

DOUBLE JEOPARDY

WHY THE POOR PAY MORE

BY DICK MENDEL

If you live on the tough side of town or the wrong side of the tracks, if you earn a modest hourly wage and not a lofty salary, if you're a racial or ethnic minority...watch your wallet! Chances are, you're paying higher prices than the rest of us, and you're imperiled by a thicket of deceptive money traps that can bust your budget and drain your savings.

On May 31, 2004, *Business Week* magazine—the weekly almanac of the executive set—turned its attention away from stock market fluctuations, interest rate uncertainties, and board room shake ups.

Instead, *Business Week* devoted a 4,000-word cover story to America's working poor, the 28 million U.S. workers—one-fourth of all working adults—who earn less than the \$9.04 per hour wage needed to support a family of four above the poverty line.

Increasingly, these working poor “labor in a nether-world of maximum insecurity,” *Business Week* declared: the minimum wage is eroding, the health care coverage gap is widening, college tuitions are soaring, trade unions are losing influence, low-wage immigrant workers are flooding the labor market, and child care costs remain sky-high.

But two alarming trends plaguing low-wage workers largely escaped *Business Week's* attention: the explosion in high-cost lending schemes targeting less-affluent Americans and those with less financial savvy, and the absence of affordably priced merchandise and consumer services in many low-income neighborhoods.

These trends spell double jeopardy for low- and moderate-income workers and their families. Not only

must they make do on a limited budget, they also pay higher prices than middle- and upper-income Americans for many of life's necessities.

Think about it. How many middle-class families face costs like...

- \$12 to cash a paycheck every two weeks?
- \$5 at the corner grocery for a gallon of milk that would cost \$3.50 at any supermarket?
- \$200 for a rapid refund loan at tax time?
- Thousands in hidden fees for a predatory mortgage?
- \$35 “bounce protection” charge for overdrawing a bank debit card?
- \$500 in extra finance charges to buy a television set through a rent-to-own operator?
- An ongoing spiral of debt from a \$350 “no hassle” payday loan?

Together, these and other costs mire millions of hard-pressed families in economic quicksand. No matter how hard they work to get ahead, many find themselves falling farther and farther into debt—less able to provide for their children, less likely to climb up the economic ladder and taste the fruits of middle-class comfort.

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THE HIGH COST OF CREDIT

When you look at the budgets of America's less-affluent families, one item stands out: the enormous amount spent on fees, interest, finance charges, and penalties—in short, on nothing at all.

Consider these Baltimore residents:

- Dorothy Newton spends \$75 every month of her modest income from working at a Wendy's hamburger franchise to pay off a debt to the Capital One credit card company. Newton got her Capital One card in 1999 to buy school clothes for her three children. Her credit limit was \$200, and Newton says she never spent more than that amount. But she began falling behind on the payments in 2000

The corner of Stanton and Paisano Streets, like several other corners in downtown El Paso, is strewn with loan shops and other fringe finance outlets that make their money marketing high-cost loans to low-income borrowers.

after losing her previous job as a housekeeper in a hospital. Newton stopped using the card, but her balance soared anyway. From May to June 2001, for instance, Newton racked up

\$26 in interest charges (at 24.4 percent APR) and \$50 in “past due” and “over limit” fees—raising the balance to \$1,253. By the time Capital One took her to court in June 2004, the debt was over \$2,000.

- Rita Jameson (not her real name) didn't have much money in the bank when her refrigerator conked out in 2002. Jameson, a grocery store supervisor, instead visited a rent-to-own franchise. She settled on a no-frills Frigidaire and agreed to pay \$22 per week. Jameson made the payments for a full year before gaining title to the refrigerator. By then she had paid over \$1,100 for an appliance with a retail value of around \$450.

- When Pamela Spriggs wanted to buy her first car in the late 1990s, she went down to a local dealership and picked out a recent model Ford Taurus. The car's price tag was \$9,000, but Spriggs let the dealer

arrange the financing and didn't discover until days later that the loan carried a 27 percent interest rate—four or five times the rates paid by more-affluent car buyers. Spriggs, who teaches in the Baltimore City school system, paid more than \$330 per month for four years until the car was totaled in an accident. With a 5 or 6 percent loan, her monthly payments would have been at least \$100 lower.

To some extent, the growing debts of low- and moderate-income families mirror a national trend. Between 1989 and 2001, the total amount of credit card debt nationwide swelled from \$238 billion to \$692 billion, and the average credit card balance of an American family grew from \$2,697 to \$4,126.

While credit card use has risen across the income spectrum, it has been most pronounced—and most costly—for low-income families.

