions. To further protect consumers seeking short-term loans, Maryland should consider setting caps on pawnshop interest rates.

**Set standards for paid tax preparers.** While most specialized professionals in Maryland, from plumbers to hairdressers, must pass a test and obtain a license in order to work, no similar standards are in place to ensure the competence of paid tax preparers. As a result, taxpayers may miss out on credits due to them, or even worse, receive more of a refund than they are due, and later face IRS penalties. Maryland should follow the models established by California and Oregon to regulate this industry and protect taxpayers. These states have basic requirements around both the education and registration of tax preparers.

# chapter three

# Home-Related Costs

Statistically speaking, there is no better way for a family to build wealth and achieve a measure of economic stability than to purchase a home. The Federal Reserve Board has found that the median net worth of most modest-income homeowners is almost $60,000 – more than six times the median for renters in the same income group. While home ownership can mark a milestone on the road to economic security, the commitment involved with taking out a mortgage also can create major risk.

Public policy creates incentives for home ownership in a myriad of ways, perhaps most prominently through the federal mortgage tax deduction. In Baltimore, expanding the ranks of homeowners has an extra dimension of importance: it is a key component of the city's strategy to reverse decades of population loss and regain the sense of community that is essential to building durable prosperity. For this reason, city government has encouraged and funded a number of initiatives, such as the Live Near Your Work program and Healthy Neighborhoods Initiative, to increase the home ownership rate and help first-time buyers in particular.

Unfortunately, the financial tools which almost every family needs to buy and maintain a home – a mortgage loan and insurance – cost more for lower-wage residents. Lower-wage homebuyers are more likely to obtain high-cost loans, and to face the risk of Baltimore's unusually high foreclosure rate. And the higher costs don't end when the family takes possession: on a percentage basis, lower-wage families pay considerably more for utilities and, often, furnishings, compared to their wealthier neighbors.

### THE MORTGAGE MARKET MESS

The cost of purchasing a home has spiked over the past few years. The median purchase price in Baltimore city was $140,400 in 2006 – almost a 20 percent jump from the previous year, and more than double the median price of just five years earlier.[23] This has far outpaced the growth in median household income, which has risen slowly from $30,078 in 2000 to $32,456 in 2005 – about an 8 percent change.[24]

With the gap between home prices and wages growing by the year, more buyers are agreeing to unconventional, high-interest mortgages. In the Baltimore metro area, almost 40 percent of the lowest income borrowers took out "high-cost loans" – defined as those with rates at least three to five points above the government's prime rate – in 2005. These higher rates can add up to hundreds of extra dollars each year, and tens of thousands over the life of the loan.[25]

Table 3-1 shows that in 2005, there was an inverse relationship between mortgage purchasers' income levels and their likelihood of obtaining a high-cost loan. Low-income home loan borrowers throughout the Baltimore MSA were much more likely to have high-cost loans. Among borrowers earning less than half the median income for the Baltimore area, almost 40 percent of home loans for any purpose (purchase, refinancing, and home improvement) were high-cost, compared to less than 20 percent of loans to households earning at least 120 percent of the area median income. The trend held true for the three most common types of loans – conventional first lien refinancing, conventional first lien home purchase, and conventional junior lien home purchase.

As is the case with other goods and services for which low-wage residents tend to pay more, multiple factors contribute to the greater incidence of high-cost loans

TABLE 3-1: INCIDENCE OF HIGH-COST LOANS, BY HOUSEHOLD INCOME, BALTIMORE MSA

| Income | Total Loans | No Reported Pricing Data (Under High Cost Trigger) | Reported Pricing Data (Over High Cost Trigger) | Percent High Cost Loans |
|---|---|---|---|---|
| Less than 50% of MSA Median (under $36,075) | 13,460 | 8,196 | 5,264 | **39.1** |
| 50-79% of MSA Median ($36,075-$57,719) | 36,694 | 24,202 | 12,492 | **34.0** |
| 80-99% of MSA Median ($57,720-$72,149) | 27,952 | 19,362 | 8,590 | **30.7** |
| 100-119% of MSA Median ($72,150-$86,579) | 21,075 | 15,354 | 5,721 | **27.1** |
| 120% or more of MSA Median ($86,580 or more) | 59,689 | 48,819 | 10,870 | **18.2** |
| *INCOME NOT AVAILABLE* | *8,259* | *6,976* | *1,283* | ***15.5*** |
| **TOTAL — ALL INCOME GROUPS** | **167,129** | **122,909** | **44,220** | **26.0** |

*Source: Home Mortgage Disclosure Act, 2005* among lower-wage Baltimoreans. Not surprisingly, lower-wage homeowners have higher rates of bankruptcy and missed payments than do wealthier borrowers. Given the data, lenders tend to offer tougher terms to prospective borrowers. Another factor at work here is the common practice among lenders of relying on credit scoring. As discussed earlier in this report, low-wage consumers are systemically disadvantaged at every step of this process: they are less likely to have relationships with mainstream financial institutions, and what track record they do have is less likely to tell a positive story. Thus, they frequently must pay higher rates – often much higher.

One innovative model that more equitably distributes risk between the borrower and the lender is the "step-down mortgage." Offered by Fannie Mae among other lenders, this model helps borrowers with less than perfect credit prove their credit-worthiness. Borrowers must repay at a high rate for the first 24 months, but if payments during that period are timely and regular, the APR drops to a conventional prime rate. Rather than rejecting or heavily charging borrowers with low credit scores, lenders who use the step-down model take a broader view of the borrower's entire financial situation, which allows more individuals to eventually get mortgages with competitive interest rates.

Predatory mortgage loan practices make an already difficult environment even tougher. An October 2006 report by the Maryland Consumer Rights Coalition (MCRC) identified some of the most common problems in this area, including brokers pushing homeowners into refinancing low-cost mortgages with much more expensive loans; high-cost loans with rates just below what is allowed by state and federal law; and misrepresentation of loan terms.[26] All too often, home-buyers who qualify for a traditional, prime-rate mortgage are only offered a subprime rate. These practices indicate a serious market failure that policymakers and community leaders should look to address.

MCRC finds that Maryland's predatory lending law, passed in 2002 over the objections of consumer and housing organizations, is among the weaker state laws nationwide. It applies only to loans seven or more percentage points above the Treasury rate, and has very weak measures in place to guard against "loan flip-ping" (the practice of refinancing a home loan with little or no benefit to the

# *Promising Practices*

## LOAN REFINANCING AND FORECLOSURE ASSISTANCE IN BALTIMORE

The problem of high-cost loans and the corresponding risk of foreclosure is a national concern, but a number of programs in and around Baltimore offer some intriguing potential solutions. The Homeownership Preservation Coalition, a group of funders, lenders and nonprofit practitioners, has taken the lead in developing strategies to reduce the incidence of foreclosure and high cost lending in Baltimore. Some promising strategies developed by the coalition and its members include:

*311 Foreclosure Hotline.* In Fall 2006, Baltimore launched "Every Minute Counts," a foreclosure hotline operated through the city's 311 One-Call Center. Struggling homeowners who call the toll-free hotline are referred to a housing counselor at the St. Ambrose Housing Aid Center in Baltimore City or the national Homeownership Preservation Foundation. Borrowers get advice on how to deal with financial crisis, work out a solution with their lender, or find refinancing resources. Outside of the city, homeowners can call the national Hope for Homeowners campaign directly at (888) 995-HOPE.[28]

*Baltimore Homeowner Emergency Loan Program (HELP).* In 2002, Baltimore Community Lending started HELP as a pilot program to assist borrowers in danger of losing their homes due to predatory real estate practices. The program has assisted nearly 250 families in its first five years. Among the services available through HELP are counseling, interventions with the current lender, legal assistance, and affordable refinancing that includes the costs of needed home repairs. Nearly 40 families have refinanced through the program, while others were helped through write-down grants and referrals to local default counseling agencies such as Belair-Edison Neighborhoods, INC. and St. Ambrose Housing Aid Center. With the pilot phase now complete, the program is looking to secure ongoing support from both public and private sources.

*Neighborhood Housing Services of Baltimore, inc. (NHSB) Refinance Loan.* If a borrower who cannot use conventional market financing is at risk of losing their home because they are a victim of predatory lending; have a high-interest, difficult to pay subprime loan; or have experienced a catastrophic life event such as health emergency, loss of employment, or divorce, they are eligible for refinance loans through NHSB. The loan rate is 4 or 5 percent, depending on the borrower's income. The organization works with the St. Ambrose Housing Aid Center and Belair-Edison Neighborhoods, INC. to ensure that borrowers who call the local foreclosure hotline are directed to their resources. This product has been offered since Fall of 2006, and has already proven very popular. NHSB targets borrowers below 100 percent of area median income (AMI), and particularly borrowers under 80 percent AMI. NHSB does not base its lending decisions primarily upon credit scores. Instead, it considers a borrower's overall financial condition, including short-term financial setbacks. If a borrower has already fallen too far behind and is facing imminent foreclosure, they may instead qualify for an Emergency Bridge Loan. This product provides homeowners with the amount needed to prevent foreclosure, up to a total of $5,000. In addition to loans, NHSB offers housing counseling services and, increasingly, general financial counseling.[29]

borrower); financing of fees; and balloon payments. Finally, it does not include a mandate that borrowers must seek counseling before agreeing to a high cost loan, only that lenders must "recommend" that they do so.[27] Given that predatory practices often rely upon the consumer's ignorance of alternatives and imperfect understanding of what he or she is agreeing to, this is an important omission.

## BALTIMORE'S HIGH FORECLOSURE RATE

Recent changes and innovations in the mortgage market have helped bring home ownership within the reach of more families – while increasing the levels of debt and the risk those families face. In Baltimore, these changes have contributed to a high foreclosure rate. Since the timeframe for a legal foreclosure is short in Maryland – a sale can happen as soon as 15 days after a foreclosure action is filed – local families often do not have enough time to react and potentially stop the sale.[30] Therefore, foreclosure means the immediate loss of a home, and also contributes to the snowball effect by damaging a family's credit and potentially depleting their savings and equity.

