



Access to Financial Institutions in Essex County

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The New Jersey Institute for Social Justice, Inc., is a non-partisan urban research and advocacy organization established in 1999 by the Amy and Alan V. Lowenstein Foundation. Based in Newark, New Jersey, the Institute works at the state and local level to promote the development of economically healthy and vibrant urban communities and to challenge practices and policies that prevent urban New Jersey from achieving its full potential. The Institute, often in partnership, undertakes policy-related research and analysis, develops and implements model programs, and engages in advocacy, including litigation when appropriate, to further its mission.

I. Summary

As demonstrated by the maps presented below, Essex County's minority and low-income communities are underserved by banks.¹ Residents in these communities have access to a limited number of branches to open bank accounts and conduct basic financial transactions. By contrast, check cashing outlets, which generally offer a limited number of financial products and charge higher rates than banks for basic transactions, are located almost exclusively in low-income and minority communities.

In statistical terms, these maps show that in Essex County:

- Fewer than 30 percent of all census tracts with a majority of African-American or Hispanic residents have at least one bank branch compared to nearly 65 percent of non-minority tracts with at least one branch. Nearly one quarter of majority low-income tracts have at least one bank branch while twice as many wealthier tracts have at least one branch.
- Nearly one quarter of non-minority tracts have more than 8 bank branches for every 10,000 residents while fewer than 8 percent of minority tracts have a comparable number of branches.
- Check cashing outlets are highly concentrated in the county's low-income and minority communities. These outlets are located exclusively in the City of Newark and in nearby municipalities.
- One-third of all low-income census tracts have one or more check cashing outlets compared to only 16 percent wealthier tracts.

This skewed distribution of financial institutions in Essex County raises concern considering the growing evidence that adequate access to basic financial products and other opportunities to save and invest play a critical role in helping families build wealth.² This study shows that the families in Essex County that are most in need of these products and services face the most limited access.

The report concludes with brief recommendations for improving access to financial services in underserved Essex County communities. These recommendations include (1) expanding bank service to underserved markets, (2) developing new products tailored to meet the needs of unbanked and underbanked individuals, and (3) enhancing marketing, and outreach efforts to underserved communities.