The share of families earning less than \$10,000 per year who own credit cards grew from 28 percent in 1989 to 35 percent in 2001. The share of these cardholders carrying a balance grew from 49 to 67 percent during these years, and the average amount of these balances nearly tripled from \$646 to \$1,837. Families earning \$10,000 to \$25,000 also saw increases across the board.

Meanwhile, credit card fees and interest rates have soared. The average late fee grew from \$12 to \$30 between 1994 and 2004. Most card issuers reduced the grace period for late payments from 14 days to zero days, and all major credit card issuers now raise the interest rates of customers the first time a payment is late—typically charging late-paying customers 22 to 29 percent interest.

“Card users, consumer advocates and some industry experts complain that banks are attempting to squeeze more and more revenue from consumers struggling to make ends meet,” the *Wall Street Journal* explained in July 2004. “Instead of cutting these people off as bad credit risks, banks are letting them spend—and then hitting them with larger and larger penalties for running up their credit, going over their credit limits, paying late and getting cash advances from their credit cards.”

Credit cards, though, are only one facet of the debt problems facing low-income and minority families. A booming “fringe finance” market has also taken root in America’s low-income neighborhoods.

Walk along Texas Avenue in downtown El Paso, Texas, for instance, and every other storefront houses

a “signature loan” outlet: Merit Finance, Cam Loans, El Cardedo Finance, El Paso Credit Plan, and Border Finance on your left, Eagle Loans and North American Investment Corp. on your right—all within a single block. Three more loan shops are just around the corner.

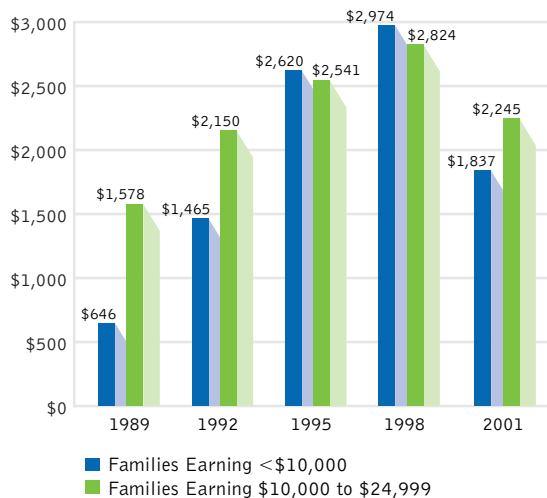
The El Paso yellow pages list 120 of these outlets, which make unsecured loans of up to \$500 and charge 80 percent annualized interest.

Cecilia Fierro took out a signature loan from a company called OK Finance in late 2002 after her 1997 Chevrolet Cavalier started acting up. Fierro, a hair stylist, took the money back across the Rio Grande River to a repair shop in her hometown of Juarez, Mexico. She paid it back in installments over the next two years at \$35 per month, she says—a total of more than \$800 to pay off her \$500 loan.

“CARD USERS, CONSUMER ADVOCATES AND SOME INDUSTRY EXPERTS COMPLAIN THAT BANKS ARE ATTEMPTING TO SQUEEZE MORE AND MORE REVENUE FROM CONSUMERS STRUGGLING TO MAKE ENDS MEET. INSTEAD OF CUTTING THESE PEOPLE OFF AS BAD CREDIT RISKS, BANKS ARE LETTING THEM SPEND—AND THEN HITTING THEM WITH LARGER AND LARGER PENALTIES.”

Wall Street Journal, July 6, 2004

**AVERAGE CREDIT CARD DEBT
AMONG LOW-INCOME FAMILIES***



* All figures are for families who own credit cards and carry a balance from month to month.

Source: Tamara Draut and Javier Silva, *Borrowing to Make Ends Meet: The Growth of Credit Card Debt in the 1990s* (New York: Demos, September 2003).

In Memphis, Tennessee, the *Commercial Appeal* newspaper published a series of articles in July 2004 detailing an explosion of “car title” lending—short-term loans of \$300 to \$1,000 secured with the title of the borrower’s car. These loans carry interest rates of 22 percent per month—an annual percentage rate of 264 percent. In addition, the car title lenders charge a \$12 to \$14 fee for every late payment.

The *Commercial Appeal* reported that one title lender—Golden Title Loans—earned \$117,000 in late fees in 2003, not counting interest charges or the penalties it levied on late-paying borrowers to avert repossession (\$75) or reclaim cars after they were repossessed (\$175).

“This is legalized loan sharking,” one local attorney complained.