According to a 2006 report by The Reinvestment Fund (TRF), a Philadelphia-based organization that focuses on community investment, 30.6 foreclosures were filed for every 1,000 owner-occupied Baltimore households in 2004. This rate was nearly twice the rate of Philadelphia (16.1), and two and a half times higher than New Castle County in Delaware (12.2), two jurisdictions that TRF examined in its foreclosure research.[31] TRF found that areas where foreclosures were concentrated tended to have higher percentages of African-American households, and that the median length of time between purchase and foreclosure was just three years – again, a considerably shorter period than Philadelphia (4 years) or New Castle County (4.3 years).

Not surprisingly, the problems in the home loan market discussed above also were prominent in the foreclosure pool. Twenty five percent of the properties were originally purchased with two or more loans, and 13 percent had adjustable rates or were "balloon" loans in which the rate jumped up over the course of the repayment period. In all, 55 percent of the foreclosure properties were purchased with subprime loans, compared to 49 percent of all homes in Baltimore.

The high foreclosure rate has consequences for Baltimore that go well beyond the families directly impacted. TRF estimates that foreclosures lowered aggregate housing values in Baltimore by nearly $1.8 billion in 2004 and 2005. As a result, the city lost about $41.9 million in real estate tax revenue during those two years. Among the actions TRF recommends are much stronger efforts to inform residents in high foreclosure areas about prevention resources, and to create a revolving loan pool of emergency funds that homeowners at risk of foreclosure can access.

### HOME INSURANCE

Low-wage homeowners also tend to pay higher premiums for home insurance. As neighborhood incomes rise, average rates go down. Based on a sample reported by the Brookings Institution, a homeowner in one of Baltimore's poorest neighborhoods will pay $136 more per year to insure a comparable home than her counterpart in a neighborhood where the median income is at least three times higher.[32]

The explanation for these higher home insurance premiums for homeowners in low-income neighborhoods includes generally higher crime rates and the likelihood of older housing stock. The data, however, is limited: a number of companies won't make quotes available online, and it is difficult to determine which factors most directly contribute to higher premiums.

### RENTING RISK: BALTIMORE'S EVICTION EPIDEMIC

The majority of low-income families in Baltimore don't worry about the dangers of high-cost home loans or paying more for home insurance – because they rent. Citywide, just over half of housing units are owner-occupied. While renting is a cheaper option in the short term, there is often a tradeoff: residents must often accept substandard living conditions in neighborhoods with few amenities and, frequently, higher costs. As discussed in Chapters Two and Five, lower-income neighborhoods tend to have fewer financial service centers and supermarkets, and higher prices at the stores that are present.

#### TABLE 3-2: AVERAGE HOME INSURANCE PREMIUM, BY NEIGHBORHOOD MEDIAN INCOME, BALTIMORE MSA

| Neighborhood Income | Average Annual Home Insurance Quote |
|---|---|
| $0-$29,999 | $ 840 |
| $30,000-$59,999 | 812 |
| $60,000-$89,999 | 740 |
| $90,000 and above | 704 |

*Source: Matt Fellowes. 2006. "From Poverty, Opportunity." Washington, DC: The Brookings Institution. Author's analysis of data collected from three major insurance companies.*

Baltimore's renters also have the misfortune of living in a city that for many years has had one of the highest eviction rates in the country. In 2000, the city's eviction rate was a stunning 5.81 per every 100 renters, nearly five times as high as New York City (1.26) and more than twice as high as Philadelphia (2.74). Since landlords can file an eviction claim against a tenant each time a rent payment is late, on an annual basis, there are actually more filings with the rent court than there are renters in Baltimore. As The Abell Foundation detailed in a 2003 investigation, the city's extraordinarily high number of evictions means great strain and cost not just for renters, but for the court system and the various city agencies, from the sheriff to the Department of Public Works, that are involved in each eviction. Advocates argue that the city's eviction process treats the court as "the collection agency of first resort." It is easier and cheaper to initiate eviction proceedings in Baltimore than in comparable cities – $13 to file in Baltimore City, compared to $50 in New York and $92 in Los Angeles at the time of the Abell report.[33]

This unhappy trend has continued, with an average of 614 evictions per month in 2006. In January 2007, there were 10,626 summary ejectment filings with the District Court. Warrants of restitution went to the Sheriff's office to start the eviction process for 5,298 of these cases, and 646 actual evictions resulted.[34]

Even when eviction is averted, the proceedings can deepen the financial hole a family might find itself in. Baltimore offers a "right of redemption" that allows the renter to stay on the premises if s/he can pay the rent and court costs up until the moment of eviction, and many families ultimately avoid eviction through this contingency. But a family on a limited income with no access to affordable short-term credit will incur other high costs to come up with that money within a short time frame. As discussed in the first chapter, these costs often "snowball" to the point where families face an ever-steeper climb to build wealth and economic security.

## UTILITIES

Energy is a major cost for low-income families. The Fuel Fund of Maryland, a non-profit that provides assistance for low-income households in Baltimore and surrounding communities, estimates that low-income families pay a quarter of their yearly income for energy; for middle class families, the rate is 4 percent.[35] Moreover, on a per square foot basis, lower-income families pay considerably more for energy than do their wealthier neighbors. **Table 3-3** illustrates this point.

One reason lower-wage families pay higher energy costs is that the housing stock in low-income neighborhoods is generally older and less likely to be winterized and energy-efficient. According to the U.S. Department of Energy, only 20 percent of homes built before 1980 are well insulated. As **Figures 3-1** and **3-2** show, houses in Baltimore's poorest neighborhoods are almost ten times more likely to have been built before 1950 (56.0 percent) than those in higher-income neighborhoods (6.2 percent), and nearly eight times less likely to have been built after 1980. Without sealed windows and other energy-saving measures, families in older buildings tend to pay more.

The Fuel Fund of Maryland offers vital support for thousands of families that struggle to pay their energy bills, but action to attack the problem at its roots – the energy inefficiency that causes poorer families pay more on a per-square foot basis – has been inadequate. Both the city and state participate in the federal Weatherization Assistance Program (WAP), but resources are meager: in 2006, Baltimore City's total allocation was less than $1 million, enough to weatherize just 169 units. Local utilities – in Baltimore, BGE – supplement federal dollars to provide support for customers in their own service areas.

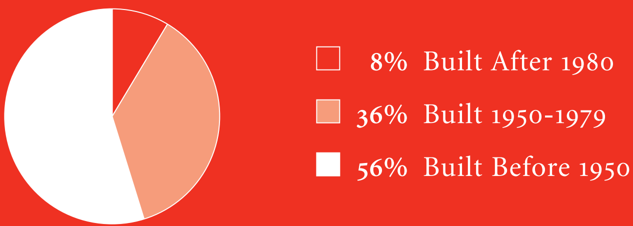
A second problem relating to energy costs is that low-income families, usually due to a low credit score or a history of late payments, are more likely to be asked for a deposit from the utility company as a condition for beginning service, and less likely to have it refunded. Baltimore Gas & Electric refunds deposits after a year provided that 10 of 12 bills are paid on time – but financial pressures on low-income families, plus the likelihood that some of these families don't have mainstream financial relationships (bank accounts), make this a higher bar than for better-off families.

### TABLE 3-3: AVERAGE PER-SQUARE-FOOT ENERGY EXPENDITURE, BY POVERTY STATUS, USA

| Poverty Status | Energy Expenditure per Square Foot |
|---|---|
| Less than 100% Poverty | $ 0.93 |
| 100-150% Poverty | 0.89 |
| Over 150% Poverty | 0.73 |

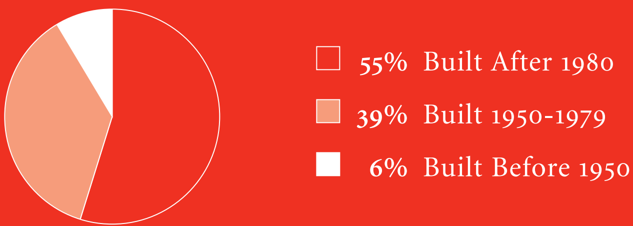
*Source: Energy Information Administration, Office of Energy Markets and End Use, Forms EIA-457 A-G of the 2001 Residential Energy Consumption Survey*

### FIGURE 3-1: AGE OF HOMES IN NEIGHBORHOODS WITH MEDIAN INCOME UNDER $30,000, BALTIMORE MSA




*Source: U.S. Census 2000 Summary File 3 - Sample Data, H34, Year Structure Built*

### FIGURE 3-2: AGE OF HOMES IN NEIGHBORHOODS WITH MEDIAN INCOME OVER $90,000, BALTIMORE MSA




*Source: U.S. Census 2000 Summary File 3 - Sample Data, H34, Year Structure Built*

## RECOMMENDATIONS

Baltimore's leaders clearly grasp the importance of home ownership, but their good intentions have run considerably ahead of public policies. The percentage of homebuyers with high-cost mortgages remains unacceptably high, as does the foreclosure rate. With the mortgage market so clearly askew, policy interventions are justified.

A statewide "Security in the Home" initiative could help target at-risk homeowners. Such an initiative could help connect families facing foreclosure to appropriate resources sooner, and include changes to slow the legal foreclosure process. At the same time, Baltimore area residents who aren't in a position to buy homes would benefit enormously from government action to lower the incidence of eviction proceedings. Even when families are able to prevent the eviction, the stress and costs damage families' economic stability and their peace of mind. A first step would be to raise the eviction filing charge, sending a signal that starting the court process is no longer to be used as a rent-collection procedure.

**Expand and strengthen Maryland's predatory lending law.** Currently, the law offers insufficient protection against predatory practices such as "loan flipping" and balloon payments. These measures should be strengthened, and the rate at which the law takes effect should be lowered. The law should also mandate financial counseling both before and after a buyer enters into a high-cost loan.