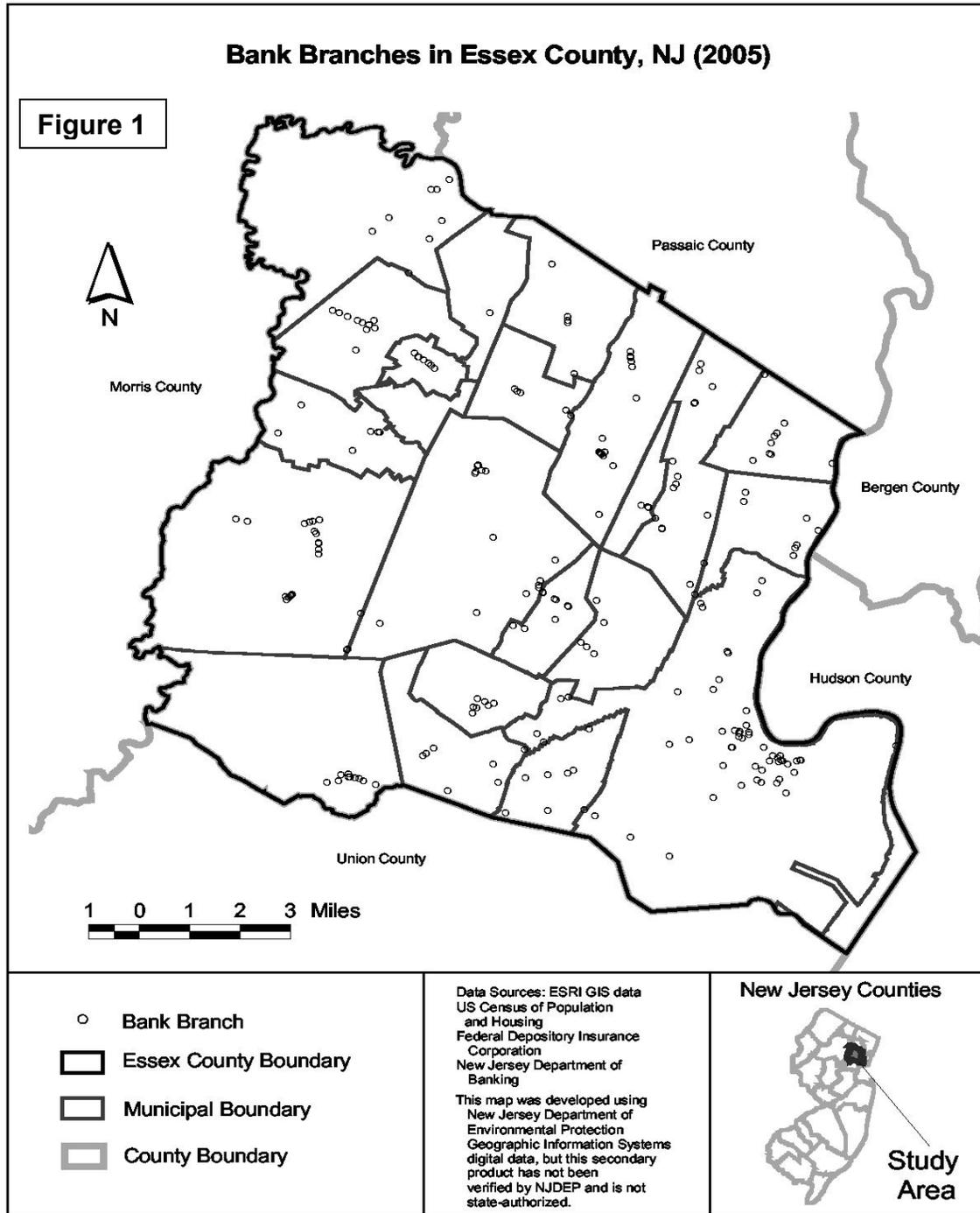
Yahonnes Cleary is Community Development Fellow at the New Jersey Institute for Social Justice (NJISJ). Special thanks to Giovanni Graziosi, MUP for preparing the maps and to Dr. Briavel Holcomb for supporting this project. Thanks also to Mary Morrison and Daniel Guarnera and to Tiarra Lee and Katherine Ribeiro from Newark Science High School for research assistance.

¹ See Appendix A for a detailed map of the study area.

² Ellen Seidman and Jennifer Tescher, "Unbanked to Homeowner: Improving Financial Services for Low-Income, Low-Asset Consumers" in *Building Assets Building Credit* (Brookings Institution Press, 2005).

II. Findings

Figure 1 shows the distribution of bank branches in Essex County. Each circle on the map represents a branch. As of September 2005, there were approximately 32 banks with branches in Essex County totaling 243 branches. Although these branches are widely distributed throughout the county, they are located in noticeable clusters, primarily in more dense commercial areas.



As shown in Figure 2, check cashing outlets in Essex County are located almost exclusively in and around Newark. Of the approximately 60 check cashing outlets in Essex County, approximately 40 are located in Newark while the remaining outlets are distributed in the surrounding municipalities of Irvington, East Orange, and Orange and in the neighborhoods of Belleville, Bloomfield, West Orange, and Montclair that are closest to Newark.

