



MAKING MISSISSIPPI COMPETITIVE:

SOLUTIONS FOR BUILDING ASSETS IN LOW-WEALTH COMMUNITIES



ACKNOWLEDGMENTS



About This Project

This report is a joint project between the Mississippi Economic Policy Center (MEPC) and the Foundation for the Mid South.

MEPC is a nonprofit, nonpartisan organization that conducts independent research on public policy issues affecting working Mississippians. Through public outreach efforts, policymaker education and engaging the media, MEPC uses its analysis to ensure that the needs of low- and moderate-income Mississippians, in particular, are considered in the development and implementation of public policy with the ultimate goal of improving access to economic opportunity.

MEPC is managed by the Hope Enterprise Corporation (HOPE), a regional financial institution and community development intermediary dedicated to strengthening communities, building assets and improving lives in economically distressed areas throughout the Mid South.

The Foundation for the Mid South is a regional foundation dedicated to improving lives by expanding knowledge in Arkansas, Louisiana, and Mississippi. The foundation seeks to increase opportunity for residents and communities by supporting and strengthening the skills and capacities of organizations and individuals working to bring about change. The Foundation supports efforts that create high-quality education, encourage physical and mental health, promote financial security, and enable communities to grow and prosper.

Acknowledgments

This report could not have been completed without the assistance of several other individuals and organizations. We would like to thank Alan Berube and Emily Garr of the Brookings Institution for their special analysis of IRS tax return data. We are also grateful for the financial support of the Annie E. Casey Foundation and the Foundation for the Mid South for the development and release of the report. Raven Scott, a Faith and Work intern from Millsaps College, also made valuable contributions to the finished product.

For more about MEPC, go to www.mepconline.org

For more about HOPE, go to www.hope-ec.org

For more about The Foundation for the Mid South, go to www.fndmidsouth.org

EXECUTIVE SUMMARY

*M*aking Mississippi Competitive: Solutions for Building Assets in Low-Wealth Communities

Across the state of Mississippi, families are working hard, but fail to make ends meet. Low-wage work and the absence of assets exacerbate an exceedingly tough environment for working families. Assets, in particular, play a huge role in determining which families avert financial disaster during an emergency and which families move forward through homeownership, entrepreneurship or college education.

Yet, Mississippians face a number of obstacles in building assets. A higher percentage of Mississippians lack a checking or savings account than anywhere else in the country. In the absence of a relationship with a bank or credit union, families without retail accounts are relying on high-cost financial services. As families find that they are in situations where they must use high-cost financial services, less money is available to save and build assets.

The following report provides an overview of the asset levels of Mississippians and brief descriptions of how its high-cost products work in Mississippi. The report concludes with a series of comprehensive recommendations to facilitate asset building, reigning in costs of high-cost financial products, promoting responsible alternatives and empowering individuals with the tools to make sound financial decisions.

Report Findings – Mississippi Asset Levels and Banking Profiles

- The average net worth of households nationally is \$88,803 compared to \$50,765 in Mississippi;
- Mississippians have a high rate of asset poverty – the inability to sustain a household for at least three months without any additional income;
- Asset poverty rates are highest among households with lower incomes;
- Sixteen percent (16%) of Mississippi’s households are unbanked compared to 7.7% nationwide;
- Low-income households are more likely to be unbanked;

Report Findings – High-Cost Financial Services

- Check Cashers are most highly concentrated in low- and moderate-income areas;
- Even after recent changes made to Mississippi’s payday lending law, Mississippians still pay more in fees for the product than in any other Southeastern state;
- Rent-to-Own stores are more highly concentrated in low- and moderate-income areas;

Report Recommendations

Building Assets

- Enhance incentives and accountability among banks that offer responsible alternatives and engage in asset building and community development activity among low-income communities;
- Adopt a state Earned Income Tax Credit to make work pay and increase take home pay for Mississippi’s low-income families;
- Expand funding opportunities for Individual Development Accounts – matched savings accounts for low-income populations to pursue homeownership, post secondary education or entrepreneurship;

Increasing Alternatives

- Increase the number of Bank On initiatives in the state where banks come together in communities to offer responsible alternatives to high-cost financial services;
- Promote credit union alternatives where they exist;

Strengthening Consumer Protections

- Enact legislation to track the implementation of the new payday lending law through a statewide database;
- In the short term, drop payday lending fees to reflect fees in other southern states such as Tennessee;
- In the long term, move payday lending APR to the 36% usury cap;

Enhancing Access to Financial Education

- Expand the overall curriculum in K-12 schools to include financial education at all levels;
- Expand partnerships to promote financial education among adults.

The comprehensive set of recommendations takes the long view that Mississippi’s banks and credit unions, its regulatory environment, its schools and its people must work together to create an environment that is conducive to building assets – especially among its low-income residents. By pulling these diverse sectors together, Mississippi’s working families and their children will be better positioned to prosper in this generation and the next.



INTRODUCTION

Supporting policies that promote and protect the accumulation of assets among the state's working families.