Other types of fringe lending have also seen rapid growth. From 1986

to 2003, the number of pawn shops nationwide leapt from 4,800 to 11,600. Likewise, refund anticipation loans (RALs) have become an enormous moneymaker for tax preparation firms like Jackson Hewitt and H&R Block. Total RAL fees grew from \$300 million in 1994 to \$1.14 billion in 2002. More than half of the 12.7 million RAL customers in 2002 were low-income working families eligible for the federal Earned Income Tax Credit.

Rent-to-own sales have also risen in recent years, growing from \$3.6 billion in 1991 to \$5 billion in 2000. Although these transactions don’t meet the strict definition of credit purchases—customers don’t gain title to leased items right away, and they can return them at any time—Federal Trade Commission data show that 70 percent of customers ultimately do purchase the furniture, electronics, and other goods

obtained through rent-to-own outlets. These customers typically pay two to three times the retail value of the products. More than half live in households earning less than \$25,000 per year.

The fastest growing segment in the fringe finance sector, however, is “payday lending”—short-term loans providing borrowers cash in advance of their next paychecks. The borrower writes a post-dated check covering the loan amount plus a fee, which the lender will cash when the borrower deposits his or her next paycheck.

Payday loans do not come cheap. Typically, lenders charge 15 percent of the loan amount (\$45 for a \$300 loan, for instance), even though the loan will be repaid in two weeks or less. On an annual basis, that’s equal to a 400 percent interest rate.

Yet these loans have become wildly popular. As of the early 1990s, fewer than 200 payday lenders operated nationwide. Today, there are more than 20,000—a 100-fold increase. These outlets made 100 million loans in 2003 with a total loan value of \$40 billion, collecting \$6 billion in fees and interest.

Most payday loans—91 percent according to one study—are made to repeat customers, cash-strapped workers who fall into a debilitating cycle of high-cost debt. Unable to repay the loans when their next paycheck arrives, borrowers roll over their payday loans and incur a new round of fees and interest charges. These repeat borrowers often pay far more in interest and fees than they ever received in cash advances. (For more on the payday loan problem, see page 22.)

THE FASTEST GROWING SEGMENT OF THE FRINGE FINANCE SECTOR IS “PAYDAY LENDING”—SHORT-TERM LOANS PROVIDING BORROWERS CASH IN ADVANCE OF THEIR NEXT PAYCHECKS...MOST PAYDAY LOANS ARE MADE TO CASH-STRAPPED REPEAT CUSTOMERS WHO FALL INTO A SPIRAL OF HIGH-COST DEBT.

Why are disadvantageous, high-cost loans attracting so many borrowers?

For many, the answer is urgent need. Because they lack savings, few low- or moderate-income families are financially prepared for setbacks like a lost job, family breakup, illness, or injury. Forty percent of all white children and 73 percent of all African-American children in the United States live in households with zero or negative net worth. When trouble comes, the only recourse is borrowing. And often, the only available credit comes with high interest rates or predatory terms.

Another key factor has been intensive salesmanship by lenders. “The credit industry began aggressively marketing to previously neglected, economically marginal consumers in the 1990s,” Robert Manning, author of the book, *Credit Card Nation*, told Congress in 2003. “The most costly credit cards are marketed to the working poor,” he added.

As Mercedes Lopez can attest, the sales tactics are even more aggressive in the fringe finance market.

Just months after buying a new dining table and a bedroom set for her daughters two years ago, Lopez received a check in the mail—a very big check—for \$5,000.

A single parent of four school-age kids in El Paso, Texas, Lopez was earning \$7.50 per hour at a digital imaging firm and collecting food stamps, Medicaid, and subsidized housing to make ends meet. She had purchased the furniture on credit—a friend from the office cosigned the loan—and she made the first few payments on time.

That’s when CitiFinancial, the controversial consumer finance arm of CitiCorp, the nation’s largest bank holding company, sent Lopez the \$5,000 check—actually, a facsimile of a check—along with a letter explaining that she had been preapproved for a \$5,000 line of credit.

Lopez admits that she’s terrible in math and lacks financial savvy. She didn’t read the fine print from CitiFinancial, but she sensed it was a dangerous deal and tore it up.

The next month another check arrived. Lopez tore it up again. But when another arrived in early 2003,

Lopez lost her resolve and phoned the CitiFinancial office to cash in the offer. Lopez used the money to pay off the furniture and several other old debts, and to buy new clothes and bedding for her children. “You see the kids, they need this and they need that, and you figure, why not?” she says. “Now I’m regretting it.”