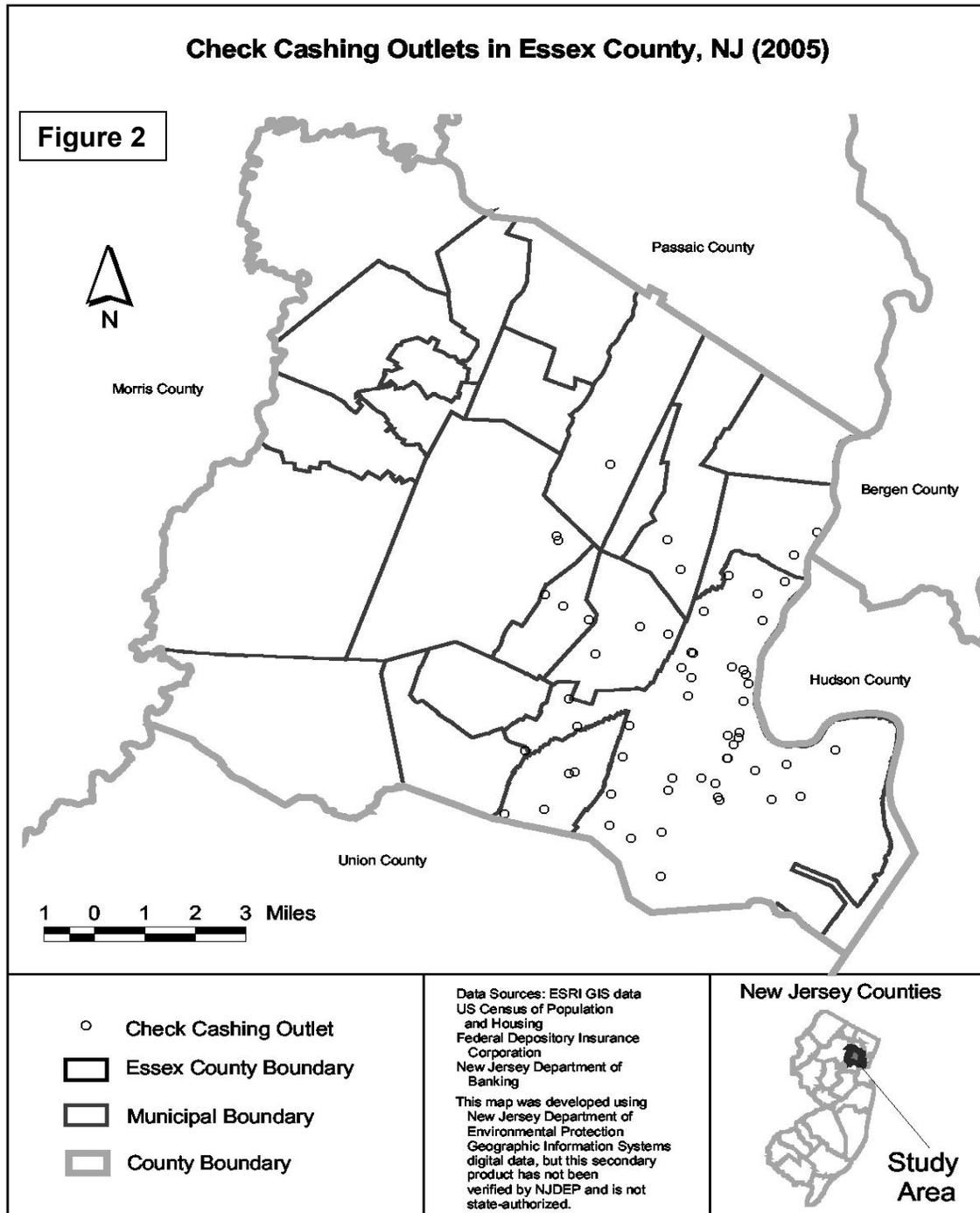


Table 1 presents summary data describing the geographic distribution of bank branches and check cashing outlets. This chart and the following maps were compiled from data from the U.S. Census, the Federal Deposit Insurance Corporation, and the New Jersey Department of Banking.

Table 1

		Number of Census Tracts			
		Majority low-income (66)	Non majority low-income (146)	Majority African-American/Hispanic (122)	Non majority African-American/Hispanic (90)
Number of Bank Branches	None	74%	48%	70%	37%
	1 to 7	18%	38%	25%	41%
	8 to 14	5%	10%	3%	16%
	15 to 32	3%	3%	1%	7%
Number of Check Cashers	None	67%	84%	74%	84%
	1 to 3	15%	10%	13%	10%
	4 to 7	12%	5%	9%	4%
	8 to 15	6%	1%	3%	1%

Sources: U.S. Census; Federal Deposit Insurance Corporation; New Jersey Department of Banking.

