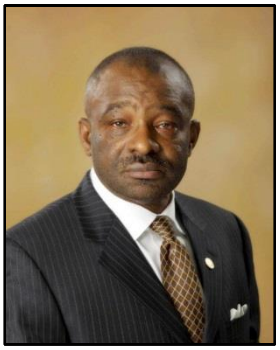

The Anti-Poverty Soldier

By Clarence Hightower, Ph.D.

Community Action

The importance of financial literacy in our communities

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Dr. King organized the Poor People's Campaign in 1968 to shut down Washington, D.C. and force legislators to tackle poverty. His efforts to shift focus from civil to silver rights were interrupted by his untimely death. He fought ardently for black rights, but he also recognized financial literacy as the key to an America that was truly free for all people.

– John Hope Bryant

The 2.5 billion adults [around the world] without access to financial services are disproportionately women and young people. There are at least 44 million unbanked or underbanked people in the United States, so clearly financial inclusion is needed in all markets.

– Ajaypal Singh Bang

Sometime after America's Great Recession of 2007 to 2009, the North American Securities Administration Association declared that "The need for financial education in the United States has never been greater. The precipitous drop in savings rates and the rise of personal debt indicates a looming crisis that will be averted only through the combined efforts of public and private sectors, educators, and in the end, individuals making informed choices about their own financial futures. These problems will not be solved by education alone, but we are certain that they cannot be solved without education."

This ominous quote calls attention to what has been a calamity in the making, not just in America but throughout the world. A great deal of the analysis and personal angst surrounding that financial crisis and the resulting recession focused on a worldwide financial establishment that, in the view of many, had completely "run amok."

Several financial experts cited new and expanded banking practices for their decidedly detrimental effect on the global economy. For example, when the financial crisis emerged nearly a decade ago, Americans quickly became familiar with terms such as deregulation, subprime and adjustable rate loans, credit default swaps, the housing bubble collateralized debt obligations, mortgage-backed securities, hedge funds, predatory lending, over-leveraging, and the shadow banking system.

Notwithstanding the role financial institutions had played in the crisis, the lack of financial literacy among Americans has also contributed to an economic emergency unparalleled since the Great Depression began 88 years ago. One of America's leading financial analysts, Todd Harrison, warned that financial literacy is an enormous public need that has long been overlooked. "Our finance-based economy, financial engineering, and government intervention," said Harrison, "have commingled to create the most critical juncture in market history. The decisions we make today, both personally and with regard to policy, will have profound implications for future generations."

The tangible void in financial literacy plagues Americans across all social, cultural, and economic strata; however, it disproportionately besets low-income communities, particularly communities of color. Among the most common indicators related to the absence of financial literacy skills is the number of households that are either unbanked or underbanked. "Unbanked" is a term referring to households that maintain no banking relationship at all, while "underbanked" households maintain a bank account but primarily utilize alternative financial institutions such as payday loans and check-cashing stores to pay bills and cash checks. These secondary and suspect institutions help perpetuate a cycle of debt and bad credit.

A 2013 study by the Federal Deposit Insurance Corporation (FDIC), reports that in the United States, approximately 10 million households are unbanked while millions more are classified as underbanked. Collectively, these two groups account for roughly 28% of all American households. Populations of color are disproportionately represented in the unbanked or underbanked categories, particularly African American and Hispanic households.

In general, both Minnesota and the Twin Cities fare better than the national average in each of these categories as around 15% of state and metro households are either unbanked or underbanked. Nevertheless, the disparate effects of this status on households of color, especially Minnesota's black community is strikingly similar to trends nationwide. According to the FDIC, nearly one-half of black households in the state of Minnesota are either unbanked or underbanked.

Promoting financial literacy and the need for banking relationships is of paramount importance in our efforts to help low-income citizens transition to self-sufficiency. As Help Minnesota Save notes, "Financial literacy is a steppingstone up and out of poverty. While having a job is a necessary component of financial security, a job alone is not enough. Many low-income families get stuck on a path of debt, bad credit, and access only to second-tier financial resources, rather than an asset-building path that provides sustainable well-being."

Moreover, financial literacy is an essential tool to possess in all households in our communities, regardless of our current socioeconomic status. We should all develop a savings plan, set financial goals, find ways to reduce debt, carefully manage credit, and strategically acquire and build assets. And every bit as important, we must impart this knowledge to our children.

Clarence Hightower is the Executive Director of Community Action Partnership of Ramsey & Washington Counties. Dr. Hightower holds a Ph.D. in urban higher education from Jackson State University. He welcomes reader responses to 450 Syndicate Street North, St. Paul, MN 55104.