**Increase awareness and access to reasonably priced first purchase loan options and homeownership counseling programs.** Many homebuyers accept high cost loans with predatory terms because they are not familiar with the complicated mortgage market, and are not aware of alternatives. First-purchase loans and assistance grants for low-wage buyers are available through local nonprofits and government agencies such as Neighborhood Housing Services of

Baltimore and the state Community Development Administration. The creation of a non-profit mortgage brokerage would help ensure that buyers are aware of the range of lower-cost options available to them, and that they are not given a subprime rate when they might qualify for better terms. Further, expanded support for homeownership counseling can help educate consumers on their responsibilities and mitigate the risk of foreclosure.

**Expand assistance services to low-wage borrowers at risk of foreclosure.** Baltimore has begun to devote greater attention to foreclosure prevention, through the creation of the "Every Minute Counts" hotline and Emergency Bridge Loan program. Policymakers should carefully track the impact of these new efforts and, if necessary, commit to additional actions and more resources.

**Revise city policies relating to evictions.** The District Court can raise the filing fee and require that landlords themselves serve the first notice of late payment, rather than using the eviction process. Certain provisions in the city's Ten-Year Plan to End Homelessness, proposed in Baltimore's City Council in March 2007, are highly relevant here: the city should require that landlords present tenants who are late with rent a formal "pay or quit" notice advising them of the amount due and final date for payment before eviction proceedings begin. On a separate track, city leaders should work with community-based organizations to strengthen tenant assistance programs and provide financial counseling to help renters better manage their budgets.

**Increase support for weatherization measures.** City and state officials should advocate for additional funding for programs that work with building owners and renters to bring down energy costs and work with community groups to improve awareness of programs that provide support

# chapter four

# Transportation Expenses

For decades, antipoverty thinkers have grappled with the problem of "spatial mismatch" – the phenomenon that most low-skill job growth takes place in areas relatively far from low-income neighborhoods, requiring the residents of those neighborhoods to travel in order to get those jobs. In the Baltimore area, it is estimated that 70 percent of low-skill jobs are now located in the suburbs – while the bulk of workers who fill those jobs live in the city, mostly in poor communities. This daily reverse commute contributes to the U.S. Census finding that half of all workers in the state of Maryland must travel to another county for their jobs, and that Maryland workers spend more time commuting than residents of any state except New York.

Given the limitations of public transit in the Baltimore region, this renders local workers even more dependent than most Americans on reliable cars. But despite the vital importance of cars to low-wage workers' prospects of staying on the job and gradually making progress toward financial advancement, data indi-

*Mobility is a vital factor for working families, particularly in a city such as Baltimore where most residents of poorer communities must travel both to work and to buy needed goods and services. Ensuring that these families have relatively easy and inexpensive access to cars should be a top priority for city and state policymakers.*

cates that lower-wage individuals tend to pay more for all manner of auto-related costs, from buying the car to insuring it, than their wealthier neighbors who purchase the exact same products.

The problem of higher prices for cars and related goods and services is one of several mobility issues for Baltimore residents, 31 percent of whom have no access to cars.[36] Other concerns include Maryland's unusually strict requirements for obtaining a driver's license and for vehicle inspection, both of which impose disproportionate burdens on low-wage workers. Taken as a whole, the limited "auto access" of low-income families seriously impairs their prospects of financial advancement.

### AUTO PRICES AND AUTO LOANS

Research strongly suggests that low-income car buyers tend to pay more for the same car than do higher-income buyers. A 2001 study by economists Fiona Scott Morton, Florian Zettelmeyer and Jorge Silva-Risso found that "[c]oming from a block with a higher percentage of people who have gone to college and higher house values lowers prices."[37] Based on a dataset of nearly 700,000 car purchases nationwide, they concluded that a number of factors correlated with income – including home ownership, education level, and race – serve as proxies to create a premium of approximately $500 more for the same car when sold to a lower-wage buyer than a wealthier buyer.

But low-wage car buyers don't just pay more for the vehicle itself; they're also likely to pay more for a loan to buy the car. Though there is no local information on auto loan rates for Baltimore, national data included in the Brookings Institution's 2006 report found that, as is the case with home loans, there is a strong inverse linear relationship between household income and interest rates for auto loans. As seen in **Table 4-1,** low-income car buyers pay an average of 9.2 percent; high-income buyers pay an average of 5.5 percent.

To make these rates a bit less abstract, consider how they would apply to payments for a $4,000 used car purchased with a loan paid off over a 48-month period. At 5.5 percent, the average interest rate for the highest-income segment

**TABLE 4-1: AVERAGE AUTO LOAN, BY HOUSEHOLD INCOME, USA**

| Household Income | Average Auto Loan APR |
|---|---|
| $0-$29,999 | 9.2 |
| $30,000-$59,999 | 8.5 |
| $60,000-$89,999 | 7.2 |
| $90,000-$119,999 | 6.2 |
| $120,000 and above | 5.5 |

*Source: Matt Fellowes. 2006. "From Poverty, Opportunity." Washington, DC: The Brookings Institution. Analysis of 2004 Survey of Consumer Finances.*

here, the buyer would pay $93.03 per month, for a total cost of $4,465.44. At 9.2 percent, the average interest rate for the lowest-income borrower, the same car would cost $99.92 per month, for a total cost $4,796.16. The $6.89 more per month might not seem like all that much – but over the life of the loan, the low-income buyer pays $330.72 more for the car.

Not only do lower-income auto loan purchasers pay on average a higher interest rate, they are far more likely to pay the very highest rates. Brookings found that in 2004, almost 40 percent of households with annual income below $30,000 had loans with an APR in the top quarter of all rates. This held true for 30 percent of households with income between $30,000 and $60,000; 20 percent of households with income between $60,000 and $90,000; 13 percent of households with income between $90,000 and $120,000; and just 6 percent of households with annual income over $120,000.

In many cases, consumers with the highest rates are borrowing through subprime finance companies. A 2002 analysis conducted by the Progressive Policy Institute found that companies specializing in subprime loans charge average APRs ranging from 15.49 to 20.41 percent.[38] At an APR of 20 percent, the hypothetical $4,000 car noted above would cost $121.72 per month, for a total cost of $5,842.56.

## AUTO INSURANCE

Low-wage drivers face another set of challenges and expenses relating to car insurance. The insurance industry practice of "territorial rating" – setting premiums based on the statistical likelihood of accidents and claims by residents of a given area – means that Baltimore drivers pay considerably more for car insurance than do other Maryland residents. The lowest-wage Baltimoreans tend to face the highest rates of all – largely regardless of their personal driving histories – because some insurers also use credit scores as a factor in setting rates. Over the course of a year, the average low-income driver will pay $424 more than his or her high-income counterpart.

# *Promising Practices*

### VEHICLES FOR CHANGE

One group that understands the importance of automobile access to employment and advancement is Vehicles for Change (VFC), based right outside Baltimore. Since its creation in late 1999, the nonprofit has taken donated used cars, made sure of their road-worthiness, and sold them at minimal cost to recipients who meet income and employment requirements. On average, recipients pay $1,000 for cars that are valued at an average of $4,200, using a short-term loan at a very low rate that helps them build credit. Each car comes with a six-month/6,000 mile guarantee. During that time, Vehicles for Change maintains the car, making all necessary repairs.

In more than seven years of operation, Vehicles for Change has transferred over 2,500 cars to low-income families in Maryland, Virginia and the District of Columbia, including about 70 per year in Baltimore itself. Potential VFC recipients are identified by "Sponsoring Agencies" – community-based organizations that provide job training or other social services. Applicants must report income below a certain level (from $18,000 for a single adult up to $41,500 for a family of six), and have either a job or job offer that requires them to drive. To help keep the car purchase cost for the buyer at $1,000, Sponsoring Agencies also commit to funding a portion of VFC's costs.

A 2003 survey of 155 VFC buyers from around the state found that the program is having the desired effect of increasing participants' earnings and work stability: 68 percent reported obtaining better jobs, and family income rose by an average of more than $4,800 per year, due largely to workers' improved mobility.[39]

A 2003 Maryland Insurance Administration comparison of premiums offered by the state's ten largest insurance companies found that Baltimore City residents paid up to 60 percent more than those in Baltimore County, and nearly twice as much as drivers in Carroll County.[40] Looking at a sample from the entire metro area, Brookings identified the same trend.[41] Table 4-2 shows average car insurance premium quotes in neighborhoods with various median incomes.

Although Maryland state law requires all drivers to have insurance, in the face of these prices, many city drivers simply go without it and take their chances of getting caught. In a 2005 report on auto insurance issues in Baltimore, The Abell Foundation found that "nearly one in four drivers in Baltimore is uninsured."[42] The high frequency of uninsured drivers increases rates for those who do have insurance. The state does offer "insurance of last resort" through the Maryland Auto Insurance Fund (MAIF), an independent state agency that provides coverage to Maryland residents who have been turned down by two private insurers – whether because of a poor credit score, bad driving history, age, or lack of experience – or canceled by one. Under current law, MAIF requires applicants to pay the full amount of the premium upfront; installment payments are not accepted. MAIF reports that 96 percent of its current policies are paid for with financing from lenders who charge up to 30 percent per year. In 2007, the Maryland General Assembly considered legislation to allow MAIF to accept installment payments, but the measure died in committee.

In another instance of the "snowball effect" that we have discussed throughout this report, inability to pay for car insurance can cost families even more when they are forced to pay large fines for their lack of coverage: the Maryland Motor Vehicle Administration charges uninsured vehicle owners $150 for the first 30 days after the offense is discovered, and $7 per day thereafter. In addition, if a driver is caught without insurance, the state can suspend car registration and confiscate license plates for uninsured cars.