The above data is shown graphically in the maps presented in Figures 3 through 6 (pages 6-10). These maps show the distribution of bank branches and check cashing outlets in Essex County's low-income and minority communities. As specified in each map's legend, the hatched areas represent those census tracts with a majority of African American and Hispanic residents *or* tracts in which over 50 percent of households earn \$30,000 or less annually. The shading shows the concentration of bank branches and check cashing stores in each tract. Darker areas in the map have a greater number of financial institutions than do lightly shaded areas.

Figure 3 shows a sharp contrast in access to bank branches in census tracts with and without a majority of low-income households. Low-income tracts have far fewer bank branches than non-low-income tracts. While nearly 75 percent of the 66 tracts with a majority of low-income households do not have a single bank branch per 10,000 residents, more than half of the tracts without a majority of low-income households have at least one branch and nearly 15 percent have more than 8 branches.

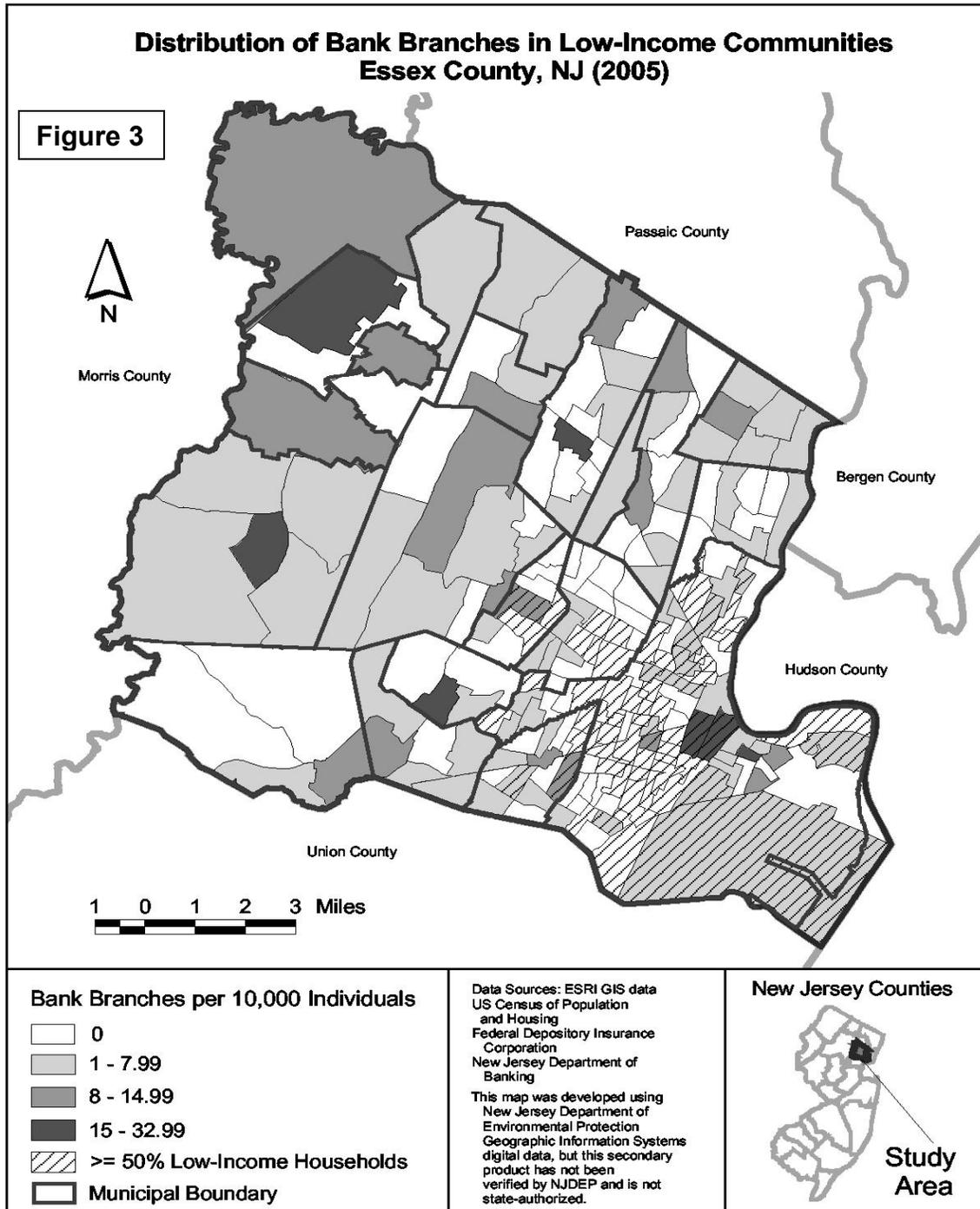


Figure 4 shows a sharp contrast in the distribution of check cashing outlets in low-income and non-low-income communities. Unlike bank branches, check cashing outlets are much more densely located in low-income tracts. At least one check cashing store is located in half of all low-income tracts compared to only one-fifth of all non-low-income tracts. Twenty-seven percent of low-income tracts have 4 or more check cashing stores per 10,000 residents while fewer than 7 percent of non-low-income tracts have a comparable number of stores.

