MDC FIFTY YEARS

Rural Economic Mobility and Wealth Building

by Karama Neal | Feb 26, 2015 | Blog |

Despite the general economic recovery in the United States, income inequality and wealth inequality are expanding. Perhaps more critically, it is becoming more and more difficult for families with lower wealth or income to achieve upward economic mobility. These two facts, that the wealth and income gaps are large and growing and that the relative economic position of families is becoming more fixed, chip away at the common notion of the American Dream – our ideal of equal opportunity. This is especially true in the South, the region with the lowest upward economic mobility.

In part because of this, many of the "hardest places to live" are in the South and almost all of the counties are rural. Low population density and population outmigration can make housing development, business development, and access to fairly priced financial services more challenging to provide even though those homes, jobs, and savings are critically needed. This occurs in part because of lack of access to capital which is often due to the loss of traditional financial institutions in rural areas.

Southern Bancorp Community Partners was founded in response to that need. Southern is a development finance organization that works to improve family and community net worth in order to promote economic opportunity. Southern and its bank partner, Southern Bancorp, are US Treasury certified Community Development Financial Institutions and, as such, offer lending, banking, and financial development services and promote policies that improve upward economic mobility in the rural Mid-South. These services make a real difference not only in the daily lives of the people in our communities but also the in the trajectories of their families and neighborhoods.

Abundant research and Southern's experience shows that many people do not turn to banks when they need to make a financial transaction. Some use check cashers, pawn shops, payday loans, and other high priced, often predatory alternative financial services, even if they have a checking or savings account. The FDIC defines "unbanked" households as those that do not having either a checking or savings account at all, while "underbanked" households have a checking and/or a savings account but have used alternative financial services in the past 12 months. The most recent FDIC survey on unbanked and underbanked households shows the following for the two states in which Southern operates:

	Unbanked, 2013	Underbanked, 2013
United States	7.7%	20.0%
Arkansas	12.3%	25.7%
Mississippi	14.5%	32.8%

Source: FDIC, 2014

The unbanked and underbanked rates for Arkansas and Mississippi are considerably higher that the US as a whole and the same is true for much of the South. The survey also shows the unbanked and underbanked rates by race and ethnicity, data which are consistent with reports on the racial wealth gap:

	Unbanked, 2013	Underbanked, 2013
United States	7.7%	20.0%
African American	20.5%	33.1%
Asian American	2.5%	17.5%
European American	3.6%	15.9%
Hawaiian Pacific Islander Americans	6.1%	25.5%
Hispanic American	17.9%	28.5%
Native American	16.9%	25.5%

Source: FDIC, 2014

Southern's own data from the Individual Development Account program support these findings. IDAs are matched savings accounts that help people save for appreciable assets such as a first home, small business development, or higher education.

Since 1999, Southern has served more than 2,000 people through its IDA program in Arkansas and Mississippi. Recent data show that 50 percent of IDA participants had never had a savings account until opening the IDA. Given the unbanked rates (and the racial demographics of our service area), it is perhaps not surprising the 78% of our IDA participants identify as African American.

Ideally participants in the IDA program use their savings and match to purchase an appreciable asset and build net worth. But even if they do not save enough to complete the program before it ends, participants may accumulate significant savings for the first time in their lives. In addition, many choose to keep their savings account after leaving the IDA program. Such programs, especially when combined with financial education, credit counseling, tax preparation and other services, can help families develop savings and financial habits that allow them not only to weather economic shocks but also to build net worth. And according to Dalton Conley, "while race, income, job status and net worth all tend to vary hand-in-hand, careful statistical parsing shows that it is really net worth that drives opportunity for the next generation."

It is important to note two features of the IDA account which may make it attractive as a first savings account: 1) The savings are targeted toward a particular purchase of the saver's choosing, and 2) the saving plan is time limited. For people who may have never saved before, the targeted purpose makes the savings process relevant and the time limitation makes it more feasible. This is not unlike the ever popular "Christmas Club" accounts that have the same two features. These findings can be used to develop starter savings accounts that will be available to people who are unbanked.

By many measures, the South is the fastest growing region of the country. That is no surprise given the resources, climate, beauty, and often underrealized opportunity in our region. So it is important for CDFIs and others to work toward increased economic opportunity for all, regardless of where they live. The solutions are critical not only for rural Southerners but for our country as a whole.

Karama Neal, PhD, is Chief Operating Officer of Southern Bancorp Community Partners, a CDFI based in Little Rock, Arkansas.

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About MDC

MDC, a nonprofit based in Durham, N.C., began publishing State of the South reports in 1996 to further its mission of helping communities, organizations, and leaders close the gaps that separate people from opportunity. Founded in 1967 to help North

Carolina make the transition from an agricultural to an industrial economy and from a segregated to an integrated workforce, MDC now focuses on increasing educational attainment, connecting people to work that pays, and helping them get the resources they need to become successful. To accomplish that, MDC publishes research that highlights the importance of removing inequities; organizes leaders community-wide to create a will for change; develops programs that strengthen the workforce and foster economic development; and incubates those programs so they can be made sustainable and replicated at scale.

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