One of the often overlooked strategies for challenging the long-standing grip of poverty in Mississippi includes support for policies that promote and protect the accumulation of assets among the state's working families. Assets allow families to avert financial disaster following an emergency, to pursue the stability of homeownership, or to increase future earnings of the next generation through a college education. On the other hand, the absence of assets or savings can leave families in situations where they need to rely on high-cost alternative financial services.

Absent an inheritance, building assets requires an income, a basic understanding of personal finance and a vehicle to save. Notably, Mississippi has a high prevalence of low-wage work – exacerbating the challenge of saving.¹ Through the right mix of workforce supports and development, financial education/training and tax policy, Mississippi has the opportunity to increase the amount of money that working families take home and to equip them with the tools to build wealth and their communities by strengthening the tax base.

At the same time, a strategy to promote asset development must also be buttressed by efforts to protect asset accumulation. Depository institutions, such as credit unions and banks, need to have options for low-income working families to save. In the absence of affordable options, families rely on high-cost alternative financial service providers to pay bills and conduct transactions. As families pay more for financial services, less money is available to save or to go towards the purchase of more appreciable assets like a home or sending children to college.

This report includes three main sections. First, the report provides an overview of asset levels and banking profiles in Mississippi. It then goes on to examine the use and pricing of a range of alternative financial services (AFS). These include check cashers, payday lenders, title lenders and rent-to-own stores. Finally, the report looks at a range of promising practices that both promote and protect asset development around the country. From these practices, several recommendations are presented for building asset development opportunities in Mississippi. The methodology used to create this report can be found in the appendix.



ASSET LEVELS AND BANKING PROFILES

The median net worth of households across the country is \$88,803 compared to \$50,765 in Mississippi.

What Is Net Worth?

An individual's net worth is determined by adding up everything that he or she owns (assets) and subtracting from it what he or she owes to creditors (liabilities).

Assets – Liabilities = Net Worth

Examples of assets include:

Home Equity, Savings,
Automobile Owned Free
and Clear

Examples of liabilities include:

Credit Cards, Student Loans,
Balance on Mortgage

Mississippi Asset Levels²

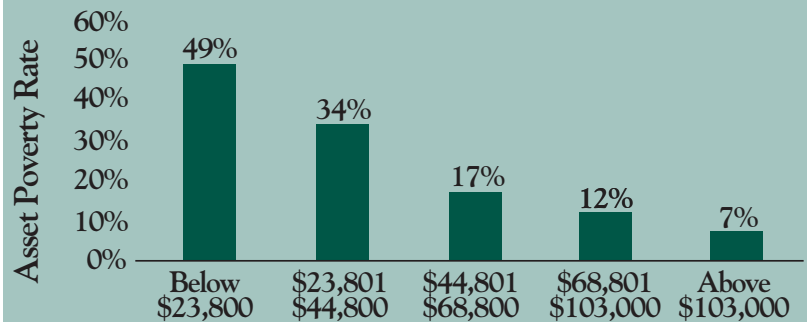
Asset levels in Mississippi are lower than in most other states. The median net worth of households across the country is \$88,803 compared to \$50,765 in Mississippi. The net worth of Mississippi households is higher than in five states and lower than in 44 states. Among the states that border Mississippi, only Louisiana's net worth numbers are lower at \$45,670.

Another way to examine asset levels in a state is to look at a state's level of asset poverty. If a household does not have the net worth to sustain itself at or above the federal poverty level for three months without any additional income, it is considered asset-poor. Mississippi's asset poverty rate is 23.8% – slightly higher than the national average of 22.5%.

Asset poverty is not evenly distributed. Among minority headed households, single parents, renters and low-income headed households, asset poverty rates are higher than white, married two-parent households, homeowners and those with high incomes. Households with low educational attainment are also likely to have higher rates of asset poverty than households with bachelors or advanced degrees. Chart 1 illustrates the disparate rates of asset poverty by income.

While only 17% of middle-income households are considered asset-poor, nearly half of all households earning less than \$23,800 do not have the net worth to support themselves in the event of an emergency that results in the loss of monthly income.

Chart 1 Asset Poverty by Income - Mississippi



Source: Corporation for Enterprise Development Asset and Opportunity Scorecard 2009-2010

Banking Status – the Unbanked

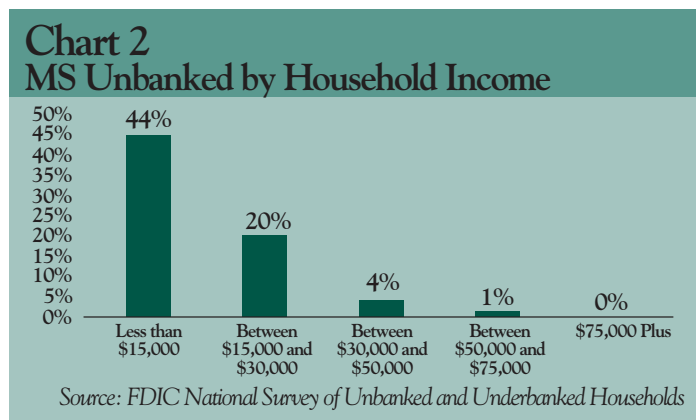
Mississippi is the state with the highest percentage of the population that does not have a checking or savings account. Approximately 16%, or 184,000 households, are unbanked.³ This compares to 7.7% of the population nationwide. In the absence of a bank account, many of the households lack a critical tool – a savings account – to prepare for an emergency.