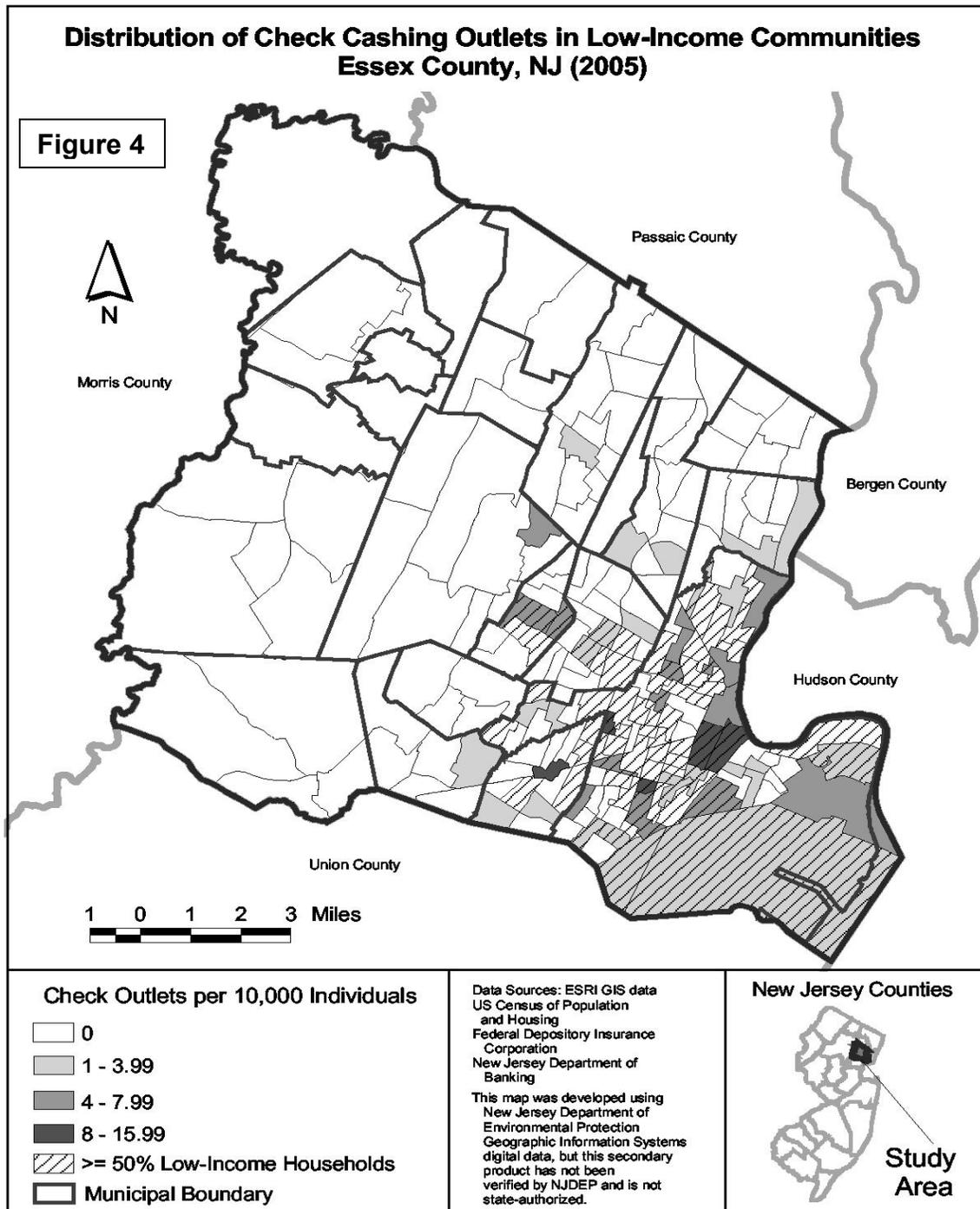


Figure 5 shows similar gaps in bank services in the county's majority African-American and Hispanic communities, particularly in Newark and East Orange. Minority tracts have far fewer bank branches than non-minority areas. Seventy percent of the census tracts with a majority of African-American or Hispanic residents do not have a single bank branch, which is nearly twice the share of non-minority tracts with no branches. Over 20 percent of non-minority census tracts have more than 7 branches, compared to less than 5 percent of African-American and Hispanic tracts.

