

# Saving Behavior of the Poor

## **NEW RESEARCH ON USE OF BANKING SERVICES BY THE POOR IDENTIFIES BARRIERS TO SAVING AND STRATEGIES FOR OVERCOMING THESE BARRIERS**

**Washington, D.C., December 4, 1997** - Ethnographic research conducted for the Consumer Federation of America (CFA), and supported by The Ford Foundation, reveals barriers to saving in low-income households and strategies for overcoming these barriers. These barriers include, not just low incomes, but also high cost banking services and a belief that governments place low limits on savings accumulation by those receiving benefits.

"Our research strongly suggests that practical initiatives can be taken that increase savings accumulation among low income households," said Stephen Brobeck, CFA Executive Director.

The research was based on ethnographic field reports from two different low income populations - African American households in a northwest Mississippi town and town and households, predominantly Hispanic, in San Jose, California. It was conducted during the summer of 1997 by Queen Booker of the University Mississippi and by Philippe Bourgois of San Francisco State University under the direction of John Caskey, an economics professor at Swarthmore College.

Most of the households interviewed recognized the value of savings. As one Mississippi resident put it: "For once, just once, I would like to be able to pay the bills and not worry about a check bouncing before I get to the bank. I want to have some kind of security, any kind."

Yet, few members of these low-income households had accumulated savings. Beyond low incomes, they faced several barriers to savings:

- ? High cost banking services. In Mississippi, many of the households frequently bounced checks then were charged, in addition to bounced check fees, additional daily fees until account deficits were covered. In San Jose, many of the households carried balances on credit cards that continuously incurred interest chargers
- ? The belief that saving would make them ineligible for government subsidies. Most who expressed this fear underestimated the level of savings permitted.
- ? The belief that it was not worthwhile to save small amounts because there would be no significant accumulation.
- ? Lack of community acceptance of savings. Some households indicated a

desire to avoid social pressure to use any savings to meet the financial needs of family and friends.

Nevertheless, a minority of households had managed to save several hundred dollars. Several of these family units had acquired their savings from recent lump-sum payments. But other "savers" had built savings through persistent small accumulations. These families were much more likely than non-savers to use budgets to plan and monitor expenditures.

These "savers" contrasted with "non-savers" who tended to use "cash-and-carry budgeting" involving cashing paychecks, paying pressing bills, and carrying what was left in cash to meet ongoing expenses. Most non-savers also paid relatively large banking fees, usually for bouncing checks, and/or uncured credit card interest charges.

The research suggests several strategies for reducing savings barriers within low-income households:

- ? Encourage these households to use savings accounts, not checking accounts, as their basic account. Such an account would usually entitle them to free check cashing. Payments could be made through money orders at post offices or convenience stores.
- ? Publicize within low-income communities the actual savings limits to qualify for government benefits. Where these limits are too low (e.g., under \$1,500), raise them.
- ? Make available to these households budgeting education. Emphasize that steady savings contributions for many years yields a relatively large savings accumulation. For example, saving \$50 a month for 25 years (with a 5% yield) would accumulate nearly \$30,000.
- ? Supplement budgeting education with public campaigns stressing the importance of savings for all Americans.

CFA is a non-profit association of some 240 pro-consumer groups that was founded in 1968 to advance the consumer interest through advocacy and education.