ASSET LEVELS AND BANKING PROFILES

Unbanked:
An unbanked household has no members with either a checking or a savings account.

Not surprisingly, many of the households that are more likely to be asset-poor are less likely to have a bank account. Chart 2 shows households with the lowest incomes, those below \$30,000, are the most likely to be unbanked. Almost half, 44%, of households with incomes of less than \$15,000 are unbanked, and one-fifth of households with incomes between \$15,000 and \$30,000 are unbanked.



A review of other characteristics of the unbanked showed that 33.6% of black households in Mississippi were unbanked compared to 5.8% of white households. It also found that 7.4% of households with a married couple were unbanked compared to 31.4% of single-female-headed households. Homeowners were less likely to be unbanked than non-homeowners. Finally, only 1.6% of households headed by someone with a college degree were unbanked. In contrast, 37.7% of households headed by someone without a high school degree did not have a savings or checking account.

Across the country, the most cited reasons for being unbanked include not having enough money to need an account, not needing or wanting an account/not seeing the value, not writing enough checks and believing minimum balance requirements are too high.

Banking Status – the Underbanked

Another 25%, or 282,000 Mississippi households, have a bank account but are classified as underbanked. Underbanked households have a checking or savings account, but rely on alternative financial service (AFS) providers. AFS include non-bank money orders, non-bank check-cashing services, payday loans, rent-to-own agreements, or pawnshops. The underbanked use AFS services at least once or

twice a year or refund anticipation loans at least once during a five-year period.

The high rate of households using AFS in Mississippi raises concern, as AFS cost more than traditional banking transactions. As more money is spent on AFS, less money is left for families to save and build assets.

Households headed by single mothers and non-homeowners exhibit higher rates of being underbanked than married households and homeowners. Thirty-three percent (33.2%) of black households are underbanked compared to only 23.5% of white households. Interestingly, the likelihood of being underbanked does not vary by income as drastically as it does for unbanked households earning less than \$75,000.

While underbanked households that rely on AFS to conduct financial transactions report different reasons for using various products, convenience and perceptions of not being bankable are consistently cited the most. For example, households that use a non-bank check-cashing service overwhelmingly cite convenience as the top reason for using the service. The top reasons for using payday loans or pawn shops include being easier to get than a bank loan and the location being more convenient to visit than a bank.

The high rates of unbanked and underbanked households translate into nearly half of Mississippi's households either lacking the basic financial tools, such as a bank account, to save or paying more to conduct transactions through AFS than in a bank. As a result of paying more for AFS than for banking services, working families are left with less money to put towards asset development and building wealth.

Underbanked:
An underbanked household has a checking or savings account, but relies on alternative financial services (AFS). AFS include non-bank money orders, non-bank check-cashing services, payday loans, rent-to-own agreements, pawnshops or refund anticipation loans.



ALTERNATIVE FINANCIAL SERVICES

As mentioned previously, a significant proportion of Mississippi's households use AFS to conduct financial transactions. In this section, the report provides a basic overview of how different AFS products work in Mississippi and paints a general picture of provider trends and consumer use. Specifically, the report examines check-cashing, payday loans, title loans, tax preparation and rent-to-own transactions.

Check-Cashing and Payday Loans

Check-Cashing

Among the unbanked and underbanked, the most widely used AFS are non-bank money orders and check-cashing services. The unbanked use check-cashing services more than the underbanked. The table below illustrates the fee structure for cashing checks in Mississippi.

Maximum Fees – Check Cashing in Mississippi	
Type of Check	Maximum Fee
Government	3% of the face value of the check or \$5 (whichever is greater)
Personal	10% of the face value of the check or \$5 (whichever is greater)
All other	5% of the face value of the check or \$5 (whichever is greater)

Source: Mississippi Department of Banking and Consumer Finance

Of the approximately 1,000 licensed check cashers in the state of Mississippi, roughly 10% solely cash checks. The others cash checks and engage in other activities such as payday lending. Walmart is the largest entity that solely cashes checks with 65 outlets in Mississippi.

Other entities, such as grocery stores, may cash checks without a license so long as the check cashing component of their business remains a non-incidental expense. Most payroll checks are cashed at grocery stores or at Walmart which tend to cash checks for less than the maximum fee. Outlets that offer additional products, like payday loans, tend to charge higher fees than Walmart or grocery stores that only cash checks.

Check cashers are located in just about every part of the state with higher concentrations in low- and moderate-income communities than in very low- and high-income communities. Chart 3 illustrates the concentration of check cashers per 1,000 tax filers by zip code income levels.⁴

Chart 3
Check Cashers Highly Concentrated in Low- and Moderate-Income Areas



Source: Mississippi Department of Banking and Consumer Finance, Brookings analysis of the IRS data

ALTERNATIVE FINANCIAL SERVICES

Payday Loans

In a payday loan transaction, also known as a cash advance/delayed deposit loan, a borrower writes a check to a lender in exchange for a short-term cash loan. The lender does not cash the check until the borrower's next payday. The borrower could also authorize access to a bank account for repayment.