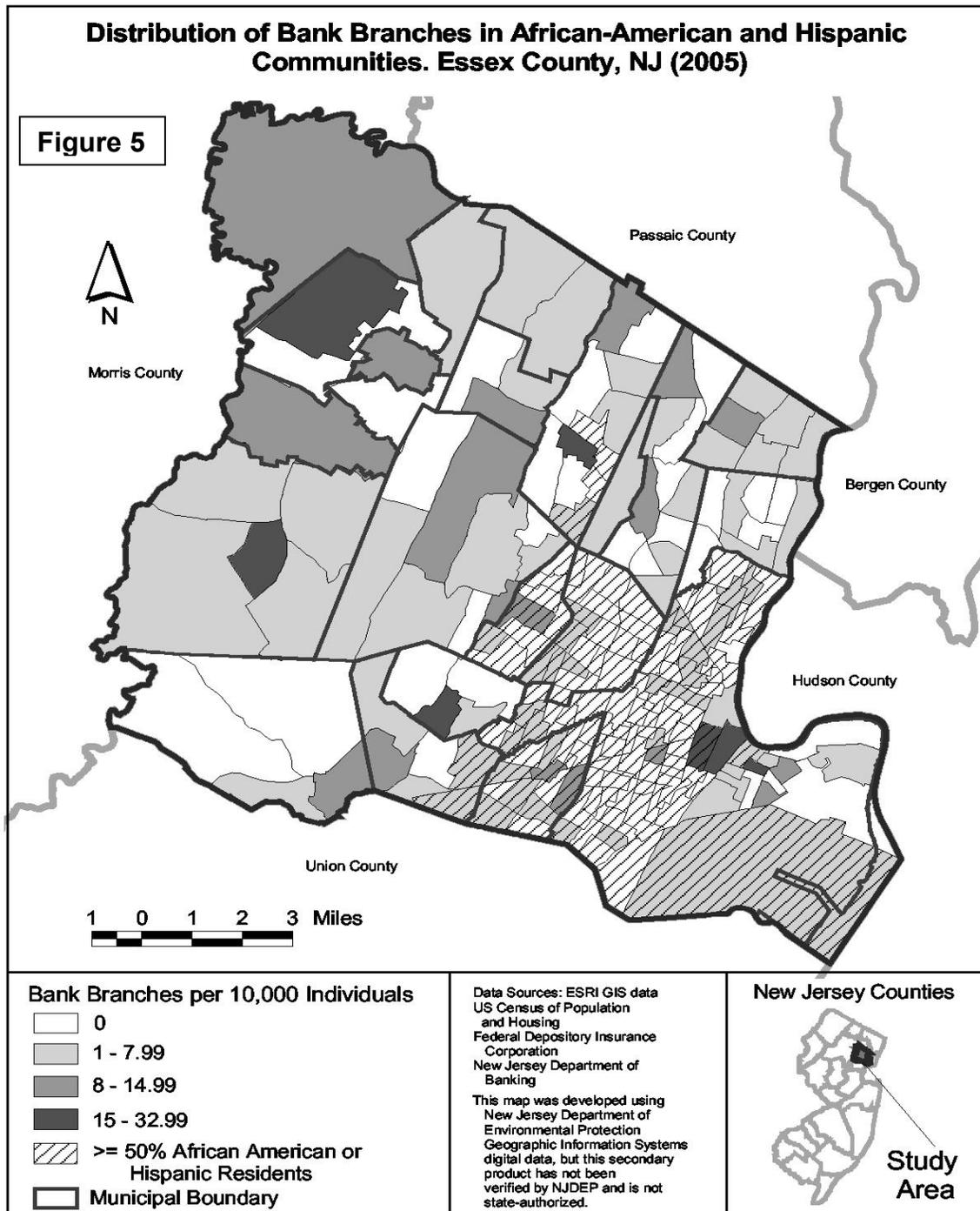
