

RESEARCH BRIEFS



Telenovela with a Financial Message

Most financial education lessons are written in English for an audience that's familiar with American culture. As a result, many of these programs may not appeal to immigrants who have limited English language skills or are unfamiliar with local customs. Yet many of these individuals could benefit from learning the basics of financial management and the American financial system. How can we bridge the cultural gap in financial education? One innovative approach is the *Nuestro Barrio* "telenovela," a Spanish language television program that delivers financial education through the engaging and culturally relevant soap opera format. It may be entertaining, but is this telenovela an effective means for delivering financial education to Latino immigrants?

Using data gathered from survey participants in the Raleigh/Durham area, Spader, Ratcliffe, Montoya, and Skillern analyze the effect of *Nuestro Barrio* in the context of a well-known theory of behavior change. They find that the show effectively raised viewer awareness about the benefits of bank account use and positively changed viewers' attitudes toward banks. However, viewers demonstrated small but statistically insignificant gains in financial knowledge. Still, the authors suggest that because it attracts a wide audience with its entertaining format, *Nuestro Barrio* may be an important tool for reaching households that might not otherwise seek financial education.

Thus, the telenovela may have limited impact as a standalone tool for financial education, but it could be successful as part of a broader strategy for delivering financial education to Latino immigrants. Ongoing efforts should continue to seek innovative ways to deliver culturally relevant content with wide appeal.

Spader, Jonathan, Janneke Ratcliffe, Jorge Montoya, and Peter Skillern. 2009. "The Bold and The Bankable: How the *Nuestro Barrio* Telenovela Reaches Latino Immigrants with Financial Education." *Journal of Consumer Affairs*, Volume 43, Issue 1.

The Impact of the EITC on Neighborhood Economic Development

The Earned Income Tax Credit (EITC) is a refundable tax credit for low- and moderate-income workers that helps offset payroll and income taxes, allowing these individuals to keep more of the money they earn. Research has shown that the EITC provides numerous benefits at the individual and family level, such as reductions in poverty and greater labor force participation and retention among low-income workers. But how do these effects at the individual level affect the community at large? In what specific ways, and to what extent, do "people-based" policies like the EITC affect the "places" in which low-income individuals live?

To answer these questions, Spencer analyzes the effect of the EITC in Los Angeles during the late 1990's and finds that the policy ends up being a de facto investment in poor neighborhoods, as low-income workers tend to live in close proximity to one another. Using data from the Internal Revenue Service and the U.S. Census, Spencer finds that the program channeled about \$495 million per year into Los Angeles' poor neighborhoods in 1997 and 1998. This injection of EITC dollars works out to roughly \$2 million per square mile in the poor areas of the county, in contrast to just \$850,000 per square mile for other parts of the county. Thus, even though the EITC increases income at the individual level, the program also channels significant financial resources to poor neighborhoods. Spencer also finds that the increase in financial capital resulting from the EITC is associated with an increase in the local retail job base in poor neighborhoods in Los Angeles. These findings suggest that the EITC does have an effect on the municipal-level economic base, reaching those neighborhoods that are most in need of economic development.

The significance of the EITC as a vehicle for investment in poor neighborhoods may lead policymakers and researchers to further explore the relationship between people-based antipoverty policies and place.

Spencer, James. 2007. "Neighborhood Economic Development Effects of the Earned Income Tax Credit in Los Angeles." *Urban Affairs Review*, Volume 42, Number 6.

Payday Loans and Credit Card Debt

Many Americans struggle to make ends meet and their paychecks never seem to go far enough. Individuals looking for an increase in cash flow have few options—most turn to credit cards or payday loans. Both options provide instant liquidity, but payday loans are generally a much higher cost option. Can consumers recognize these cost differences and choose the lowest-cost credit option?

Agarwal, Skiba, and Tobacman find that consumers aren't very effective at choosing the lower-cost credit option. Using a unique data set that merges loan records from a large payday lender with transaction and credit histories from a financial institution, they find that many individuals had a credit card yet still chose to take out payday loans. Two thirds of the matched sample had at least \$1,000 of available credit on their existing credit cards when they took their first payday loans (the typical payday loan is \$300). These individuals are choosing the higher cost payday loans, despite having access to lower cost funds from their existing credit cards. The researchers also examine the effectiveness of credit scores in predicting payday loan defaults, looking specifically at FICO scores and Teletrack scores, which emphasize information from subprime lenders (car title lenders, rent-to-own stores, and payday lenders). They find that Teletrack scores are eight times as powerful for predicting payday loan default compared to FICO scores. Using the two scores together further increases the ability to predict payday loan default: conditional on the Teletrack scores, higher FICO scores predict significantly higher repayment rates. The authors argue that credit card companies may also want to consider a customer's use of payday lending and his or her Teletrack scores in their own risk models: taking out a payday loan predicts nearly a doubling in the probability of serious credit card delinquency over the next year.

Consumers need to be made aware of the true costs of their credit options in order to address to this "liquidity puzzle." Also, lenders could use existing credit score information to better assess the repayment ability of borrowers when extending lines of credit.

Agarwal, Sumit, Paige Marta Skiba, and Jeremy Tobacman. 2009. "Payday Loans and Credit Cards: New Liquidity and Credit Scoring Puzzles?" *NBER Working Paper*, No. w14659.



Factors Affecting Exits from Homeownership

Policy efforts aimed at boosting homeownership for underrepresented populations have been in effect for over a decade, yet homeownership rates for minority and low-income households remain below those of white and high-income households. Differences in income and access to credit contribute to different rates of "entering" homeownership, and most policies are designed to make the purchase more affordable at the front end. But, households also "exit" homeownership at different rates, which affects the ownership gap between groups. Do populations that experience low homeownership rates also experience high homeownership exit rates?

Using data from the Panel Study of Income Dynamics for the periods 1970-1997 and 1999-2005, Turner and Smith find that low-income homeowners consistently have higher homeownership exit rates than high-income households. For the years prior to 1997, a good part of this differential can be attributed to family situation, such as divorce, but the gap persists after 1997, even though it cannot be fully explained by other observable characteristics, such as employment or wealth. Hispanic households have significantly higher exit rates relative to non-Hispanic households pre-1997, but the difference in exit rates is no longer significant post-1997: the authors conclude that low homeownership rates post-1997 are due to low entry rates, not high exit rates. In contrast, black households are not more likely to exit homeownership pre-1997, but a racial gap in sustainability appears to arise after that. 42 percent of black homeowners in 1999 exit homeownership by 2005, whereas only 26 percent of non-black homeowners exit homeownership during this period.

This study suggests that homeownership has not been a sustainable experience for black and low-income households relative to other groups. Programs that help underrepresented groups acquire a home are helping to close the ownership gap, but policymakers should also focus on sustaining homeownership over the long term.

Turner, Tracy M. and Marc T. Smith. 2009. "Exits from Homeownership: The Effects of Race, Ethnicity and Income." *Journal of Regional Science*, Vol. 49, No. 1, 2009, pp. 1-32.