Source: MS Department of Banking and Consumer Finance

Payday Lending

Through the end of 2011, the maximum amount that a payday lender can charge is 18% of the face value of a check for a payday loan. The maximum loan amount is \$400, and loan terms can be up to 30 days. This translates into a fee of \$21.95 per \$100.

So, if a customer wants to borrow \$100, he must write a check for \$121.95 (because 18% of \$121.95 is \$21.95), therefore paying a fee of \$21.95 to borrow \$100.⁵ As the following table shows, the APR for a 14-day loan is 572%; for a 30-day loan, the APR is 267%.

APR Calculations for Payday Loans (through 2011)			
Fee	x	$\frac{365}{\text{loan period in days}}$	= APR
Amount borrowed			
$\frac{\$21.95}{\$100}$	x	$\frac{365}{14}$	= 572%
$\frac{\$21.95}{\$100}$	x	$\frac{365}{30}$	= 267%

Source: Mississippi Department of Banking and Consumer Finance

Forthcoming Changes – Payday Loans

During the 2011 Legislative Session, several changes were made to Mississippi's payday loan law. The table below illustrates the new changes.

Forthcoming Changes – Payday Loans	
For payday loans secured by a check with a face value of up to \$250	The new fee is not more than \$20 per \$100 advanced, and the customer has the option to delay the deposit for up to 30 days.
For payday loans secured by a check with a face value of \$251 - \$500	The fee remains \$21.95 per \$100; however, the loan term can only be for 28 or 30 days.

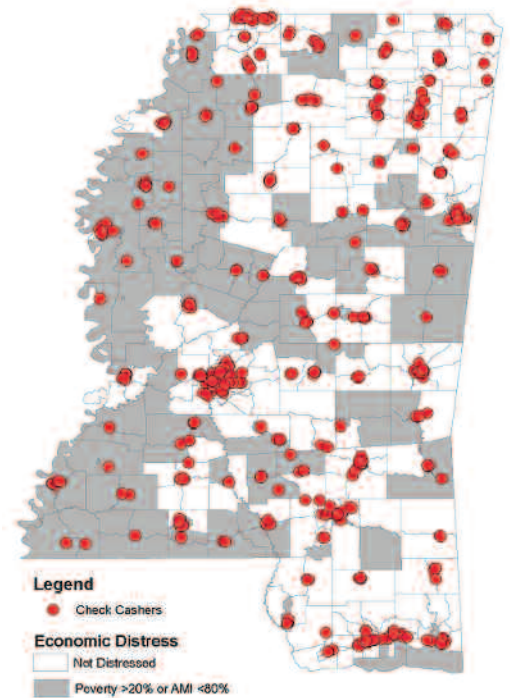
Source: Mississippi Department of Banking and Consumer Finance

The maximum face value of the check or combination of checks will rise from \$400 to \$500 and includes fees.

Changes go into effect on January 1, 2012.

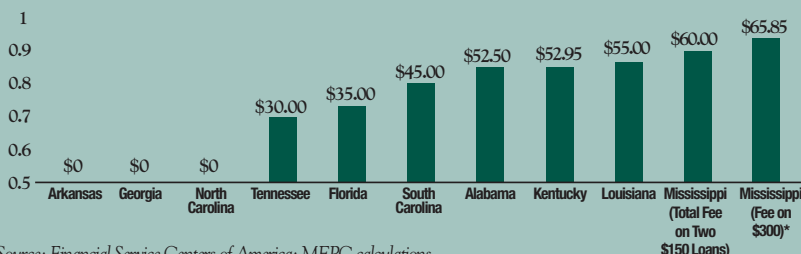
Even with the changes to the payday lending law, Mississippi remains the most expensive state in the Southeast in which to take out certain payday loans and loopholes allow lenders to get around the longer repayment term on larger loans. For example, if a borrower needs \$300 and is likely to need \$300 again in two weeks, a lender could simply make two \$150 loans with the shorter repayment term. Chart 4, at the bottom of the page, shows the variance in fees among the Southeastern states.

In Mississippi, payday lenders must be registered as check cashers. The map below shows the distribution of payday loan stores, with areas of high poverty indicated. Check cashers are located in nearly every county in the state and are also concentrated near urban centers. Check cashers are also located in both areas of economic distress and in areas that are not distressed.



Source: Mississippi Department of Banking and Consumer Finance; Mississippi Automated Resource Information System; U.S. Census Bureau, MEPC analysis

Chart 4
New Law Means Mississippians will Still Pay Highest Maximum Fee in Southeast for \$300 Payday Loan



Source: Financial Service Centers of America; MEPC calculations.

Note: Fees do not include database fees that range from \$0.40 to \$1.00 per transaction in states with database requirements.

* \$300 payday loan will have a 28 to 30 day repayment term

ALTERNATIVE FINANCIAL SERVICES

One of the biggest problems with payday lending is that it can lead to an unsustainable cycle of debt. Multiple sources estimate that approximately 7-9 payday loans are taken out by the average borrower annually.⁶ The table below illustrates how borrowers find themselves in situations where they need to take out additional payday loans after the initial loan.