Lopez never learned the annual percentage rate attached to the line of credit, but she was told she could pay off the loan over four years with payments of \$177 per month—which put the interest rate at 29 percent.

“I’m embarrassed,” Lopez says. “It wasn’t like, ‘Whatever, I’m just not going to pay.’ I knew it was going to affect my credit, but I thought I could handle the payments. Now I’m behind and the collector is after me.” ■

Mercedes Lopez, pictured here with her son, Christian, and daughter, Wendy, received a “live check” solicitation in the mail two years ago announcing that she had been preapproved for a \$5,000 line of credit. Now she’s buried under a mountain of high-interest debt.





THE HIGH COST OF HOMEOWNERSHIP

“Buying your home should be the happiest day of your life. It’s the apple pie American dream,” Debora Glenn says wearily, her elbow resting on the dining room table of her ramshackle row house in Baltimore’s Park Heights neighborhood.

“But I cried the day I bought this place.”

That was April 1998. Glenn, a single mother who earns \$8.60 per hour as a school cafeteria worker, says she was lured by two slick salesman who promised her a fully renovated home with monthly mortgage payments not much higher than the \$384 rent she was paying

Pictured here in her kitchen, Debora Glenn was lured into buying a Baltimore row-house in 1998 with promises that it would be renovated top to bottom. But when Glenn moved into the house, it was barren. She’s been paying the price ever since.

for a cramped third-story apartment.

A first-time homebuyer—even her parents had never owned a home—Glenn jumped at the opportunity without paying close attention to

the fine print. And without insisting that the sellers live up to (or put down on paper) their pledge to renovate the place top to bottom.

Glenn says that the sellers, an operation called Carter & Suggs Properties, promised her the house would be outfitted with a brand new furnace, new refrigerator and stove, overhauled water and electrical systems, solid roof—a total makeover—for \$63,000.

But when Glenn and her daughter moved in six weeks after signing a mortgage contract and laying down \$1,600 for closing costs, the house was barren. No furnace. No refrigerator. No stove. Within days, the sewer pipes backed up into the kitchen sink.

“None of the things that were supposed to be done were done,” Glenn recalls. “I went to Legal Aid

the first week after I bought the house.”

But by then the damage was done. Glenn’s apple pie dream had turned rancid. She’s been paying the price ever since—11.9 percent interest, plus thousands of dollars in extra costs to install new pipes, purchase electric heaters, fix the roof, and equip her kitchen. And that’s on top of the \$8,000 in financing the city of Baltimore provided Glenn in 2000 to install a furnace and complete other repairs.

Only recently did Glenn learn that Carter & Suggs, whose firm has since vanished, had purchased her house only three weeks before selling it to her—and paid just \$17,000 for it.

Between January 1996 and July 2000, nearly 3,500 Baltimore residents were hoodwinked into

HALF THE BORROWERS PAYING THE HIGH INTEREST RATES AND HEFTY FEES ASSOCIATED WITH SUB-PRIME MORTGAGES HAVE STRONG ENOUGH CREDIT TO QUALIFY FOR A CHEAPER LOAN IN THE PRIMARY MORTGAGE MARKET.

similar “house flipping” scams: in each case, profiteers purchased run-down properties at rock-bottom prices, then resold them for more than double their purchase price within six months. The house flippers typically promised complete renovations, then made only cosmetic changes. And they colluded with appraisers to inflate the assessed values of homes and the incomes of buyers to justify large mortgages.

In other parts of the nation, house flipping is less common. However, low- and moderate-income home-

buyers instead face an onslaught of predatory mortgage lending.

In 1994, the market for high-cost “subprime” mortgages nationwide totaled just \$43 billion. By 2003, that figure had grown to \$385 billion. These mortgages charge interest rates up to 10 percent higher than prime loans: for a 30-year mortgage of \$80,000, monthly payments on a 12 percent loan will be \$823—almost twice the \$480 monthly cost of a 6 percent loan. Over 30 years, the extra interest for this subprime loan will total \$123,000.

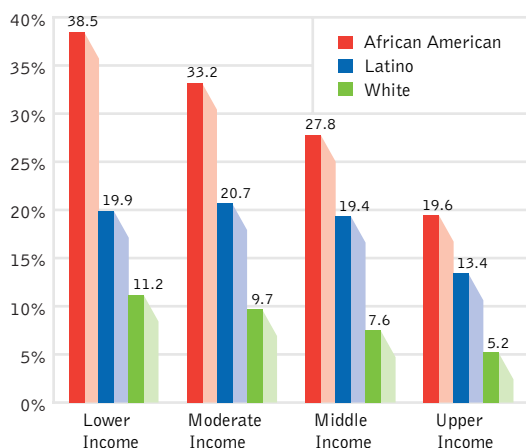
Many subprime mortgages are not predatory. For families with modest incomes or mixed credit histories, these higher-cost loans may offer the only available route to owning a home.