### TABLE 4-2: AVERAGE AUTO INSURANCE PREMIUM, BY NEIGHBORHOOD MEDIAN INCOME, BALTIMORE MSA

| Neighborhood Income | Average Annual Auto Insurance Quote |
|---|---|
| $0-$29,999 | $ 944 |
| $30,000-$59,999 | 616 |
| $60,000-$89,999 | 544 |
| $90,000 and above | 520 |

*Source: Matt Fellowes. 2006. "From Poverty, Opportunity." Washington, DC: The Brookings Institution. Analysis of data collected from three major insurance companies.*

# *Promising Practices*

### CALIFORNIA'S LOW COST AUTO INSURANCE PROGRAM[43]

Many states have struggled with the problem of large numbers of uninsured drivers despite laws on the books mandating insurance. But it was California – probably the unofficial capital of American car culture – that took the first big step toward a solution with the California Low Cost Automobile Insurance Program (CLCA).

Created by the state legislature in 1999 as a pilot program for Los Angeles County and the City and County of San Francisco, CLCA seeks to close the gap between what low-wage drivers can afford to pay for insurance and what companies charge for basic coverage. The program mandates that insurance companies in participating counties offer lower-cost policies – under $400 annually – to applicants who qualify. Premiums for each county are set annually by the state and are based on the county's claim history. The premiums must cover all losses incurred through the program; it is not subsidized by the state. Premiums are kept low by reducing the amount of mandatory liability coverage a car owner must purchase.

Through October 2005, nearly 22,000 drivers in the pilot counties had purchased policies; about 85 percent of that number previously had been uninsured. Hoping to further reduce the state's 14.2 percent uninsured driver rate, state leaders have since made the program more widely available: from the original two counties, CLCA expanded into 14 more in 2006, and another six in April 2007.

Drivers are eligible if they meet income requirements (up to $24,500 annually for one person, $33,000 for two people, $50,000 for a family of four, and so on); are at least 19 years old; have had their license continuously for at least three years; and are insuring a vehicle worth less than $20,000. Additionally, they must meet a "good driver standard": no more than one at-fault accident, with property damage only; no more than one point for a moving violation within the previous three years; and no felony or misdemeanor convictions for any violation of the state's Vehicle Code. Unmarried males between ages 19 and 24 – statistically, the group most likely to get into accidents – pay a 25 percent surcharge.

Other states are beginning to follow California's lead. To expand coverage to uninsured drivers, New Jersey gives consumers two alternatives to standard coverage: a Basic Policy for drivers who want only the minimum coverage, and a Dollar-A-Day policy for Medicaid recipients that provides medical coverage only.[44] In Michigan, residents of Detroit and Flint with a good driving record can participate in a purchasing group through the Insurance Pooling Initiative to receive a 10 percent discount.[45]

## LICENSE AND REGISTRATION

In a 2003 report, The Abell Foundation found that approximately 62 percent of Baltimore residents ages 16 and older had a driver's license, a far lower percentage than the state as a whole (88 percent). Given the importance of car access to employment opportunities, this low rate is cause for concern. Unfortunately, Maryland's standards for obtaining a first driver's license often represent yet another barrier for low-wage workers. As the Job Opportunities Task Force details in a recent policy brief, acquiring a license in Maryland entails a major investment of time as well as financial costs.[46] Yet without a license, workers find themselves at a major disadvantage competing for jobs in construction, security, repair and other occupations that do not require much formal education but are more likely to pay family-supporting wages than a position in retail or food service.

Maryland is the only state in the U.S. to require first-time drivers of all ages to complete driver's education as well as extensive certified "practice time" behind the wheel. The driver's ed requirement is 30 hours in a classroom plus another six behind the wheel; courses typically cost between $250 and $300, and financial assistance is rarely available. Abell's 2003 report found that it costs more to obtain a license in Maryland – around $330 on average – than anywhere else in the country. Nationally, the average cost is $20.

State legislative changes passed in 2005 raised the "practice time" requirement from an already-high 40 hours to 60 hours. Taken with the driver's ed requirement, this means that applicants must spend the equivalent of more than two weeks of full-time work simply to get a license – not to mention the associated costs, monetary and otherwise, of finding a car to use, paying for gas, and asking friends or relatives to supervise. Finally, aspiring drivers must wait at least at least six months after getting a learner's permit to take the test for a provisional license, and must hold that provisional license for 18 months without any violations before earning a full license.

Similarly, the state's strict motor vehicle inspection and registration laws create hurdles that disproportionately impact low-wage drivers. Though nobody can argue with the law's purpose – to ensure safe vehicles on Maryland's roads and highways – the high standards and associated costs fall most heavily on poorer families, who tend to own older cars in worse states of repair. Finally, the state can impose a penalty of up to $280 for drivers who do not have proper registration.

### RECOMMENDATIONS

Mobility is a vital factor for working families, particularly in a city such as Baltimore where most residents of poorer communities must travel both to work and to buy needed goods and services. Ensuring that these families have relatively easy and inexpensive access to cars should be a top priority for city and state policymakers. This means looking at factors such as territorial rating and auto loan rate structures, and thinking again about whether the state's current requirements around getting a driver's license and maintaining registration strike the proper balance between safety and access.

Though we do not address public transit in this report, it is obviously an important part of a larger discussion about mobility and access to employment opportunities. For those who cannot or choose not to drive, as well as for environmental and economic development reasons, public officials should consider whether investments and policies related to public transit are yielding the highest possible value for riders and taxpayers. While major new transit routes would require a level of federal investment unlikely to be seen in the near future, state and city leaders can take steps to revise the fare structure, tweak or expand existing routes, and otherwise improve service for riders.

**Reduce the impact of territorial rating on urban auto insurance rates.** While data showing higher likelihood of accidents and filed claims offer some justification for this practice, its implementation often has effects that border on the absurd: two drivers with the same record and risk factors could pay rates differing by hundreds of dollars based on which side of the street they live on. This is both unfair and damaging to the economic prospects of low-wage drivers. Maryland should consider legislation that more strictly regulates the use of territorial rating, and should revisit a 2005 proposal allowing insurers to conduct pilot programs to test alternative rate-setting methods.

**Consider state legislative action to improve affordability of car insurance.** A state law similar to California's would give low-wage drivers access to the insurance market. While the insurance industry may resist any effort to mandate coverage, the positives associated with reducing the number of uninsured drivers make this a worthwhile intervention.

**Enact legislation that would allow the Maryland Automobile Insurance Fund (MAIF) to accept payments on an installment plan.** Under current law, MAIF cannot accept installment payments. The result is that drivers who cannot afford to pay the full premium upfront must either turn to a premium finance company and pay hundreds of additional dollars each year in interest, or remain uninsured. By accepting installment payments, MAIF could reduce insurance costs and eliminate another obstacle to drivers obtaining coverage.

**Support existing community-based organizations (such as Vehicles for Change) that assist families in acquiring reliable used cars, and develop new programs to expand access to reasonably priced financing for car purchase.** The link between access to cars and upward economic mobility is particularly strong in a regional labor market such as Baltimore's. Vehicles for Change has created an effective model, but does not operate on the scale needed to systemically address this problem. The state could work with used car dealerships to more effectively serve the low-end market for cars, or create tax benefits or other incentives for vendors to meet this demand. Non-profits may also be able to help car buyers obtain lower-cost loans by working with banks and credit unions to develop pilot programs for lending to subprime borrowers, potentially including loan guarantees for qualified clients.

**Increase transparency of auto lending and insurance pricing in Maryland.** One reason it is difficult to draw strong conclusions about what low-wage borrowers pay for auto loans is that disclosure rules in the industry are relatively weak. State regulators should add sunlight to this area, allowing policymakers and citizens to make more informed judgments.

**Ease licensing requirements for adult drivers.** Maryland's requirements for driver training and instruction are far in excess of what national groups such as the Insurance Institute for Highway Safety recommend – even for teens, let alone adults. While everyone shares the goal of fully prepared and responsible drivers, there is a real question of diminishing returns and whether the extremely high requirements in some sense do more harm than good.

**Create a pilot program to provide "reverse commute" transit access.** In the next few years, due largely to the anticipated influx of workers and jobs as a result of the federal Base Realignment and Closing (BRAC), Maryland will be forced to reassess the capacity and quality of its regional transit infrastructure. The state should capitalize on this opportunity to improve links between low-wage workers and suburban job centers. Through buses, ride-sharing, or other measures, city and state policymakers should create strategies to make it easier for residents of Baltimore neighborhoods who don't have cars to access jobs in suburban communities.

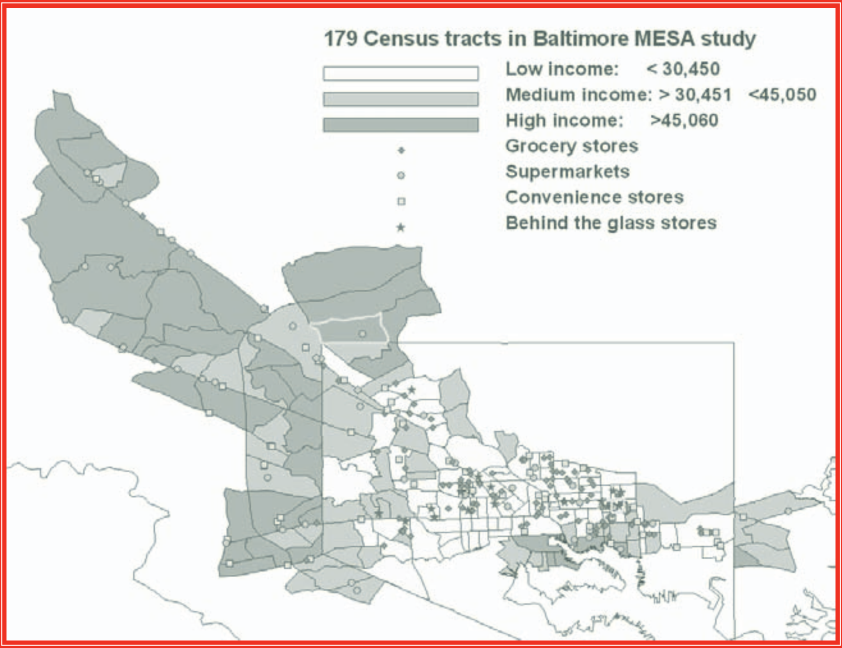
# chapter five

# Groceries and Food Costs

Throughout this report, we have described how residents of low-income communities face limited options for buying a wide range of goods and services. But while it is possible to go for weeks or even months without personally feeling the pinch of being unable to easily access a bank, and families can spend long stretches of time free of frustrations connected to home- or auto-related costs, there is no escaping the access problems related to food in poor communities: after all, everybody must eat.