Borrower earning \$35,000 a year, taking out \$300 payday loan @ \$21.95 per \$100 borrowed	
Take-home pay (assumes borrower is paid every 2 weeks)	\$1,344
Payday Loan (\$300 in principal, \$65.85 in fees)	(\$365)
Remaining Paycheck	\$979
Basic Living Expenses	\$1,107
Shortfall	(\$128)
<i>Source: Center for Responsible Lending, MEPC analysis</i>	

Title Loans

Another way that households can obtain credit is to take out a "title loan" or "title pledge." The consumer pledges his/her car as collateral for the loan, and can take out a loan of up to \$2,500. The borrower then has 30 days to pay off the loan. The fee on a title pledge loan may be as high as 25% of the principal of the loan. If the borrower has not paid off the loan by day 31, he/she must pay another fee of 25% of the loan. Borrowers can extend loans for an additional 30 days, but must pay down 10% of the original principal of the loan. They would pay another fee of 25% of the new principal amount on the 30th day of the new loan term.⁷ The title pledge loan is structured to be paid off within 10 months.

On a \$1,000 title loan, the 25% fee on the loan is \$250. As the calculations below show, the APR on such a loan would be 304%.

APR Calculations for Title Loans			
Fee	x	$\frac{365}{\text{loan period in days}}$	= APR
Amount borrowed			
\$250	x	$\frac{365}{30}$	= 304%
\$1,000			

Source: Mississippi Department of Banking and Consumer Finance

Rent-to-Own Stores

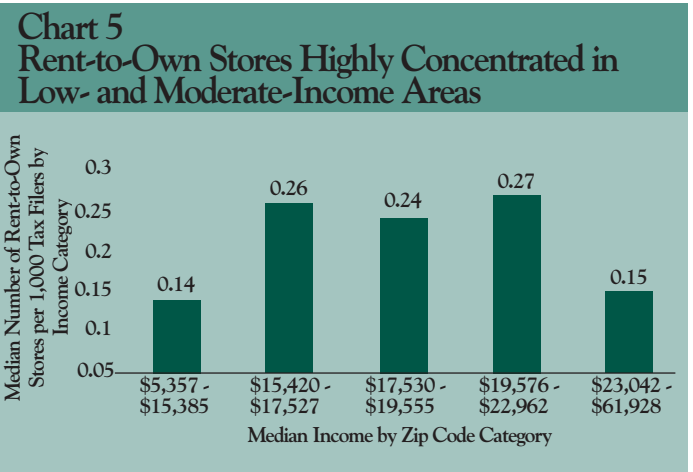
Rent-to-Own stores offer furniture and appliances for rent or on a rent-to-own basis. This section covers the usage of such stores, their locations and the price of the product.

Usage of Rent-to-Own Stores

Data indicate that lower-income consumers are more likely to purchase furniture or appliances from rent-to-own businesses. A Federal Trade Commission survey showed that 59% of rent-to-own customers earn less than \$25,000 per year.⁸

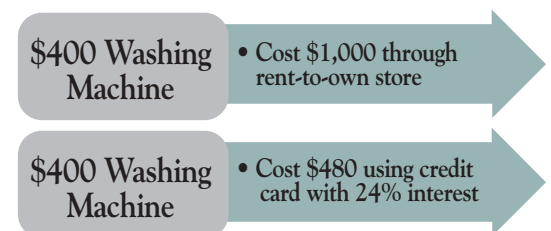
Location of Rent-to-Own Stores

Rent-to-own stores are most prevalent in low- and moderate-income areas. Chart 5 illustrates the distribution of stores by zip code income levels.



Price of Rent-to-Own Purchases

Analyses from other states suggest that a \$400 washing machine could cost more than \$1,000 if purchased from a rent-to-own business over an 18-month period.⁹ In contrast, a consumer who bought the same washing machine with a credit card charging a 24% interest rate would pay just \$480 over an 18-month period.



PROMISING PRACTICES / RECOMMENDATIONS

Mississippi has the opportunity to pursue a range of strategies in the public, private and philanthropic sectors to bring down the cost of financial transactions for low-income families and promote asset development. A mix of efforts to build the assets of low-income families, to enact consumer protections and to promote financial education would collectively reduce the high-cost of being poor. The recommendations are broken down into four areas: Building Assets, Increasing Alternatives, Strengthening Consumer Protections and Enhancing Access to Financial Education.

Individual Development Accounts (IDA) in Action

In the 11th grade, Caleb Robinson was involved with Operation Shoestring – a nonprofit organization in Jackson that works to promote health and self-sufficiency among low-income children, their families and their community. While participating in programs at Operation Shoestring, Caleb learned about an IDA program sponsored through the Mississippi Council on Economic Education.

After signing up for the IDA initiative, Caleb opened a bank account, began saving for a laptop to attend college and learned about money management. “I know how to deal with money better than a lot of my friends in college,” said Caleb. “Money management and being responsible, those were big things we learned in the program.”

Caleb saved \$600, which was matched dollar for dollar, giving him a total of \$1,200. He used his savings to purchase a laptop to assist with his college coursework.

A history major, Caleb has aspirations to work at the Mississippi Department of Archives and History.