Unfortunately, the subprime mortgage market has become a haven for deception and exploitation. High-pressure sales tactics and misleading trade practices—even outright fraud—are commonplace.

Predatory lenders take advantage of borrowers by including expensive extras in their loans—exorbitant fees, crippling mortgage insurance charges, hefty balloon payments, and steep prepayment penalties. Such provisions often cause devastating harm to borrowers who do not see through the legalese. In many cases, the loans end in foreclosure when homeowners prove unable to meet steep financing terms. Most often, the victims are African Americans, Latinos, and other minorities.

In 2001, the Coalition for Responsible Lending (see story on page 38) estimated that predatory mortgage loans were costing borrowers \$9.1 billion per year in unwarranted fees, excessive interest, and lost equity, including:

AN UNEQUAL BURDEN:
Share of Mortgage Refinance Loans in the U.S. Provided by Subprime Lenders, by Race and Income



Source: *Separate and Unequal: Predatory Lending in America*, Association of Community Organizations for Reform Now (February 2004).



Shown here with her daughter, Chell'sie, Debora Glenn was one of nearly 3,500 Baltimore residents victimized by "house flipping" scams in the late 1990s and early 2000s.

Many subprime lenders charge 7 percent, 8 percent, even 10 percent of the loan value. The fees are usually rolled into the loan balance to be paid over time (at interest). Often, subprime buyers don't even realize they're paying them.

- \$2.3 billion in prepayment penalties, which are imposed on 80 percent of subprime mortgages—compared to only 2 percent of loans in the prime mortgage market.

- \$1.8 billion in exorbitant loan fees exceeding 5 percent of the amount financed. In the prime mortgage market, the average borrower pays fees equal to 1.1 percent of the loan amount.

- \$2.1 billion per year for disadvantageous single-premium credit insurance policies—one-time charges covering several years of insurance. The Coalition for Responsible Lending complained that prepaid credit insurance "does little more than strip equity from homeowners." Indeed, since the U.S. Department of Housing and Urban Development recommended in 2000 that "single-premium insurance products should be prohibited for all mortgage loans," several (but not all) leading subprime lenders have dropped the practice.

- \$2.9 billion in unjustifiably high interest rates, where borrowers with adequate credit are nonetheless steered to high-interest subprime loans. Speaking at a Chicago housing conference in May 2004, Federal Reserve Governor Edward Gramlich explained that "borrowers with [credit] scores below 620

are viewed as higher risk and generally ineligible for prime loans unless they make significant down-payments. But it is noteworthy that about half of subprime mortgage borrowers have [credit] scores above this threshold."

In other words, half the borrowers paying the high interest rates and hefty fees associated with subprime mortgages have strong enough credit to qualify for a cheaper loan in the primary mortgage market.

And at every income level, minority borrowers are far more likely than white borrowers to end up with a subprime loan. Remarkably, federal data show, borrowers in upper-income black neighborhoods are more than twice as likely to hold subprime mortgages as borrowers in lower-income white neighborhoods. ■

THE HIGH COST OF MEDICAL DEBT

Had Marlene Woodson been insured when she suffered blood clots in her lungs in 1999, her bills from a Chicago hospital would have been less than half as high.

America is in the midst of a bankruptcy bonanza. From 1994 to 2003, the number of personal bankruptcies nationwide more than doubled to 1.6 million per year.

What's causing this bankruptcy binge? Predatory mortgage lending has been a factor, certainly. High-cost consumer credit, too. Stagnant wages and increasing job instability among hourly workers have contributed as well.

But the most important cause may lie elsewhere.

In 1999, a national study found that one-third of personal bankruptcy filers carried substantial medical debts. A more recent local study in central Illinois found that 58 percent of bankruptcies involved medical debts—and that figure did not include medical debts paid off with credit cards or consumer loans.

As Mark Rukavina, head of The Access Project, told a congressional committee in June 2004, "Medical debt can erode not only individuals'

access to care, but also their overall financial security and that of their family."

The most serious medical debt problems involve the uninsured—people like the Reverend Marlene Woodson in Chicago.

Twice in 1999, Woodson found herself gasping for air, unable to breathe. Both times she checked into Advocate South Suburban Hospital and received treatment for blood clots in her lungs.