The cost and quality of what's eaten in low-income neighborhoods should be major issues for any policymaker who is serious about addressing the causes and consequences of poverty. Because full-service, high-quality supermarkets are fewer and farther between in low-income neighborhoods, residents are far less likely to have easy access to fresh, nutritious food. And because other options aren't present, they often pay more for the unhealthy foods that are available. Shoppers must either settle for more expensive and less nutritious food nearby, or spend time and effort getting to a supermarket farther away.

FIGURE 5-1: FOOD ACCESS IN THE BALTIMORE AREA



Baltimore is no exception to this national trend. Low-income neighborhoods have small grocery and convenience stores, while supermarkets are fewer and farther between. In his research at the Johns Hopkins Bloomberg School of Public Health, doctoral candidate Manuel Franco, MD compares food-selling establishments in Baltimore City and County. Surveying 226 food stores in 106 local neighborhoods, he finds that in low-income areas, 89 percent are either grocery, convenience, or behind-the-glass stores – the distinction is unimportant here since, as he reports, all three types offer a similarly limited range of products (no fresh fruits or vegetables, no skim milk) – and just 11 percent are supermarkets.[47] In high-income neighborhoods, by contrast, 42 percent of the establishments are supermarkets.[48]

**Figure 5-1** illustrates the findings of Franco's research, with the surveyed neighborhoods highlighted. As seen in this map, the lowest-income communities in this segment of the Baltimore metro area are the least likely to have large food-selling establishments.

This research shows an even sharper distinction between stores in the city and the county. In the city, there is a ratio of ten small corner stores to every one supermarket. In the wealthier surrounding neighborhoods of Baltimore County, the ratio is one to one. Per capita, there are about three times as many supermarkets in the wealthier neighborhoods of the county. The distinction is doubly important because research consistently has shown that larger stores generally charge lower prices[49] – think of Wal-Mart, which very quickly emerged as a powerful competitor in the groceries business – and offer a wider variety of products, including healthy options.

In other words, size matters here. The Brookings Institution's 2006 report "From Poverty, Opportunity" found that nationwide, the average grocery store in a low- income neighborhood is less than half the size of the average grocery store in a wealthier neighborhood. Looking at 132 food products sold at over 3,000 grocery stores across the country, Brookings found that two-thirds were more expensive in stores smaller than 10,000 square feet than in larger stores, including a 13-ounce container of Maxwell House coffee (an average of 5 cents more), a dozen eggs (14 cents more), a 20-ounce box of Honey Nut Cheerios cereal (15 cents more), and a six-ounce can of tuna (78 cents more).

While these price differences for specific items might sound small, for a family of four that might purchase these and other goods every two weeks, the premium can add up fast. A USDA estimate finds that stores of the type far more common in low-income neighborhoods charge on average 10 percent more than supermarkets. At that rate, if a family pays $500 a month for groceries at a supermarket, the same goods purchased at a convenience store would cost $50 more. Over the course of a year, the family would spend $600 more for the exact same items.

Based on our research and the data collected by Franco, the higher prices seen nationwide hold true for Baltimore. For example, in two Baltimore area stores – one a grocery store in severely low-income West Baltimore, the other a supermarket in relatively affluent Pikesville – Franco found that a box of cereal cost fully $1.30 more in the poorer neighborhood, and a half-gallon of milk cost $0.81 more. This is fairly typical of a small Baltimore City store. Another local store "offers money orders, alcohol and lottery tickets, but no fruits or vegetables, no whole wheat bread and no [skim] milk. The price of milk, cereal and bread was 20% higher than that in the closest supermarket 1.7 miles away. This store is not an exception."[50]

As the comment suggests, Franco's research finds that smaller stores offer not only higher prices, but also a much more limited range of items. As a result, in a survey of Southwest Baltimore residents, 38 percent reported that there were foods they would like to buy but cannot find in their neighborhood.[51] A typical convenience or grocery store in the city generally will sell a few staples and a variety of junk food, but few healthy options – no fresh fruit or vegetables, and no whole-wheat, low-fat, low-sugar or low-sodium options. Even some mid-sized supermarkets in the city tend to lack healthy alternatives such as lean meats and low-sodium products. By contrast, these products often can be found even at convenience stores in the county.

This trend is reflected in the Healthy Food Availability Index scores created by Franco's team. Each store in the study was given a score based on the presence of foods from eight different groups, with a maximum score of 27 reflecting the widest range of healthy options. The mean score for stores in low-income neighborhoods was 5.2, while the mean in high-income neighborhoods was 13.3. **Table 5-1** illustrates the contrast between all store types in low, middle, and high-income areas.

Quality is another significant issue in low-income Baltimore neighborhoods. When fresh meats and produce can be found, they are often of lower quality than the fresh foods found in larger supermarkets. With lower traffic and sales volume, smaller stores run a greater risk for food spoilage. They also tend to have older, less efficient refrigeration systems.

In the focus groups we conducted for this report, concerns about quality came up again and again. Even local residents without cars reported that they travel to suburban supermarkets whenever possible, just to purchase higher quality meats and vegetables. The Southwest Baltimore resident survey echoed these findings: only 21 percent of respondents reported being very satisfied with the quality of the food sold in their neighborhood. While important in their own right, quality issues also have larger ramifications. Consumers may not buy fresh foods in their neighborhoods if they find them to be of lower quality. This lowers demand, which further discourages stores from finding ways to stock and maintain healthy foods.

It is worth briefly considering why supermarkets are less common in lower-income communities. One explanation is the higher cost of land acquisition and development in cities, as well as zoning restrictions. But these same factors are in place in wealthier communities within major metropolitan areas, and as the numbers above show, they do not deter investment on the part of big food retailers. Crime is also a concern – a 2002 report found that 93 percent of respondents in a survey of retailers “considered crime, whether perceived or real, as a significant factor in where to place their operations”[52] – but research suggests that the perception of risk outruns the reality.[53] A better understanding of low-income markets and effective, affordable security measures could do much to educate retailers on this question.

TABLE 5-1: AVAILABILITY OF HEALTHY FOOD, BY INDEX SCORE, SELECTED BALTIMORE AREA NEIGHBORHOODS

| Neighborhood Income | Super-markets | Grocery Stores | Convenience Stores | Behind the Glass Stores | Neighborhood Average |
|---|---|---|---|---|---|
| Under $30,450 | 18.67 | 4.36 | 3.50 | 1.76 | **5.20** |
| $30,451- $45,050 | 22.00 | 4.49 | 4.31 | ~ | **6.44** |
| Over $45,050 | 23.52 | 4.13 | 5.25 | ~ | **13.30** |

*Source: Manuel Franco, Ana Diez-Roux, Frederick Brancati1 and Thom Glass. 2007. "Availability of Healthy Food Options and Neighborhood Characteristics." Under review.*

A more powerful explanation is the perception that low-income neighborhoods cannot support large-volume food sellers. Even in wealthier areas, supermarkets often do not realize a profit margin of more than 1 or 2 percent.[54] But Social Compact, a Washington, DC-based national coalition of business leaders who advocate for business investment in lower-income communities, argues that traditional methods of measuring demand fail to capture the true level of purchasing power in those communities. Social Compact performs urban market analyses with data that better capture what is happening below the radar of traditional market analysis.

Baltimore Development Corporation (BDC) officials have found that food retailers simply will not move into a location unless they believe that it has profit potential. To better make this case, BDC is now working with Social Compact to refine its pitch to supermarket chains and other retailers that likely underestimate the market power of inner-city communities. In Philadelphia, several supermarkets have opened in low-income neighborhoods as part of the Fresh Food Financing Initiative, a public-private partnership between the Food Trust, the state of Pennsylvania, the Reinvestment Fund, and the Greater Philadelphia Urban Affairs Coalition. The early success of these stores suggests that there is enough demand, and purchasing power, for supermarkets to succeed in low-income communities.

As noted in the introduction to this report, it is estimated that approximately 20 percent of annual retail consumer spending by city residents nationwide is spent outside cities.[55] This holds true in Baltimore, where the University of Wisconsin's Employment Training Institute estimates that city residents spend almost $369 million – 20 percent of the city's purchasing power – outside of the city's borders. Anecdotally, members of two focus groups conducted for this report expressed real commitment to fresh, quality food – even if that meant traveling farther distances for better options and lower prices.

# *Promising Practices*

## THE BALTIMORE SUPERMARKET INITIATIVE

As part of the O'Malley administration's push to revitalize Baltimore communities, city government in 2002 created a Supermarket Initiative to use economic development funds to attract big food seller chains into Baltimore neighborhoods and "[bring] quality goods and services back to some of our most underserved communities."

The initiative has helped support the opening of 21 stores of varying size, with three more sites now in development. Most have been in areas adjacent or near to low-income communities, though none have yet come to the city's most blighted neighborhoods in East or West Baltimore. Officials of the Baltimore Development Corporation (BDC) have set an ultimate goal of at least one grocery store for every 1.5 square miles in the city.

As of early 2006, city officials estimated that stores connected with the initiative have brought more than $75 million of capital investment to Baltimore. Public agencies helped to leverage that money: a $14 million Giant supermarket in the Waverly Business District that opened in 2003 had $1.35 million from city and state sources for acquisition and development costs and public infrastructure improvements.[56] The Initiative's most recent major accomplishment was the opening of a 58,000 square foot Shoppers Food and Pharmacy in Southeast Baltimore in March 2006. This facility employs 120 workers and offers products and amenities from 350 varieties of fresh produce and seafood to a sit-down "Shoppers Café." The site also houses a Provident Bank outlet and film-developing center, among other non-traditional offerings.