Building Assets

The report commenced with a quick overview of asset poverty levels in Mississippi. Households with lower incomes were less likely to have the net worth to cover basic living expenses for three months in the absence of regular income. Households that are asset-poor are also more likely to use alternative financial services and thus pay more for financial transactions. Two strategies, in particular, offer opportunities to build assets among low-income families, ultimately reducing the need for payday loans, title loans and rent to own agreements.

Increase Bank Incentives and Accountability for Community Development Investments

While the report lists a number of recommendations for building assets and regulatory reform, access to affordable, responsibly structured financial services for historically under-served populations will

not change without a substantive response by the banking community. To elicit such action by the banks, incentives for investments in low-income communities and among under-served populations must be enhanced. Additionally, banks must be held accountable for meeting their responsibilities under the Community Reinvestment Act, and under programs where banks receive public benefits such as the Troubled Assets Relief Program (TARP).

When such incentives and accountability are implemented, positive benefits accrue to low-income communities. A recent example includes the Community Development Capital Initiative, a TARP funding program. The Community Development Capital Initiative (CDCI) provides low-cost capital to community banks and credit unions to target the communities hit hardest by the recession. Mississippi’s banking sector competed remarkably well against the rest of the country for resources made available through the initiative. Of the

\$570 million awarded, \$254 million went to Mississippi banks and credit unions. To receive the awards, the recipients must agree to target at least sixty percent of its financing activity in high poverty / low-income areas and to otherwise be held accountable to the community development standards set out by the U.S. Treasury.

If banks and credit unions hold up their end of the agreement, the initiative will leverage billions of dollars through the private sector to support small businesses, home ownership and otherwise build wealth among historically under-served people and communities.

As an incentive to the banks engaged in the community development activities, financial institutions that are examined for Community Reinvestment Act compliance should receive additional points for being innovative, working with other community development programs and leveraging public dollars.

Finally, CRA compliance data should be accessible for all but the smallest of banks. Currently, only mid-size and large banks with assets over \$1 billion are required to submit data on small business lending. Significant small business lending occurs in banks below the asset threshold – particularly in rural areas. To fully understand how much lending is occurring in under-served areas, the small business data reporting requirements should be extended to banks with asset sizes of \$250 million or more.

Furthermore, areas assessed for CRA compliance should include geographies where a significant amount of bank lending occurs regardless of whether or not a bank branch or ATM machine are present.¹⁰

Individual Development Accounts

Individual Development Accounts (IDAs) are matched savings accounts that typically limit account with-drawals to the purchase of a home, the cost of higher education, the start of a small business or other types of purchases that will advance future earning power. Participants must agree to make monthly deposits and set personal savings goals to remain in a program. Participants must also attend asset-based training, such as home-buyer education or business plan development classes. Upon reaching the savings goal and completing the asset-training, the individual’s savings are matched to assist with the asset purchase.

IDAs provide a number of benefits to participants who complete IDA programs. First, participants walk away with an asset. A home provides a family with an appreciating asset that can be leveraged to weather emergencies or to send a child to college. Second, IDAs establish the habit of saving among people who initially have low incomes. By establishing habits, low-income IDA participants are in a better position to save for an emergency or for the purchase of other assets. Having reserves remains one of the most effective ways to stay out of the problematic cycle of debt often fueled by payday loans.

PROMISING PRACTICES / RECOMMENDATIONS

Over the last several years, multiple IDA initiatives funded with both private-sector and federal resources have taken hold in AR, LA and MS. The Foundation for the Mid South has taken an active role in facilitating the regional development of the strategy, growing the number of projects from six to sixty in five years.¹¹ Moving forward, resource constraints remain one of the biggest obstacles for bringing IDAs to scale. Resource constraints include matching funds and administrative dollars.

One strategy used in other states includes dedicating a portion of the Temporary Assistance for Needy Families (TANF) funds for IDAs. Mississippi could follow this practice by using a portion of its TANF allocation for the implementation of IDAs to build assets among some of the state's families with the lowest incomes.

State Earned Income Tax Credit

Many households in Mississippi simply do not earn enough to make ends meet. In fact, nearly one out of three households does not earn enough to exist without any public or private assistance.¹² One strategy to move low-income working families away from paying more for financial services includes putting money back into their pockets through tax reform.

Twenty-four states, including Louisiana, now provide a state Earned Income Tax Credit (EITC). The credit, which is in most instances refundable, gives low-income working families a wage supplement. By being refundable, if the amount of the credit is more than taxes owed, the difference is refunded to the taxpayer. State EITCs only go to working families that do not earn enough to sustain their households. The credit is easily administered by tying the state credit to the federal EITC.

In Mississippi, a state EITC would provide a wage supplement for more than 366,000 working families living in or near poverty. A credit set at 5% of the federal credit would cost approximately \$42 million.¹³

Mississippi's tax system is regressive and relies heavily on sales taxes and a nearly flat income tax to fund state services. Regressive taxes mean that low-income families pay a higher percentage of their income on taxes than high-income families. A state EITC would not only provide a wage supplement to Mississippi's low-income working families, but it would also make the system fairer and create an opportunity for asset development.