Though Woodson received no salary or health benefits from her job as director of a nonprofit agency working with homeless families, and though her husband had retired the year before and surrendered the couple's health insurance coverage, the hospital nonetheless sent Woodson two enormous bills: the first for \$7,620, and the second for \$15,058.

Funny thing is, had Woodson been insured, these bills would have been less than half as high.

Whereas insurance companies and government programs like Medicare and Medicaid use their bargaining power to negotiate large discounts, "uninsured patients... have no bargaining power," complained the Service Employees International Union's Hospital Accountability Project in 2003. "They are generally expected to pay the full price for hospital care, which can be two or three times more than the payment hospitals receive for insured patients."

Census Bureau data show that of the more than 40 million Americans who lacked health insurance in 2003, 64 percent were either poor (below poverty line) or nearly poor (earning less than twice the poverty level). More than four in five lived in a family with at least one working adult.

A recent survey by the Commonwealth Fund found that three-fifths of the uninsured had trouble paying medical bills or were paying off accrued medical debts. Among those with medical bill problems or

medical debts, four in ten were unable to pay for basic necessities such as food, heat, or rent; more than half used all or most of their savings to pay medical bills; and one in five ran up large credit card debts or took out home equity loans to pay medical bills.

Many families with health insurance also suffer: 35 percent of adults with continuous coverage in the Commonwealth Fund survey reported difficulties with medical costs.

Though hospitals and medical clinics receive tens of billions of dollars in government support each year to cover the costs of caring for poor and uninsured patients—and non-profit hospitals have a legal duty to provide charitable care—in recent years, the medical industry has grown increasingly aggressive in pursuing payments from those least able to pay.

The *Wall Street Journal* and other newspapers have reported on hospitals that foreclosed on the homes of former patients, attached patients' bank accounts, or had patients arrested and jailed for failing to attend court hearings related to unpaid bills.

“Doctors, hospitals, laboratories and other providers are taking tougher approaches to seeing that bills are paid,” the *New York Times* explained in 2002. “Far more health care providers are turning over their accounts to [collection] agencies 30 to 60 days after a missed payment, instead of the customary 150 to 210 days.”

Meanwhile, many hospitals make it difficult for needy patients to learn about or access financial assistance programs designed to help them. A survey of 7,000 uninsured adults who received outpatient care in

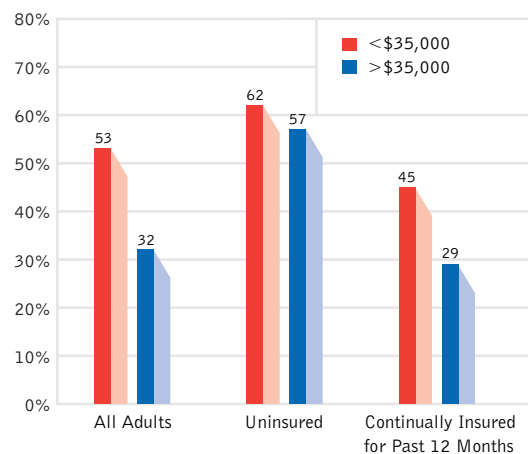
2000 found that 48 percent were never offered or even told about the possibility of financial aid.

Thanks to these aggressive collection practices, uninsured patients paid an estimated \$32.6 billion in out-of-pocket medical expenses in 2004. One-third of uninsured adults nationwide and 29 percent of working-age adults earning less than twice the poverty level paid 5 percent or more of their income on out-of-pocket medical expenses.

“Hospital collection activities, which are becoming increasingly aggressive, often result in unworkable payment plans, damaged credit ratings, court judgments that permit wage garnishment, seizure of bank accounts, forced sales of family homes, and bankruptcy,” the Boston-based advocacy group, Community Catalyst, reported in 2003. ■

IN RECENT YEARS, THE MEDICAL INDUSTRY HAS GROWN INCREASINGLY AGGRESSIVE IN PURSUING PAYMENTS FROM THOSE LEAST ABLE TO PAY.

PERCENT OF ADULTS AGES 19–64 WITH MEDICAL BILL PROBLEMS OR ACCRUED MEDICAL DEBT*



*Problems paying/not able to pay medical bills, contacted by a collection agency for medical bills, had to change way of life to pay bills, or has medical debt being paid off over time.

Source: The Commonwealth Fund Biennial Health Insurance Survey (2003).

THE HIGH COST OF SHOPPING

Though the shortage of supermarkets is commonplace in low-income communities nationwide, it is not ubiquitous—nor inevitable.

