Study reveals school savings accounts can dry up in 'financial deserts'

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Children's savings accounts (CSAs), offered by elementary schools throughout San Francisco and in schools across the nation, were introduced to boost college-going rates, limit student debt and foster equal opportunity for low-income children. However, San Francisco State University Assistant Professor of Management Ian Dunham finds that geography—particularly in neighborhoods that lack brick-and-mortar banks and credit unions—may play a key role in how much families with CSAs actually save for college.

Dunham, who teaches in San Francisco State's Lam Family College of Business, and two collaborators are the first to study the connection between economic inequality, a neighborhood's financial service environment and the CSA savings rates at nearby schools, according to their recent study published in the *Journal of Consumer Affairs*.

They examined San Francisco's Kindergarten to College (K2C) Program, one of the nation's oldest and largest CSA programs. Since 2012, the San Francisco Unified School District (SFUSD) has been opening savings accounts and depositing $50 for each new kindergarten through sixth grade student. Family and friends are encouraged to contribute to a student's saving account throughout their education and they're offered different incentives such as financial matching.

In collaboration with the San Francisco Office of Financial Empowerment, Dunham and his co-authors analyzed data from more than 21,000 CSAs at SFUSD's 74 elementary schools and mapped all the banks, credit unions, elementary schools and alternative financial services institutions, such as payday lenders, in the city. What stood out to them was the relationship between schools with the lowest savings rates, neighborhood demographics and the number of check-cashing establishments.

"Our study finds that schools in comparatively low-income neighborhoods that have few brick-and-mortar banks and credit unions and more payday lenders, check-cashing outlets and pawn shops, have lower savings rates," said Dunham. He calls such neighborhoods "financial deserts" for their lack of mainstream banking options.

"Fringe" financial service providers seek to attract unbanked and underbanked consumers by advertising themselves as low-cost, easy to use and culturally sensitive, Dunham says. However, these providers are not always transparent about fees and long-term reliance upon them is not necessarily beneficial to the asset-building strategies of low- to moderate-income households, he adds. Mainstream banks and credit unions offer consumer protections, including things like FDIC insurance and transparency. Participation in the financial mainstream makes it easier for people to save for the future and build a credit history.

While his research doesn't explain why people in financial deserts have lower CSA savings rates, Dunham says it does highlight a need for improving and promoting financial inclusion and financial literacy school programs. "We want to shine a light on neighborhoods that have been historically marginalized—be it through redlining, subprime mortgage lending, or other predatory financial practices—and spur a debate about how to best move forward in a way that's empowering and complimentary to the nuanced needs of residents in these communities."

Dunham said he hopes this research will also encourage the private sector and entrepreneurs to develop new technologies, be it an app or an online bank program with low fees, geared toward low- to moderate-income Americans. "Let's embrace technology and develop new financial services and products that reduce reliance on fringe financial services and make it easier to save and achieve personal financial goals," he said.

SF State could be on the forefront of this type of technology, Dunham says. The Lam Family College of Business recently received a $25 million gift from alumnus and digital currency entrepreneur Chris Larsen, his wife Lyna Lam and nonprofit Rippleworks that will launch a FinTech Initiative within the college. FinTech innovations aim to make every day financial transactions, such as money transfers and banking, cheaper and more accessible.

More information: Terri Friedline et al, The Financial Services Environment and Schools' Savings Rates in the San Francisco Kindergarten to College Program, *Journal of Consumer Affairs* (2019). DOI: 10.1111/joca.12264

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