Increasing Alternatives

One of the criticisms often levied at consumer protection efforts to reduce the price of high-cost financial services is the absence of alternatives. However, both banks and credit unions have been engaging in efforts to make new products available for historically under-served populations. Ultimately, if alternative products are available at scalable levels, low-income families will have more options available when deciding where to conduct financial transactions. As working families move more towards traditional channels made at banks and credit unions, families will save more and rely less on payday lenders, title lenders and other high-cost options to make it through the month.

Bank On

Bank On efforts are currently being developed in Birmingham and Memphis. San Francisco was the first city to sponsor a Bank On Initiative. The effort started in 2005 when Mayor Gavin Newsom and Treasurer Jose Cisneros challenged financial institutions to remove barriers that kept the unbanked out of the financial mainstream. The initiative has four goals: 1) change bank products and policies to increase the supply of starter account options, 2) raise awareness among consumers about the benefits of account ownership, 3) provide consumers with the opportunity to open low-cost, starter bank accounts, and 4) offer financial education.

In Bank On initiatives around the country, the Federal Reserve Bank is a key partner, and local nonprofit organizations also join the effort to provide a range of in-person and online training opportunities related to budgeting and financial planning, home-ownership and running a small business. At the end of the two-year pilot period in December 2008, a total of 31,347 accounts had been opened, and 80%, or 24,714 of them, remained open. The average balance in the accounts was \$980. Savings in fees not paid by consumers was estimated at almost \$20 million.¹⁴

In 2010, several local and regional banks joined nonprofits and faith leaders to reform Mississippi's payday lending laws. Given the relationships that have been established throughout the process, the banking partners should explore and implement Bank On initiatives in the larger markets of the state. By increasing the number of affordable banking options within the private sector, consumers would have awareness and access to affordable alternatives to high-cost financial services at a level of scale never before encountered in Mississippi.

PROMISING PRACTICES / RECOMMENDATIONS

Credit Unions In Action

Hope Federal Credit Union, (HOPE) a credit union with the mission to strengthen communities, build assets and improve lives in economically distressed areas of the Mid South by providing access to high-quality financial products and services, has a long track record of providing access to credit to members that have been historically underserved by traditional banking institutions.

One of the individuals assisted by HOPE was a single mother earning approximately \$27,000 a year at a Coast Casino. The mother had a credit score of 614 and experienced difficulty managing her finances.

She first approached HOPE for an alternative payday loan, which HOPE was able to provide with an APR of 18%. HOPE also worked with her to rebuild her credit through two credit-building loans.

After working with HOPE for several months, she was able to borrow money to purchase furniture. She saved hundreds of dollars by working with HOPE instead of going other routes such as a rent-to-own store.

Credit Union Alternatives

In addition to banking alternatives, credit unions also offer alternatives to high-cost financial services. The Mississippi Credit Union League identified 16 credit unions with a total of 49 branches that offer alternatives to payday lenders. Unlike banks, credit unions are co-operatives that are member-owned. As such, credit unions respond to the needs raised by the field of membership.

Credit unions all over the state provide products that cost less than payday loans, consumer loans that allow members to purchase appliances at affordable rates, and other types of products to encourage and incite the establishing of an emergency fund and the building of assets. Moving forward, credit unions and the Mississippi Credit Union League should work together to promote all credit unions that provide alternatives to high-cost financial services.

By working together, less resourced credit unions would benefit from a larger scale marketing effort that increases awareness and access to affordable alternatives.

Strengthening Consumer Protections

Mississippi's payday lending law was changed in 2011. Under the new law, high fees persist. In fact, on larger

amounts borrowed, Mississippi remains the most expensive state in the region in which to take out a payday loan. Several courses of action should be taken to improve the cost structure of payday loans in Mississippi. In the short term, Mississippi should implement a statewide database to track the new law's implementation and to hold lenders accountable for following the law. Currently, the state Department of Banking and Consumer Finance does not have the capability to track how many borrowers are taking out larger loans with longer repayment terms or smaller loans with lower fees. The Department also does not have the capability to track the number of loans an individual takes out on an annual basis. This information is critical for informing policy reform efforts before the law sunsets in 2015.

As mentioned in the report, some payday loan fees will remain the highest in the southeast – even after the enactment of the new law. Mississippi could begin to address the high fees by adopting a fee structure similar to the fee structure in Tennessee.

Longer term, Mississippi should limit the APR on payday loans to 36%, the same APR allowed under the usury cap for loans made by banks and credit unions. Alternatives exist, and in the other states where payday lending has either been made illegal or brought under usury cap laws – including the Southern states of Arkansas, Georgia and North Carolina – consumers have found other ways to navigate their financial situations. In those states where caps have been put in place, consumers have saved a total of \$1.5 billion in fees they would have paid to payday lenders.¹⁵

Enhancing Access to Financial Education

Another critical component of building assets and reducing costs includes expanding options for increasing one's financial education.

Nearly a quarter of Mississippians spend more than they earn and two-thirds lack a rainy day fund to cover expenses for at least three months in case of a financial emergency.

One reason for spending more than one earns includes a lack of understanding around budgeting, saving, credit and cash flow. Financial education gaps exist among all income groups, however, low- and moderate income families are more vulnerable than higher income families to the side effects of financial mismanagement. As seen in the report, low-income families are less likely to be connected to a traditional financial institution and the financial education resources made available by banks and credit unions. With a lack of understanding about financial planning skill, the confidence and networks are not there for low-income households to contact financial planners for help.