If you live in the Madison/East End neighborhood of Baltimore, it's a long walk—30 blocks—to the nearest supermarket, a Stop, Shop & Save. That might not sound far to most Americans, but Madison/East End is not your typical American neighborhood: the median home price is just \$49,500, and only 43 percent of working-age adults have jobs.

Many residents don't own cars. If they can't beg a ride from friends or relatives, they must hire a cab to get to the Stop, Shop & Save or wait and pay for bus rides—an additional surtax on their food budgets.

Or they can shop in the one modest food store in their own neighborhood, a small storefront crammed with canned goods, plus milk and other beverages, snack foods, and some meats. The store doesn't boast much of a produce section; indeed, there's not a green in the house—just a bin toward the back with some tired onions on the top, a few lonely potatoes beneath.

Inevitably, food prices are almost always higher in the small grocery than at a supermarket. A squeeze bottle of mustard, a dozen eggs, a can of tuna or tomato soup—all cost 10 to 50 percent less at the Stop, Shop & Save.

This situation is not unique to Madison/East End—or to Baltimore.

In Chicago, the *Tribune* newspaper reported in June 2004 that the more well-to-do North Side has 50 percent more grocery stores per capita than the city's South and West Side neighborhoods, where most low-income residents reside. As a result, the *Tribune* declared: "Chicagoans with the least amount of disposable income shop at smaller neighborhood stores and pay considerably higher grocery prices than more affluent North Siders or suburbanites do."

Likewise, the *Detroit News* investigated grocery stores in 2001 and found that—thanks to an exodus of supermarket chains from low-income city neighborhoods—"poor

people often find their bills inflated at small neighborhood stores. The high cost of groceries is one factor that keeps the poor impoverished."

Nor is the problem restricted to the urban poor. The Associated Press reported in July 2004 that most "food deserts"—areas lacking supermarkets with healthy and affordable food—are located in rural areas. In Pittsfield, New Hampshire, the story reported, "There are no supermarkets, and the community's two convenience stores offer little fresh produce and plenty of high prices."

Though the shortage of supermarkets is commonplace in low-income communities nationwide, it is not ubiquitous—nor inevitable. The Initiative for a Competitive Inner City (ICIC) reported in 1998 that grocery stores located in central-city neighborhoods generate greater sales volume than stores in other locations, and a 2002 ICIC study found that "some supermarkets that have located in inner cities are

“DESPITE LOWER HOUSEHOLD INCOMES, INNER-CITY AREAS CONCENTRATE MORE BUYING POWER INTO A SQUARE MILE THAN MANY AFFLUENT SUBURBS... [AND] SOME SUPERMARKETS THAT HAVE LOCATED IN INNER CITIES ARE ACTUALLY MORE PROFITABLE THAN THEIR SUBURBAN COUNTERPARTS.”

Initiative for a Competitive Inner City



With supermarkets scarce in many low-income neighborhoods, many poor families must do some or all of their shopping at corner grocery stores like this one, where prices are 10 to 50 percent higher.

after losing 15 percent of its supermarkets between 2000 and 2002, Baltimore mounted a campaign to bring supermarkets back to the city.

actually more profitable than their suburban counterparts.”

“Despite lower household incomes, inner-city areas concentrate more buying power into a square mile than many affluent suburbs,” the 2002 ICIC report found. “America’s inner cities possess over \$85 billion in annual retail spending power,

equal to the total purchasing power of Mexico... [and] \$21 billion of this demand went unmet within the inner city, representing a tremendous urban retailing gap.”

Increasingly, local governments and community groups are striving to recruit supermarket operators into underserved areas. For instance,

By promoting itself to supermarket chains, and in some cases providing concrete assistance by assembling parcels of land for new supermarkets or providing low-cost financing, Baltimore reached agreements with supermarket chains to open or expand 18 supermarkets since 2002. ■

THE HIGH COST OF BANKING

Even before low-income customers step up to the cashier and buy their groceries, many have already spent more than middle- and upper-income shoppers—just to put their hands on the money they will pay with.

That's because low-income consumers often pay a premium for routine banking services. Nationwide, roughly 10 million households have no checking or savings account, the vast majority of them poor. Many of these "unbanked" families find a way to cash their checks at no cost—by going either to the payers' bank or to supermarkets and other outlets that cash checks for free.

But most unbanked families rely on alternative finance outlets that cash checks and write money orders for a price. The number of check-cashing outlets nationwide has quintupled since the mid-1980s, and these outlets now cash 180 million checks per year and earn \$1.5 billion in fees. The check cashers typically charge customers 1.5 to 3 percent of a check's face value, so an unbanked worker earning \$15,000 per year who relies on check-cashing outlets will spend roughly \$300. The worker will pay

an additional price to purchase money orders (usually \$1 each) to pay rent, utilities, and other bills.