The ongoing relationship between BDC and the owners of the stores has allowed city economic development officials to exert some influence not only during the development phase, but also in maintaining the quality of stores once they have opened. Recently, BDC pressed one chain to both keep the inside cleanly and stock higher-quality produce, and to make the exterior of its stores more welcoming and appealing. Partly as a result of this pressure, several stores were taken over by the corporate office, given new facades and improved overall.

## HEALTH COSTS AND CONSEQUENCES

In recent years, public health advocates have documented the higher incidence of obesity and related health problems in communities that lack easy access to nutritious foods. The trend is unmistakable: residents of low-income communities without supermarkets suffer significantly higher rates of diabetes, heart disease, cancer, and obesity than does the general population. Although many factors contribute to these health disparities, food access is one that may be relatively easy to address.

The Food Trust, a 15 year-old Philadelphia-based nonprofit that advocates for universal access to affordable and nutritious food, explored this question among low-income neighborhoods in Philadelphia. Surveying more than 10,000 adults in 2004, they found that approximately one in four adults in Philadelphia who reported fair or poor health had trouble obtaining fresh fruits and vegetables in their neighborhoods; this was true of only 9 percent of adults who described their health as excellent or good.[57] In Chicago, researcher Mari Gallagher conducted a study of Chicago neighborhoods in mid-2006 and found that residents in "food deserts" – communities where fast food and convenience stores are plentiful, but healthy food options are nearly nonexistent – were much more likely to die early and suffer from diabetes, obesity and high blood pressure.[58]

The most common negative health outcomes people tend to consider are mortality and morbidity. These results are more prevalent in low-income neighborhoods, in considerable part because of the consequences of an unhealthy diet. But the true costs of inadequate access to nutritious food also include reduced energy and job prospects. Chronic health concerns can be as much of an impediment to keeping a job as a major illness, and obesity can impair employment prospects in fields such as retail or food service, that don't require advanced training or education credentials.

Though these costs are harder to quantify than the cost of medical care, they are no less real. Here again, families suffer a cumulative effect: without easy access to less expensive and more nutritious food, consumers pay more and eat worse.

# *Promising Practices*

### THE HEALTHY CORNER STORE INITIATIVE

It doesn't necessarily require a supermarket nearby to provide residents of low-income communities with more nutritious food options. In Philadelphia, the Food Trust has launched an effort designed to help small food-selling stores stock and sell fruits and vegetables through its Healthy Corner Store Initiative, a pilot program to assist small neighborhood stores under the auspices of the Fresh Food Financing Initiative (FFFI) financed with a grant from Bank of America. This program helps provide funds for small stores to buy or upgrade refrigeration systems for produce, and offers technical assistance for installing and maintaining those systems.

While small stores have been eligible for FFFI funds since the effort began in 2004, most were not prepared to meet the underwriting qualifications for the program's loans due to lack of resources for financial management and record keeping. Furthermore, most corner stores were not even selling fresh foods, which is the main eligibility criterion for FFFI funding. The Food Trust saw great potential in working with corner stores, but soon realized that doing so would require more intensive, hands-on effort than with larger sites, both in terms of technical assistance and with more basic tasks, from filling out the application for financing to learning how to make management changes to help the store run more efficiently. The FFFI has worked with store owners to figure out how to maximize storage space and arrange the store in a way that will sell more product and reduce theft, and even how to decide which items to stock.

The first store, Romano's Grocery II, just received a grant commitment from FFFI in late June of 2007 and is scheduled for an eight-week renovation beginning in early September. When complete, it will hopefully serve as a model for how small stores can successfully make upgrades, and how they can make a profit off of selling healthy foods once they are sold in a modernized, cleaner, more appealing store.

Poor diets often lead to serious health consequences, creating a new category of medical expenses and damaging prospects of advancing to a better job. Public officials and advocates need to work with community-based and faith-based organizations to broaden public knowledge of the health consequences of poor diets, and to find better alternatives for those stuck in Baltimore's "food deserts."

## RECOMMENDATIONS

There is no single action that policymakers, or anyone else, can take to dramatically address problems of the high cost and low nutritional value of food in low-income Baltimore neighborhoods. But by widening the range of food purchasing options available to residents of these communities, and increasing consumers' awareness and understanding of how diet and lifestyle relates to health outcomes, public officials and other interested parties can begin to make progress. An understanding that gains might not come in a linear fashion or short period of time will be vital to long-term success. Given the centrality of food to everyday life in all communities, rich and poor, an extended commitment to this effort is not only justified, but necessary.

**Establish a food policy council.** A growing number of cities and states are creating food policy councils to address food security and nutrition. Councils are typically comprised of citizens and government officials. Food policy councils take on a variety of roles, such as providing guidance to elected officials, advocacy for food insecure groups, proposing legislation, and establishing food projects. In Baltimore, a food council could lead the long-term endeavor to increase access to healthy foods and the affordability of groceries in local neighborhoods. City government should spearhead this initiative to maximize the council's leverage and sustainability.

**Expand access to low-cost grocery options in low-income neighborhoods.** The city should continue to support efforts along the lines of the Baltimore Supermarkets Initiative, to bring more large food retailers into Baltimore. Policymakers and retailers also should explore alternate strategies such as creating transit shuttles that stop at residential facilities, churches, and other sites in underserved communities to take residents to and from supermarkets.

**Create incentives for small food sellers in Baltimore to offer a wider range of options for healthy eating.** Among the reasons why small food-sellers tend not to sell fresh produce and other healthy offerings are that operators do not know where to purchase and/or how to handle perishable goods. City agencies and community-based groups should conduct outreach to neighborhood convenience and small grocery stores informing them of resources to help in this area. Additionally, city economic development officials can offer low-interest loans and other inducements for stores that commit to selling healthier food items. Another option might be to subsidize stores' purchase of new equipment, marketing, and initial produce stock, essentially allowing owners a free trial to assess local demand for fresh food.

**Track community demand for healthier foods.** City health agencies or other actors can conduct studies and convene focus groups with community residents to gauge interest in having corner stores carry fruits and vegetables, and make results available to store owners.

**Increase public understanding of and community engagement around food access and health issues.** Schools, print and broadcast media, and other outlets can help get out the message: healthier diets mean healthier lives. As seen through the Baltimore Healthy Stores project, an initiative that works with stores to stock and promote healthy foods, local food sellers can play a part in increasing awareness and demand.[59]

**Measure how well these interventions are working.** Each action recommended here should lead to residents paying less for food and, holding other factors constant, enjoying better health outcomes. City and state policymakers should contract with researchers to determine whether the interventions are succeeding and the public is getting satisfactory return for investments in these areas.

# chapter six

# Conclusion

## SEVEN STEPS TO REDUCE THE POVERTY PREMIUM IN BALTIMORE

As this report has detailed, the factors that help explain why low-income families pay more for goods and services are varied, deep-rooted, and intertwined. Making the market work better for low-wage consumers – shrinking the poverty premium – will not be easy, but improvement is possible. All stakeholders, from public officials at the city and state levels to businesses, community groups, and residents themselves, have a role to play. Some steps can be taken almost immediately, through legislation or executive order; others will require more systemic changes that ultimately help consumers make better informed, more cost-effective decisions. Here we offer four suggestions for quick action, and three to pursue over a longer stretch of time.

# 1 One

**Enforce the state lending laws to limit interest rates on Refund Anticipation Loans, expand the types of loans covered under the predatory mortgage loan law, and strengthen the law by prohibiting mortgage loan abuses such as balloon payments and "loan-flipping."** In Chapters Two and Three, we discussed how local consumers often avail themselves of high cost but unnecessary services such as Refund Anticipation Loans (RALS), and unwittingly enter into exploitative mortgages that place them at high risk of foreclosure. We also described how Maryland's lending laws are insufficient to protect consumers from common abuses. Strengthening the predatory lending law to prohibit some of the more egregious practices, making the law applicable to a larger number of loans, and mandating that that borrowers seek counseling before agreeing to a high cost loan would provide consumers a much-needed measure of protection.

# 2 Two

**Enact a "Security in the Home" measure to help slow down the eviction process for renters and give more tools to homeowners at risk of foreclosure.** Among the biggest threats to a family's prospect of financial self-improvement is the jarring disruption of losing a home, whether rented or owned. In Chapter Three, we reported that Baltimore has extremely high rates of both eviction and foreclosure. Baltimore needs a more sensible balance between the needs of property owners to evict and foreclose and the needs of families that might be in short-term financial distress. To reduce the eviction rate, the Baltimore City Council should require that landlords present delinquent renters who are late a formal "pay or quit" notice advising them of the amount due and final date for payment, before eviction proceedings begin. Measures to address the high incidence of foreclosure should include counseling, refinancing options, emergency zero-interest loans, and redress for those facing foreclosure as a result of exploitative mortgage terms.

## 3 Three

**Make auto insurance universal in Maryland.** Chapter Four described how the high incidence of uninsured drivers boosts premiums for those who are covered and contributes to other problems in the state. Legislators should consider working with private insurers to offer an affordable product, as California has done, and giving Maryland Auto Insurance Fund purchasers a wider range of payment options by changing the current requirement that they pay their premiums upfront.

## 4 Four

**Regulate the tax preparation industry, and promote free tax prep efforts.** As noted in Chapter Two, Maryland tax preparers are not required to earn certification. This place taxpayers at risk of missing out on credits for which they are eligible, or receiving more of a refund than they are due, and later facing consequences with the IRS. Maryland state legislators should look to the models established by California and Oregon to regulate this industry and protect taxpayers. At the same time, city leaders and local philanthropies should support continued expansion and rigorous promotion of free tax preparation programs like the Baltimore CASH Campaign.

