

Poor pay more for city living

Food, home, services in low-income areas cost residents a \$2,800 'poverty premium'

By Jamie Smith Hopkins
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It's not exactly a secret that the poor pay more for everyday goods and services than their wealthier neighbors. But a local group has just put a dollar figure on that "poverty premium" - about \$2,800 a year for low-income residents in the Baltimore metro area.

In a report released yesterday, the Job Opportunities Task Force says that residents in low-income neighborhoods often spend more for financial services, home-related expenses, auto costs and groceries than residents in higher-income communities.

"There's actually sort of a snowball effect where one high cost can lead to another," said Andrea Payne, policy analyst at the Baltimore-based nonprofit and primary researcher for the report, "Overpriced and Underserved: How the Market is Failing Low-Wage Baltimoreans."

"Things build off of each other, and it's really hard to catch up and get ahead," she said.

Location plays a role, the group says. Businesses that collect a fee to cash checks are twice as numerous as bank branches in low-wage parts of the metropolitan area. The convenience store selling a limited selection of groceries charges more than well-stocked supermarkets, but supermarkets are rare in poor neighborhoods.

Personal history also matters. Low-income residents are more likely to have little or bad credit and get charged more for loans as a result.

Matt Fellowes, a scholar at the Brookings Institution in Washington who has conducted other studies of high costs for low-wage residents, said such research points out "a vastly overlooked opportunity to help low-income families get ahead."

"Nearly all of our anti-poverty efforts are focused on boosting the income of low-income families," he said. "Few look at how that income is actually spent."

For its report, the Baltimore group compared a family living in one of the metro area's poorest neighborhoods, where typical household income is less than \$30,000, to a family living in one of the wealthiest - income over \$100,000.

Older homes

Its \$2,815-a-year estimate of extra costs assumes that the poorer family takes its paychecks to a check casher rather than a bank; gets a "refund anticipation loan" from a tax preparer; has high-interest mortgage and auto loans; pays more for home and car insurance; pays more to heat and cool the home, because low-income neighborhoods are filled with old houses that are less energy-efficient; and buys food at a small local store rather than a cheaper supermarket.

Maria Bristol, a nursing assistant who lives in the Cherry Hill area of Baltimore, counts herself lucky that she has a car and can drive to a supermarket in the suburbs. Otherwise, "you have to go to a neighborhood market," she said.

"The selection is horrible," she said of corner stores. "It's less for more money."

Bristol, who participated in one of the focus groups for the task force's report, was startled to hear that its tally came to nearly \$3,000 a year - but she believes it. She used to go to a check casher until she got a job at a bank and realized how much money she was losing in dribs and drabs.

"It really adds up," she said.

Bad credit in particular adds up, said Jerry Basford, a University of Utah administrator who teaches personal finance. It can become a vicious cycle in which residents, paying higher interest, have no money to put aside and get behind on payments whenever an unexpected problem crops up - lowering their credit score further.

"It's very expensive to be poor," said Lewis Mandell, professor of finance and managerial economics at the University at Buffalo.

One of the best ways to avoid the poverty trap is to not have children if you can't afford them, he said. But efforts to reduce teen pregnancy haven't had much of an impact, he said, and he doubts that better financial literacy education is the sole answer, either.

There's no point in telling a person without a car to stop buying food at the neighborhood store within walking distance, he said. And there's a certain logic in using a check casher if the bank branch isn't open when you're off work - or would hit you with penalties for keeping too little money in your account.

"If we tell the poor that they have to bear all of these costs, which is what we more or less have done in the past, then we're just going to see a perpetuation of poverty," Mandell said.

The Job Opportunities Task Force thinks the situation could be improved. It suggests legislative action in some cases - requiring counseling before people can sign up for high-interest loans, for instance.

The task force also offers ideas for changing the economic landscape, such as banking accounts with minimal balance requirements so poorer residents won't be socked with fees.

Joanna Smith-Ramani is director of the Baltimore CASH Campaign, which provides free tax services to those earning less than \$40,000. She said more and more of the workers her group sees are in trouble because they didn't have enough savings to handle emergency expenses.

'People struggling'

That's where several thousand extra dollars spent on basic living expenses could have made a huge difference, she said.

"That we are draining this much money from low-income consumers ... is a drain on our own community's financial security and stability," said Smith-Ramani, an adviser for the task force's report.

"It's a series of transactions that happen daily and weekly and monthly that add up to a year's worth of lost opportunities for people struggling the most in our community."

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