Yet increasingly, the costs for low-income families to open and maintain a bank account are also steep. According to *Consumer Reports*, banks collected \$32.6 billion in 2003 for service fees on checking and other deposit accounts—20 percent more than in 2001—and fees have risen 33 to 165 percent faster than the rate of overall inflation since 1997.

ATM fees, bounced check fees, stop payment fees, debit card purchase fees...all are up substantially. And banks have introduced a variety of new fees, charging customers for depositing someone else's bad check, closing a new account too soon, or cashing the paycheck of workers who don't maintain accounts with the bank—even when the check is written by the bank's own customer.

In May 2004, CBS *MarketWatch* called the latter fee "the latest glaring example of how banks, brokerages and other financial-service firms are nickel-and-diming Americans of modest means in their relentless rush to boost 'fee-based income.'"

Consumer Reports complains that many of these fees are "no-see-ums embedded in fine print or collected so seamlessly that consumers don't realize they've paid them until long after the fact"—if they ever do.

One new bank practice, "bounce protection," has drawn particularly sharp criticism. An alternative to traditional overdraft protection, which allows customers to avoid bouncing checks by drawing on a savings account or credit card, bounce protection uses the bank's money to cover checks and ATM withdrawals that exceed the account-holder's balance. Many banks now include bounce protection as a standard feature in new accounts. Rules are



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 1-877-CHARTER • (1-877-242-7837)
BUSINESS ACCOUNTS
 1-866-COB4BIZ • (1-866-262-4249)

MARY E OSBORNE

ACCOUNT NO. _____
 STATEMENT DATE
07/03/03
 INTEREST Y.T.D.
0.00
 PAGE NO. **1**

TRANSACTION DATE	ACTIVITY AMOUNT	PREVIOUS BALANCE	BALANCE
06/04			98.25-
06/06	30.00 SUSTAINED OVERDRAFT FEE		128.25-
06/11	30.00 SUSTAINED OVERDRAFT FEE		158.25-
06/16	30.00 SUSTAINED OVERDRAFT FEE		188.25-
06/20	30.00 SUSTAINED OVERDRAFT FEE		218.25-
06/25	30.00 SUSTAINED OVERDRAFT FEE		248.25-
06/30	30.00 SUSTAINED OVERDRAFT FEE		278.25-
NO CHECK ACTIVITY			

often confusing for customers, and fees can be astronomical.

In October 2003, the *Valley Advocate*, a weekly newspaper in western Massachusetts, told the story of Mary Beth Osborne, a new customer at Charter One Bank. Soon after opening her account, Osborne went shopping for clothes and paid with her ATM card.

Only later did she learn that the clothes cost \$98.25 more than she had in her account. Rather than rejecting the payment, however, Charter One covered it and—without informing Osborne—began charging her a “sustained overdraft fee” of \$30 every four business days. When she finally received her bank statement, it showed \$180 in fees to cover the \$98 overdraft—the equivalent of more than 2,000 percent annualized interest.

“The bankers are trying to structure this so they don’t have to tell

you what it’s going to cost, which we think is extremely unseemly,” Jean Ann Fox, director of consumer protection for the Consumer Federation of America, told the *Advocate*.

Given the costly and sometimes confusing fees charged by banks, it is not surprising that many low-income workers avoid banks and rely on check-cashing outlets instead. Surveys consistently find that check cashers provide good or excellent customer service, whereas many low-income customers report negative experiences with banks; indeed, half of all families currently without a checking account had one in the past.

Yet economists warn that, while understandable, shunning banks can deny low-income people crucial opportunities to save and establish a positive credit history—making them more likely to fall into debt traps like payday lending and subprime borrowing.

Michael Stegman, an authority on fringe finance at the University of North Carolina, reports that “people with bank accounts are more than twice as likely to hold savings as are people who are unbanked and are more likely to add to their savings on at least a monthly basis.”

“Without a bank account, it is more difficult and more costly to establish credit or qualify for a loan,” writes Michael Barr of the Brookings Institution. “Low-income persons without bank accounts face higher costs of credit than low-income persons with accounts.”

Stegman and Barr both argue that automated teller machines, direct deposit, and electronic funds transfer make it possible for banks to serve low-income clients profitably. But Barr warns that as yet, “Most banks are not institutionally organized to focus on this market segment.” ■

Dick Mendel is the editor of ADVOCASEY.