To address the gap and the negative outcomes associated with a low financial competence, Mississippi's schools should continue to integrate personal finance into the overall curriculum at all levels of education. The strategy will require the training of teachers and the development of materials and resources to cover the costs. By implementing a school-based approach to teaching personal finance, Mississippi can equip its young people with the wherewithal to budget and save and ultimately to make informed choices about financial products as adults.

Among adults, additional partnerships are needed between banks and credit unions and schools, churches and nonprofits to teach and implement the concepts of basic financial education. By making more programs available, adults will be in position to improve their own situation, pass on sound habits to their children and ultimately enter the financial mainstream where one can save on products and build wealth.

CONCLUSION

With low asset levels, a high prevalence of low-wage work and some of the most expensive alternative financial services in the country, Mississippians face a number of challenges in trying to move up the economic ladder. In the face of these challenges, a comprehensive set of solutions that draws on the diverse strengths and will of Mississippi's policy makers, banks and families will be needed to create an environment that facilitates asset ownership among Mississippi's working families.

This comprehensive set of solutions should be four fold. First, the approach should work to build assets. By enhancing incentives and increasing accountability among banks that engage in community development activities, banks will be more likely to invest in low-income communities. Other policy changes to increase take home pay through a state Earned Income Tax Credit or savings through Individual Development Accounts serve as an important strategy to build wealth among low-wage workers.

Second, community wide efforts to enhance the number of alternatives to high-cost financial services offered through the collective work of banks and credit unions present opportunities to give Mississippians more accessible options for making affordable financial decisions.

Third, Mississippi must enact stronger consumer protections than the ones currently in place – especially for payday loans. With the highest fees on some loans in the Southeast, costs should be brought down so that working families have more money to put towards basic expenses and to save. Additionally a statewide database should be developed and implemented to track the implementation of new regulations and to inform future policy debates.

Finally, financial education should begin in the schools at a young age. Training children on basic budgeting, credit and the importance of saving represents one of the most effective ways to equip the next generation with the skills to make informed choices about their finances.



Only by working together, through shared responsibility, can Mississippi put the implements in place to create a culture of saving and asset development. By making more programs available, adults will be in position to improve their own situation, pass on sound habits to their children and ultimately enter the financial mainstream where one can save and build wealth.

APPENDIX

Appendix A – Methodology

In this report, we have used three basic forms of analysis: 1) usage of a particular product, 2) access to the institutions offering the product, and 3) the price of the product. This section provides a summary of the methodology used for each of these forms of analysis.

Product Usage

The main source of information regarding the use of banks and alternative financial services is the FDIC's "National Survey of Unbanked and Underbanked Households." This survey was conducted in January 2009, and the report was released in December 2009. Data specific to Mississippi were used to describe the status of households as to whether they were un- or under-banked.

Data on the usage of rent-to-own stores come from a 2000 Federal Trade Commission study.

Institution Access

Access to all four institutions described below – banks, check cashers, paid tax preparers and rent-to-own stores – was calculated using the same methodology.

First, data from 2007 tax returns was used to create income quintiles. The Brookings Institution calculated the median adjusted gross income (AGI) for every zip code in the state. All zip codes where at least 50% of the filers reported an AGI were included, which is 88.9% of all zip codes, representing 99.8 percent of all filers. The following table shows the median AGI ranges for the five quintiles. While AGI is likely less than actual median income (2007 median income for Mississippi is \$37,515), the only actual income data available beyond the state level is from the 2000 Census and is therefore ten years old. For this analysis, the relative grouping into the five quintiles is more important than the actual income levels.

Income Quintiles 2007 Median AGI, By Zip Code		
Quintiles	Low	High
1st	\$5,357	\$15,385
2nd	\$15,420	\$17,527
3rd	\$17,530	\$19,555
4th	\$19,576	\$22,962
5th	\$23,042	\$61,928

Source: Brookings analysis of 2007 IRS data

Second, we calculated the number of institutions located in each zip code. Bank data were pulled from the FDIC website and are current as of June 30, 2009. The Mississippi Department of Banking and Consumer Finance website provided the data on check cashers and title pledge lenders.

Finally, we calculated the number of institutions per 1,000 tax filers for each zip code and then identified the median zip code for each quintile. We also calculated the percentage of zip codes within each quintile that had at least one location of the type of institution being calculated.

Product Price

Product prices were developed using regulations from the State of Mississippi as posted on the website for the Mississippi Department of Banking and Consumer Finance. The prices of Rent-to-Own stores were taken from the document "Rent-to-Own: Worth the Convenience"

APPENDIX

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- 10 What is the Community Reinvestment Act
The Community Reinvestment Act was passed in 1977 to ensure that banks were providing small business loans, mortgages and access to traditional banking services throughout the entire community in which it was chartered. The Act also set up a regulatory function to monitor bank lending, investments and services in low-income and minority communities. Banks are graded on their performance and, if grades are found to be below, future mergers, expansion of branch networks could be blocked by regulators
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