

RESEARCH BRIEF

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Savings and Financial Services in Native Communities

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Context

Savings can serve as a pivotal tool not only for meeting unexpected needs but also for longer-term asset building for low-to-moderate-income individuals and families. By providing useful financial services to low-to-moderate-income workers, savings help families to be integrated into the financial mainstream and accumulate assets through savings (Rhine, Su, Osaki, & Lee, 2005).

Research Methods

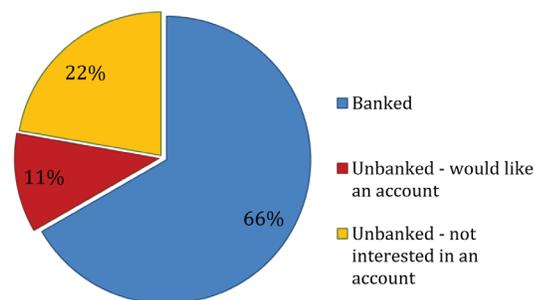
During tax season 2007, a collaboration of fourteen VITA sites in Native communities worked in partnership with the Center for Social Development (CSD) and the Buder Center for American Indian Studies (BCAIS) at Washington University's Brown School to gain a better understanding of ways in which EITC receipt might better assist Native families and communities to meet economic needs.¹ A total of 1,847 American Indian/Alaskan Natives/Native Hawaiians, living both on and off reservations, were included in this study. The respondent sample was comprised of 81% individual filers (42% female and 39% male) and 18% joint married filers. EITC recipients in this study claimed approximately \$4,000,000 in refundable tax credits.

The primary goal of this study was to gain a better understanding of how EITC receipt in Native households is linked to savings and asset building. To that end, this study seeks to understand the accessibility of financial services in Native communities and ways households utilize such services. These are critical pieces of data for more effective policy making.

Findings

Research suggests that facilitation through conventional financial services is essential for families to manage their finances successfully and to build assets. We measured use of conventional financial services by asking respondents to indicate their banking status. In the figure below, "banked" refers to customers who own a transaction account (a checking account, savings account, or both types of accounts), while "unbanked" refers to customers who do not currently own any type of account. A majority of respondents (66%) replied that they are banked, while 33% indicated that they are unbanked. It is important to note that the banked vs. unbanked data vary substantially by Native community, often depending on how accessible the financial services are to community members.

Banking status

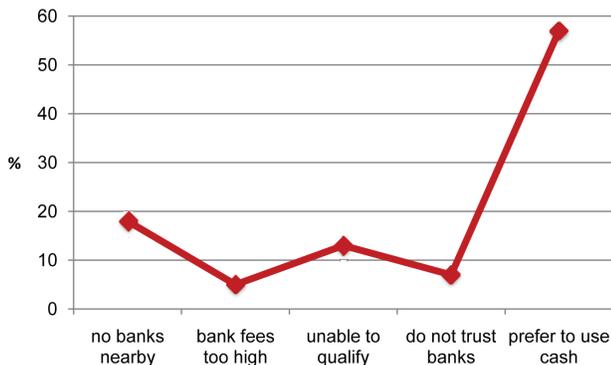


Most middle- and high-income American consumers use their bank accounts for such purposes as collateral for credit, a safety net in tough economic times, and as an active financial vehicle supporting purchases and daily living expenses. Low-income individuals

face barriers to using their bank accounts in these ways, largely because of minimum deposit requirements that may be too high, fees charged for accounts with low balances, and charges placed on many individual transactions even when certain minimum balances are met.

To gain a better understanding of why individuals are unbanked, we asked respondents to indicate why they do not have an account. Over half of the respondents reported that they prefer to use cash (57%). A preference for cash may be a response to the prevalence of cash economies in many Native communities with limited conventional financial services. Moreover, underdeveloped local markets necessitate the need for informal markets, also cash-based, to meet the consumer needs of community members. Another possible reason for a relatively high rate of unbanked individuals is that banking services are unavailable in many reservation communities or are located far away. The percentage of respondents who indicated that they do not have a bank account because there are no banks nearby (19%) sends a strong message about the unmet need for financial services in these communities.