While legislation and regulation are effective tools to curb abuses and close gaps left by malfunctioning markets, other problems require more complicated solutions. To achieve some of the deeper changes needed to shrink the poverty premium, city and state officials must forge durable and multi-dimensional partnerships with businesses, schools and community groups. These efforts are likely to be time-consuming and at times frustrating, but the long-term yield in transformed perceptions and attitudes should prove worth the sweat equity investment many times over.

## 5 Five

**Work with financial institutions to reach out to low-wage customers, directly and through partnerships with faith-based or community-based organizations, and develop banking products that meet the needs of those consumers.** Chapter Two detailed how low-wage Baltimoreans are far less likely to have savings or checking accounts or use other banking products than their wealthier neighbors. Fortunately, models exist for closing this gap, most prominently Bank on San Francisco. High-level political and business leaders should make a similar commitment to attach some number of Baltimore's "unbanked" within a short timeframe, matched by banks offering no- or minimal-balance accounts, reasonably priced short-term loans, and other products that address the most common needs of the low-wage market.

## 6 Six

**Raise the level of financial literacy and access to appropriate financial counseling in Baltimore.** An informed consumer is an empowered consumer. In the focus groups we conducted for this report, we met individuals who had received small group counseling for general financial literacy as part of a broader job training and work readiness program. Before this experience, several of them had purchased RALs, paid for tax preparation, and incurred other unnecessary and counterproductive expenses; afterward, they had a very strong understanding of these markets and were able to save themselves hundreds of dollars. This should be the rule, not the exception. Financial literacy can be incorporated into the secondary school curriculum in Baltimore's public schools, and should be a component of all workforce development and social service programming. Other steps could include a public awareness campaign that includes all financial institutions, mainstream and not, in an effort to promote and link people to local financial literacy resources.

# 7 Seven

**Help connect residents of low-income neighborhoods to lower-cost, healthier food.**
Through the Baltimore Supermarket Initiative, described in Chapter Five, the city has already taken an important and constructive step toward ensuring that more residents can pay lower prices for a wider range of goods. The next step should be to work with smaller stores interested in selling produce and fresh products, through technical assistance and small subsidies. While it's too soon to fully evaluate it, the Healthy Corner Stores Initiative supported by the Food Trust in Philadelphia could be a very promising model. Another component to this, however, is cultivating demand for healthy food. This can be done in part through raising awareness about nutrition and diet, using some of the same practices we recommend for improving financial literacy. Baltimore should establish a food policy council to lead this long-term endeavor.

The dimensions and consequences of the poverty premium have not gotten the attention they deserve, in Baltimore or elsewhere. Few if any political campaigns have been won or lost based on pledges and proposals to make the market work for low-wage consumers. But as the city begins to recover and revitalize after decades of job and population loss, the question of affordability will loom ever larger. For Baltimore to retain its historical identity as a place where working- and middle-class families can prosper, city leaders must contend with the poverty premium and take action to restore equity in prices and availability of goods and services. We believe that by taking these seven steps, Baltimore will be well on its way to doing just that.

# Appendix

## ESTIMATING THE POVERTY PREMIUM

This report is based on the premise that low-wage Baltimore area residents pay more for basic goods and services than their wealthier counterparts. We attempt to quantify this “poverty premium” by adding up the additional cost of a variety of goods and services over the course of a year. The estimates are presented in **Table 1-1.** This appendix details how we arrived at the figure for each category.

## UNDERLYING ASSUMPTIONS

The poverty premium compares the costs paid for basic goods and services by two representative households. The first household is in the bottom income quintile for the MSA (under about $25,000), and lives in a zip code with a median household income under $30,000 per year. The second household is in the top income quintile for the MSA (over $100,000), and lives in a zip code with a median household income over $100,000. Compared to the high-income neighborhood, the low-income neighborhood is served by:

- 20 percent fewer banks per capita
- 10 times more check cashers per capita
- 2.5 times more paid tax preparers per capita
- 11 times more convenience stores per capita
- 75 percent fewer supermarkets per capita

For consistency, both households are assumed to consist of two parents and two children. They are also assumed to be homeowners and car owners. Most middle- and high-income families in the Baltimore area own both homes and cars; this comparison estimates how much more these items would cost for a low-income family.

## DOLLAR ESTIMATES FOR EACH CATEGORY

*Check Cashing.* Low-income neighborhoods in the Baltimore area have fewer banks per capita than their higher-income counterparts, and significantly more check cashers. Furthermore, national data shows that 25 percent of lower-income consumers are completely unbanked. For these reasons, lower-income consumers are more likely to use check cashers instead of mainstream banks to access their money. According to a survey of Maryland check cashers conducted by the Consumer Federation of America, local outlets charge between 2 and 4 percent to cash payroll and government checks. If a family were to cash $20,000 in checks – most or all of their income – at the lowest rate of 2 percent, they would spend $400 over the course of a year. Although most bank customers now have free checking accounts, there are some that charge monthly maintenance fees. To achieve a conservative estimate, we compare check cashing to a fee-based account. At Bank of America, customers without direct deposit pay $5.95 per month, or $71.40 over the course of a year. Therefore, check cashing at the lowest possible rate would still cost **$328.60** more per year than even a fee-based checking account.

**Source:** Jean Ann Fox and Patrick Woodall. 2006. "Cashed Out: Consumers Pay Steep Premium to "Bank" at Check Cashing Outlets." Washington, DC: Consumer Federation of America.

*Refund Anticipation Loan.* A family of four in the bottom income quintile would qualify for the Earned Income Tax Credit. Based on IRS data, we know that EITC filers are significantly more likely than non-EITC filers to purchase a refund anticipation loan. Based on research from the National Consumer Law Center and the Consumer Federation of America, it costs an average of **$100** to purchase a RAL. Some companies also charge an administrative fee of about $40, but since this only applies to 25 percent of RAL consumers, we did not include it in the estimate. We also excluded tax preparation fees from this estimate, since many non-EITC filers also pay for tax preparation. If the administrative and tax prep fees were included in the estimate, the total would rise to $290 per year.

**Source:** Chi Chi Wu and Jean Ann Fox. 2007. "One Step Forward, One Step Back: Progress Seen in Efforts Against High-Priced Refund Anticipation Loans, but Even More Abusive Products Introduced." Washington, DC: Consumer Federation of America & the National Consumer Law Center.

*Mortgage.* Low-income homebuyers tend to pay much higher APRs than higher-income buyers. Here we compare how much it would cost for a high and low-income buyer to repay a $75,000 home loan. According to the 2004 Survey of Consumer Finances, the mean APR for a homeowner with income under $30,000 is 6.9 percent. For a homeowner with income over $120,000, the mean APR is 5.5 percent. At these rates, a 30-year fixed-rate mortgage would cost $493.95 per month for the low-income borrower and $425.84 per month for the high-income borrower. Over the course of a year, the low-income borrower would pay an additional **$817.32.** Since the APR data is from 2004, this estimate is conservative. APRs have risen significantly since then, which means that the differential for today's homebuyers is likely to be much greater.

**Source:** 2004 Survey of Consumer Finances.

*Home Insurance.* The Brookings Institution obtained quotes for auto insurance in a sample of Baltimore metro area zip codes in 2006. They found that the average annual premium quote for a resident of a neighborhood with median income over $90,000 was $704. For the same coverage in a neighborhood with median income below $30,000, the average quote was $840. Based on these quotes, the resident of a low-income neighborhood would pay **$136** more over the course of a year.

**Source:** Matt Fellowes. 2006. "From Poverty, Opportunity." Washington, DC: The Brookings Institution.

*Energy.* According to Energy Information Administration data, lower-income households pay more per square foot for energy. In 2001, households with income between $20,000 and $29,999 spent $0.85 per square foot, and households with income over $100,000 spent $0.66 per square foot. According to the survey, the size of the average low-income home was 1,168 square feet. For a home this size, the low-income consumer would pay $992.80 per year for energy, and the high-income consumer would pay $770.88. Over the course of the year, the low-income consumer would pay an additional **$221.92.**

**Source:** Energy Information Administration, Office of Energy Markets and End Use, Forms EIA-457 A-G of the 2001 Residential Energy.

*Auto Loan.* Lower-income car buyers tend to get much higher loan rates than higher-income buyers. Here we compare how much it would cost for a high and low-income buyer to purchase a car with a $4,000 loan. According to the 2004 Survey of Consumer Finances, the mean APR for a car buyer with income under $30,000 is 9.2 percent. For a car buyer with income over $120,000, the mean APR is 5.5 percent. At these rates, a loan with a term of 48 months would cost $99.92 per month for the low-income borrower and $93.03 per month for the high-income borrower. Over the course of the year, the low-income borrower would pay an additional **$82.68.** Again, this estimate may be conservative, since some research shows that subprime auto lenders often change interest rates upwards of 20 percent.

**Source:** 2004 Survey of Consumer Finances.

*Car Insurance.* In 2006, the Brookings Institution obtained quotes for auto insurance in a sample of Baltimore metro area zip codes in 2006. They found that the average annual premium quote for a resident of a neighborhood with median income over $90,000 was $520. For the same coverage in a neighborhood with median income below $30,000, the average quote was $944. Based on these quotes, the resident of a low-income neighborhood would pay **$424** more over the course of a year.

**Source:** Matt Fellowes. 2006. "From Poverty, Opportunity." Washington, DC: The Brookings Institution.

*Food.* The Economic Policy Institute estimates how much families in different areas of the country need to spend to cover their basic needs. Their budget calculator indicates that a family of four (two parents, two children) in Baltimore needs to $587 per month to cover the USDA's "low-cost meal plan." If a family were to purchase this same basket of goods in a higher priced convenience store – the typical store available in Baltimore's low-income neighborhoods – this would add significantly to the cost of the basket. A USDA study found that on average, small stores charge about 10 percent more than supermarkets. Over the course of a year, this 10 percent surcharge would add up to an additional **$704.40.**

**Source:** Economic Policy Institute. "Basic Family Budget Calculator." Data from March 2004-February 2005; Kaufman, Phillip R., James M. MacDonald, Steve 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." Washington, DC: U.S. Department of Agriculture.

