

Building Financial Strength in Rural Communities

A Report from the Southwest Center for Economic Integrity

Prepared for the Southwest Rural Policy Network

Executive Summary

The Southwest Rural Policy Network has initiated a *Family Asset Development Campaign* that will provide underserved rural working families with help navigating the complex landscape of financial services and products. Research was undertaken to uncover insights into the financial needs, beliefs and experiences of low income people living in rural communities. Thirteen Community Dialogues were held with groups of low income residents of four rural towns.

Rural communities face a daunting set of challenges for both providers and users of financial services, including:

- **Banks, credit unions and even ATMs are less available** where population is sparse.
- **Underdeveloped technology infrastructure—particularly broadband—impedes adoption of on-line banking**
- **Steady, full-time jobs are less available** reducing access to financial products that require a reliable source of income or a consistent employer.
- **Higher poverty rates** reduce credit scores and access to financial products
- **Fringe financial services are prevalent**, creating a cycle of debt.

Shifting from an industry-centric view of customers to a consumer-centric framework can enhance efforts to serve the needs of low income people. The commonly-used framework for describing consumers—banked, underbanked, unbanked—assumes that the most important characteristic about a person is their relationship with a bank. Implicit in this schema is the idea that a bank account is always the best solution, driving policy and social services in that direction. A more sensitive and useful framework that segments consumers on the basis of the needs that grow out of their relationship with money emerged from our discussions. In this consumer-needs based framework people fall into five distinct categories:

1. **Adrift:** People who take a passive approach to money management. They often tell us “I just don’t know where my money goes.” They don’t keep track of their finances and rarely plan ahead.
2. **Overwhelmed:** People who have reached a crisis point and know they need help, but don’t know where to get it.
3. **Goal Oriented:** People who have taken steps to get their financial life under control. They are developing strategies and systems, but need more practical know-how.
4. **In Control:** People who feel confident that they can manage their money. They have systems for monitoring expenses and use a range of financial products and tools.
5. **Off the grid:** People who have largely opted out of the financial infrastructure. They don’t trust banks, want to remain anonymous and believe that cash best.

Situation	Need	Desired Outcome
Adrift	Intervention	Awareness of a better way
Overwhelmed	A Plan	Confidence
Goal-Oriented	Coaching	Continuous progress
In Control	Updating	Aware of new products, changes
Off the Grid	Left Alone	Autonomy, Anonymity

We believe this framework can be used to target educational and service efforts much more effectively because it starts with the consumer rather than the financial institution.

A new segment of financial services is emerging that has the potential to meet the needs of the rural poor better than either traditional banks or the risky fringe.

- **Uncertainty dominates the financial lives of the rural poor making money management a huge challenge.** Banks, which increasingly rely on fees that seem opaque and excessive to many consumers, have become just another source of uncertainty and harm. The result is a lack of trust that keeps potential customers away.
- **Local retailers are stepping into the gap** between banks, which have become too expensive and untrustworthy and fringe providers focussed on creating dependency through debt. Retailers ranging from the local gas station to WalMart are offering basic financial services—check cashing, pre-paid debit cards and bill payment. They are creating a middle-tier of financial services that fall between the banks and the fringe. There is variability in the quality of their offerings. But at their best, they are providing low income consumers with money management tools that are simple, safe and effective in meeting their needs. Most importantly, customers have greater ability to control the process, reducing the uncertainty that has poisoned their relationship with banks
- **It will be critical for regulators and consumer protection advocates to** monitor the direction of this emerging segment of the market. Prepaid debit cards are a key component and so far consumer protection on this product lags behind traditional credit and debit cards. Tax preparation and the associated refund anticipation products are also moving into this retail segment. Jackson-Hewitt kiosks have started appearing in WalMart, creating concerns that the retailing giant may be getting into the predatory lending business

Rural communities illuminate the issues facing low income people everywhere. Low population, high poverty and weak infrastructure in rural areas create extreme challenges. By understanding how people and institutions respond to these challenges we gain insights that will help anyone trying to deliver financial services or provide financial counseling to low income consumers, regardless of their location.