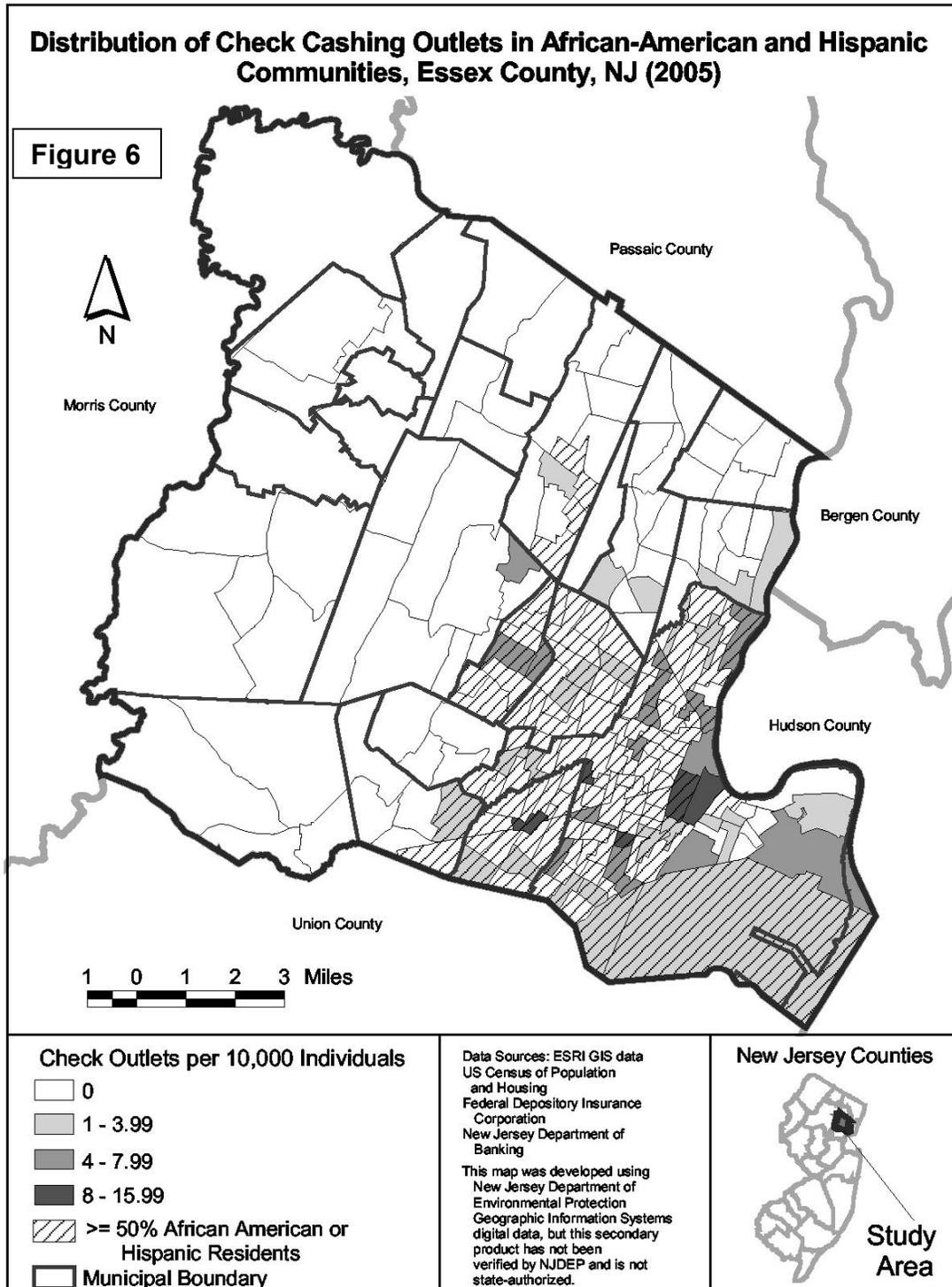