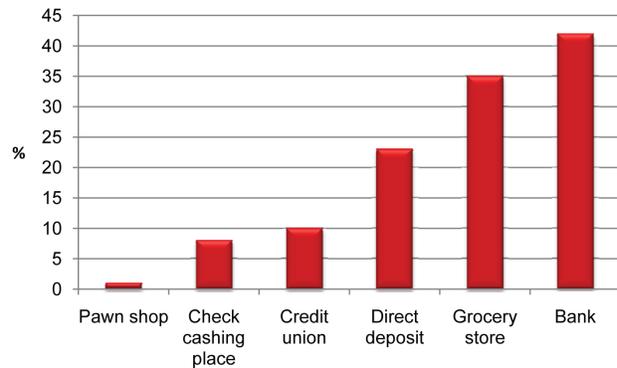
Reasons for no bank account



A strong indicator of the type of financial institution individuals use is where customers typically cash their paychecks. When Native respondents were asked this question, 52% indicated that they use bank services (both banks and credit unions). For customers whose banks are located far from their community, direct deposit is the most convenient way to access their money. Service centers such as grocery stores, gas stations, the post office, and even the workplace are often utilized because there are no banks available in the community. However, many respondents use expensive, alternative financial services even though 66% of them have bank accounts. For example, of the

56% of respondents who use money orders to pay their bills, 15% have both checking and savings accounts. At an average cost of \$1.50 per money order, individuals are paying a substantial amount of money in fees. In addition, a substantial portion of respondents (39%) pay check cashing fees when they use an alternative financial service.

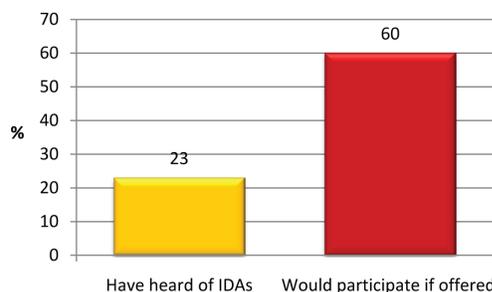
Alternative financial services



Financial education

There is increased evidence to support the relationship between financial capability (i.e., knowledge and skills related to the management of personal finances), financial security, and wealth accumulation. One indicator of financial literacy is whether an individual has participated in classes or workshops on financial topics. Approximately 10% of respondents have taken a financial education class, 5% have taken a credit repair class, and 8% have taken a homeownership class. Results suggest that individuals are interested in learning more about asset-building products and services. Among respondents, 23% indicated that they have heard of Individual Development Accounts (IDAs), and 60% responded that they would participate in an IDA program if one was offered in their community.

Individual Development Accounts



Conclusions and Implications:

These findings speak to the need to increase access to financial education in Native communities, as well as to low-cost, flexible, and targeted banking services. These strategies may be particularly important for communities that are considering initiating or supporting a financial institution as part of their asset-building strategy. Availability and use of local banks and financial institutions may help to put these dollars back in people's pockets.

VITA sites offer a venue for tribes to deliver important financial information to community members. Nationwide, many VITA sites not only provide customers with such information, but these "service" sites are beginning to establish critical links to asset-building programs and services. Results indicate that individuals desire such links and are interested in learning more about asset-building products and services. This suggests that tribal governments or local organizations should consider identifying or developing appropriate saving vehicles for community members, seek out home ownership education and purchasing information for community members, and identify and address barriers to home purchase in their communities.

Endnotes

1. The data presented in this brief is part of a larger research project, titled [Contributions of the Earned Income Tax Credit to Community Development in Indian Country](#).

References

Rhine, S. L., Su, S., Osaki, Y., & Lee, S. Y. (2005). *Householder response to the Earned Income Tax Credit: Path of sustenance or road to asset building?* Chicago, IL: The Federal Reserve Bank of Chicago.

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