Literature Review– Financial Management for Low-Income Populations

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Statement of the Problem

Topic Importance

Low-income persons comprise a larger proportion of the population in the United States than any other social class. The families in these low–income communities face greater difficulties in accessing resources to build strong finances and healthy relationships due to limited social networks, skills, and opportunities (Anderson, Min, &Scott, 2004). By offering financial management programs to low-income individuals we can help them resolve issues that hinder their success in life.

Literature Review

Background

Within the last few years several financial education classes have been developed in an effort to help address the issue of financial education needs among low-income populations. Research has shown that there is a link between financial education and behavior change in these individuals which has typically resulted in a positive behavior change. In a study conducted by Staten, Elliehausen, and Lundquist (2002) tracked credit counseling clients for 3 years and found that those who received counseling were able to reduce their debt, improve their credit card management, and lower their delinquency rates more than those who did not receive counseling(Lyons, Chang, & Scherpf, 2006).

Over the past several years changes to personal finances have brought the issue or personal financial management to the forefront of social work individuals. Many programs have been created to assist these individuals however many fail to take into account issues such as New technology, marketing strategies and an increasingly diverse population have all played a vital role in personal savings and increased debt.

Characteristics and Needs

While many financial management programs have emerged, little is known about the financial knowledge levels of the individuals that participate in these programs. Research has proven that financial knowledge varies inversely with income levels and many studies have measured the financial knowledge levels of the poor in a subjective manner. Another issue is that the substantive areas covered by these training programs are often limited to budgeting behavior and credit use which leaves us in the dark concerning the knowledge of participants in other areas, such as banking practices and public benefits. Several studies have also shown that knowledge is a contributing factor to the underutilization of public benefits such as food stamps and Medicare (Lyons, Chang, & Scherpf, 2006).

Americans in general are not very educated on financial matters, and financial illiteracy may be particularly acute among the poor (Min, Anderson, & Scott, 2006). New research has shown that individuals with low incomes are less likely to save or invest and are also more susceptible to predatory lending practices. One of the main factors facing low-income individuals is their limited access to financial and community institutions. Many of the individuals that attend these financial management classes are less likely to work for employers who will offer retirement benefits, are more likely to have dropped out of high school and have had little if any chance of attending school- based education programs (Min, Anderson, & Scott, 2006). Many outside factors have also had an impact on the effectiveness of these programs such as the rise in questionable mortgage lending practices, a change in personal finances, changes in demographics, and an increase in consumer responsibilities.

The inherent complexity of mortgage lending has led many individuals into a financially devastating credit quagmire. Many of these low-income individuals are unaware of the full implications of the loan terms and become vulnerable to unethical lenders sales strategies. Many of these individuals are also foreign-born and may be unfamiliar with U.S. financial practices. Language, educational, and cultural barriers also discourage individuals from establishing a banking relationship to acquire financial services (Lyons, Chang, & Scherpf, 2006).

Other Factors

There is a variety of literature that focuses on banking issues with low-income individuals and challenges they face when attempting to use these facilities. Recent studies have shown that foreclosures are up 57 percent over the last few years and consumer credit debt is increasing at an annual rate of 6 percent causing public and private sector groups to launch a flurry of programs aimed at promoting financial education (Palmer, 2008). Banks have joined in the effort of offering financial management programs to show their good will and enhance their client base by reaching out to these individuals.

Several studies have shown that low-income individuals are far less likely to use banks due to reasons such as technology, access to institutions, trust, and cultural barriers. Many of these financial programs focus on issues other than the ones that keep these individuals from using these institutions. In order for these programs to become more effective issues such as those mentioned will need to be addressed along with the basic concepts of financial management (Palmer, 2008).

Many low-income participants cited issues of technology as one of the leading reasons that would not use banks. Recent studies have estimated that as much as 20 percent or the population or 20 million people do not have bank accounts and almost half of all African-American families are without bank accounts (Zhan, Anderson, & Scott, 2006). Many low-income individuals stated that most banking has moved to online banking and many did not have computers or other means in which to access accounts if they did get one. They also noted concerns over the security of online banking and not being able to keep track of their bills and not being sure if the bill was paid as opposed to putting it in the mail themselves (Nice,& Irvine, 2010).

Banks are also under-represented in low-income and minority communities and require high minimum balances. Many low-income families do not have the means in which to access banks as many are not located in their community and few had a means in which to travel to get to one. Many of these individuals also had distrust for banks due to recent media attention in which bank CEO's received large salaries and bonuses and still taking bailouts from the government.

Cultural barriers were also another important topic for individuals not using banks. Many individuals stated that language barriers were an issue when dealing with banks or even understanding the institutions policies as they pertained to repayments of loans. Many American individuals cited reasons such as demeaning experiences when attempting to use banks in which the bank personal talks down to the individuals due to their education or race (Hogan, Solheim, Wolfgram, Nkosi, & Rodrigues, 2004).

An accumulation of these barriers have lead low-income individuals to turn toward alternative providers to conduct basic transactions such as cashing checks, obtaining loans, or wiring funds. Although these institutions are more convenient or comfortable, they generally charge higher per-transaction fees (Birkenmaier, & Tyuse, 2005). Using alternatives such as paying bills by cash or money orders is less secure, more time-consuming and more expensive. Individuals also can be missing out on job opportunities as most companies have now gone to direct deposit as a means of paying employees and not having a checking account is that automated payments cannot be made. Financial literacy programs promote participation in the banking system to enable consumers to gain access to these services that are offered by them. An additional benefit to having a banking account is that research has showed that 51 percent individuals with a banking relationship save regularly, compared with 14 percent of households that do not (Braunstein, & Welch, 2002).

Limitations

The limitations of these studies are that researchers often face challenges in collecting from the individuals involved with low financial literacy levels. Many of these low-income participants are often hard to locate and have high dropout rates and low survey response rates. Researchers also face challenges collecting impact data because of polices associated with the institutions that deliver these financial education programs. Many of the individuals that teach these classes are associated with small non-profit organizations that have limited staff and financial resources (Birkenmaier, &Curley, 2009). As with all research, program evaluations can be expensive to conduct when using control groups and have a longitudinal component.

Within the last few years much research has been conducted concerning low-income individuals and the use of financial management classes however much more needs to be obtained in order to effectively consider these classes a benefit to the individuals we say they are helping. The literature did provide evidence that financial education classes have had a positive impact on low-income individuals and their families however these studies have relied on data collected solely from program participants and not from any comparison groups.

The challenge of providing financial training to low-income individuals can be difficult in light of the wide variety of information needs arising from differences in prior experience, language and cultural backgrounds, current financial situation, and time availability, given work and family commitments. Most classroom-style programs take a “one size fits all” approach however financial educators would benefit from providing customized training based on an assessment of the individuals involved in the program.

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