# Endnotes

**1.** University of Wisconsin-Milwaukee Employment and Training Institute, "ETI Urban Markets Retail Sales Leakage/Surplus Drill Downs." Available at http://www3.uwm.edu/Dept/ETI/workforce/retail.cfm [accessed March 2007].

**2.** "Wal-Mart CEO Lee Scott Announces 'Wal-Mart Jobs and Opportunity Zones' Initiative." http://walmartfacts.com/articles/1684.aspx

**3.** University of Wisconsin-Milwaukee Employment and Training Institute.

**4.** The Baltimore-Towson Metropolitan Statistical Area consists of Baltimore City, Baltimore County, Anne Arundel County, Carroll County, Harford County, Howard County, and Queen Anne's County.

**5.** Federal Trade Commission, "Facts for Consumers." Available at http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre24.htm [accessed May 2007].

**6.** For more information on how credit scores impact consumers, see Consumer Federation of America, "Credit Score Accuracy and Implications for Consumers." Available at http://www.consumerfed.org/pdfs/121702CFA_NCRA_Credit_Score_Report_Final.pdf

**7.** For more information visit Pay Rent, Build Credit, INC. at http://prbc.com/

**8.** Matt Fellowes, "From Poverty, Opportunity." The Brookings Institution, July 2006: p. 33.

**9.** Baltimore city's population did decline by 11.5 percent, or almost 72,000 people, between 1994 and 2006, perhaps explaining some of the dropoff in bank offices. However, Baltimore city's deposit volume grew over the same period, and the sharply higher population per bank office indicates that there are disproportionately few banks in the city.

**10.** More information on Bank on San Francisco is available at http://www.sfgov.org/site/bankonsf_index.asp?id=46628

**11.** Brian Grow and Keith Epstein, "Cutting the Cost of Poverty," Business Week, May 21, 2007. Available at http://www.businessweek.com/magazine/content/07_21/b4035012.htm [accessed May 2007].

**12.** For more information on CDFIS, visit the Coalition of Community Development Financial Institutions at http://www.cdfi.org/

**13.** Coalition of Community Development Financial Institutions, "Welcome to the Coalition of Community Development Financial Institutions." Available at http://www.cdfi.org/ [accessed May 2007].

**14.** Jean Ann Fox and Patrick Woodhall. "Cashed Out: Consumers Pay Steep Premium to "Bank" at Check Cashing Outlets." Consumer Federation of America, November 2006. Available at http://www.consumerfed.org/pdfs/CFA_2006_Check_Cashing_Study111506.pdf

15. Glen Tenney, Ph.D, "The Effects of Government Regulation on Competition and Supply in the Pawn Industry: a Quantitative and Qualitative Study," A Dissertation Presented to the Faculty of the College of Business of Touro University International in Partial Fulfillment of the Requirements for the Degree of Doctor of Philosophy by Glen Tenney, Ph.D.; August 2004, pg.13.

16. More information on the Salary Advance Loan Program is available at http://www.ncua.gov/PALS/BP/PALSDocs/66310-46,113,116,135.htm

17. Sheila Bair, "Low-Cost Payday Loans: Opportunities and Obstacles," The Annie E. Casey Foundation, June 2005. Available at http://www.aecf.org/upload/PublicationFiles/FEs3622H334.pdf

18. National Consumer Law Center, "One Step Forward, One Step Back: Progress Seen in Efforts Against High-Priced Refund Anticipation Loans, but Even More Abusive Products Introduced," January 2007. Available at http://www.consumerlaw.org/action_agenda/refund_anticipation/content/2007_RAL_Report.pdf

19. Ibid.

20. United States Government Accountability Office. "Paid Tax Return Preparers; In a Limited Study, Chain Preparers Made Serious Errors." April 2006. GAO-06-563T.

21. Ibid.

22. For more information, see the Maryland Coalition for Financial Literacy at http://www.mdfinancialskills.org

23. Maryland Association of Realtors, "Year End Housing Statistics." Available at http://www.mdrealtor.org/consumer_housingstats.asp [accessed May 2007].

24. U.S. Census 2000; American Community Survey 2005.

25. The Federal Reserve Board defines what constitutes a "high cost loan" using data that must be reported under the Home Mortgage Disclosure Act (HMDA). "High-cost" is a relative term, referring not to a set annual percentage rate (APR), but rather to how many percentage points a loan rate is above the government's prime rate. For first-lien loans, the threshold is three percentage points above the Treasury security of comparable maturity; for second-lien loans, which tend to have higher prices, the threshold is five percentage points above the Treasury security of comparable maturity. The Board chose the thresholds in the belief that they would exclude the vast majority of prime-rate loans but include the vast majority of subprime rate loans.

26. The Maryland Consumer Rights Coalition, "Protecting Homeownership: The Challenge Of Preventing Abusive Lending And Foreclosure Practices," October 2006. Available at http://www.mdconsumers.org/HOME_PRES_REPORT_FINAL.pdf

27. For more detail, see the Maryland Annotated Code, Commercial Law Article (CL) §12.

28. For more information, see the Baltimore Homeownership Preservation at http://preservehomeownership.org/

29. For more information, see Neighborhood Housing Services of Baltimore at www.nhsbaltimore.com

30. Maryland Consumer Rights Coalition.

31. The Reinvestment Fund, "Mortgage Foreclosures in Baltimore, Maryland," September 2006. Available at http://www.trfund.com/resource/downloads/policypubs/MD_Foreclosure_2006.pdf

32. The Brookings sample does not account for non-neighborhood factors that co-vary with income.

33. The Abell Foundation. "A System in Collapse," March 2003. Available at http://www.abell.org/pubsitems/arn303.pdf

34. Information provided by Baltimore Sheriff's Department

35. The Fuel Fund of Maryland, "Frequently Asked Questions." Available at http://www.fuelfundmaryland.org/faqs.shtml

36. U.S. Census Bureau, 2005 American Community Survey.

37. Fiona Scott Morton, Florian Zettelmeyer, and Jorge Silva-Russo, "Consumer Information and Discrimination: Does the Internet Affect the Pricing of New Cars to Women and Minorities?" Quantitative Marketing and Economics, 1, 65–92, 2003.

38. Anne Kim, "Taken for a Ride: Subprime Lenders, Automobility, and the Working Poor," Progressive Policy Institute, November 2002, p.6. Available at http://www.ppionline.org/documents/Automobility_1102.pdf

39. The Abell Foundation, "Program Areas: Workforce Development Highlights, Vehicles for Change." Available at http://www.abell.org/programareas/highlights/vehicle.html

40. Tom Waldron, "Actuarial Discrimination: City Residents Pay Up To 198% More For Car Insurance Than County Residents," The Abell Foundation, January 2005, p. 2. Available at http://www.abell.org/pubsitems/ec_auto_ins_1-05.pdf

41. The Brookings sample does not account for non-neighborhood factors that co-vary with income.

42. Waldron, p. 3.

43. For more information on the California Low Cost Automobile Insurance Program, visit http://www.insurance.ca.gov/0100-consumers/0060-information-guides/0010-automobile/lca/index.cfm

44. See summary at http://www.iii.org/media/hottopics/insurance/urban/ or NJ state info at http://www.state.nj.us/dobi/filings.htm

**45.** Michigan Office of Financial and Insurance Services, "Focus on OFIS," 3rd Quarter 2006. Available at http://www.michigan.gov/documents/cis/third_quarter_178471_7.pdf

**46.** Job Opportunities Task Force, "The 60-Hour Practice Driving Law: Unintended Consequences for Maryland's Economy," July 2007. Available at http://www.jotf.org

**47.** Defined here as a nationally known chain food seller employing 50 or more workers

**48.** Manuel Franco, Ana Diez-Roux, Frederick Brancati1 and Thom Glass. "Availability of Healthy Food Options and Neighborhood Characteristics." Under review.

**49.** 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.

**50.** Manuel Franco, Frederick Brancati and Ana Diez-Roux, "Money orders and alcohol yes; fruits, vegetables and skimmed milk no," Journal of Epidemiology and Community Health, 2007; 61:94.

**51.** Based on results of a survey conducted by the Johns Hopkins Center for a Livable Future in collaboration with Operation Reachout Southwest (OROSW). The survey was part of a project to conduct a food assessment in 13 neighborhoods of Southwest Baltimore.

**52.** International Council of Shopping Centers and Business for Social Responsibility. July 2002. "Development in Underserved Retail Markets."

**53.** Elsie Achugbue. 2006. "Nontraditional Market Analyses: Dismantling Barriers to Retail Development in Underserved Neighborhoods." International Council of Shopping Centers Research Review, Vol.13, No.3.

**54.** Amy Goldstein, "In Cities, Healthful Living Through Fresher Shopping," Washington Post, October 15, 2006.

**55.** The Boston Consulting Group and The Initiative for a Competitive Inner City, The Business Case for Pursuing Retail Opportunities in the Inner City (Boston, MA: Initiative for a Competitive Inner City, 1998).

**56.** City of Baltimore, "Mayor O'Malley Leads Groundbreaking of 17th Supermarket to Open in Baltimore City," March 6, 2003. Available at http://www.ci.baltimore.md.us/news/press/030306.html

**57.** The Food Trust, "Food Geography: How Food Access Affects Diet and Health," February 2006.

**58.** Goldstein.

**59.** For more information on the Baltimore Healthy Stores project, visit http://www.healthystores.org/BHS.html

**THE JOB OPPORTUNITIES TASK FORCE** works to develop and advocate policies and programs to increase the skills, job opportunities, and incomes of low-skill, low-income workers and job seekers.

**JOB OPPORTUNITIES TASK FORCE**

231 EAST BALTIMORE STREET, SUITE 1102

BALTIMORE, MARYLAND 21202

**T** 410 234 8040 / **F** 410 234 8929 / **WWW.JOTF.ORG**