Figure 6 shows that minority communities are more likely to have check cashing stores than other areas (although Figure 4 illustrates that income level is more strongly correlated with the number of check cashers than is ethnicity). African-American and Hispanic census tracts are 10 percent more likely than non-African-American/Hispanic tracts to have at least one check cashing store per 10,000 residents and more than twice as likely to have 4 or more check cashing outlets per 10,000 residents.



III. Recommendations

In recent years, community organizations, local governments, and financial institutions have experimented with strategies to expand financial services and wealth-building opportunities in underserved markets. Some of these strategies have the potential to be effective in addressing the disparate access faced by low-income and minority Essex County residents. Three strategies in particular should be considered.³

1. Expanded service – There is a clear need for banks to expand service to underserved markets and communities. Community organizations and local governments also have a role to play. Municipal government in particular can develop incentives for bank expansion into underserved areas. A common incentive strategy is “linked deposit” programs through which local governments choose which banks to use as depositories of public funds based on community development criteria such as the banks’ service to low-income and minority residents. The City of West Orange recently established such a program requiring banks holding municipal deposits to demonstrate that they are meeting community needs, and in particular, serving unbanked, immigrant, minority, women, and low- and moderate-income residents.
2. New products – Local and county government and community organizations should work with banks and other financial institutions to expand the availability of products designed to meet the needs of underserved residents. Some financial institutions have already begun experimenting. One bank, for example, which has branches throughout urban Essex County, offers a “Foundation Checking” account designed especially for first-time account holders and others who have had past problems with previous accounts. Other experimental products include no-minimum or low-balance checking accounts, alternative payday loans, stored value cards, payroll cards, and pre-paid debit cards.
3. Outreach – New products will be ineffective unless accompanied by effective marketing and outreach efforts. Banks should work with trusted community organizations to market new products to targeted residents. Banks should also work through existing financial services efforts such as VITA tax preparation sites, which perform major financial transactions for thousands of low-income individuals. In Newark, nearly 1,000 residents filed their taxes through VITA sites during the 2005-06 tax season. Banks should work with preparers at these sites to tailor and market appropriate products to low-income filers.

³ This list is not meant to be exhaustive. Several organizations and individuals have undertaken more comprehensive studies of financial products designed for underserved consumers. See, for example, www.cfsinnovation.com, www.assetbuilding.org, and www.wodstockinst.org.

Appendix A: Map of Study Area

