

**Highlighting New  
Poverty Research****by Jane Cover, Amy  
Fuhrman Spring and  
Rachel Garshick Kleit**

Cover, Jane, Amy Fuhrman Spring, and Rachel Garshick Kleit. 2011. "Minorities on the Margins? The Spatial Organization of Fringe Banking Services." *Journal of Urban Affairs* 33(3): 317-44.

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The West Coast Poverty Center's **POVERTY RESEARCH FLASH** highlights new research by Center faculty affiliates and others on causes, consequences, and effective policy responses to poverty, with an emphasis on changing labor markets, demographic shifts, family structure, and social and economic inequality. More information about the West Coast Poverty Center is available from our website: [wpc.washington.edu](http://wpc.washington.edu)

**September 2011****Minorities on the Margins? The Spatial Organization of Fringe Banking Services**

**Background.** Using "fringe" banking services such as payday lending, check cashing, and pawn shops may provide services that are unavailable to individuals without traditional bank accounts or access to credit. However, using these high-cost products in lieu of traditional banking services can be much more expensive for consumers, can lead to cycles of debt, and may also serve as a barrier to asset accumulation, particularly for low-income households. A number of researchers have asked whether fringe banking providers are locating in poor or minority neighborhoods to take advantage of those consumers or whether traditional banks are avoiding these areas. Previous research has shown a link between the percent minority in an area and the concentration of fringe banking establishments. Because these studies have not controlled for other potentially confounding variables, such as the socioeconomic status of residents of an area or the level of commercial activity in an area, these may be spurious relationships.

**Methods.** WCPC Affiliate Rachel Kleit, along with her collaborators Jane Cover and Amy Fuhrman Spring, combined spatial data on business activity and the locations of traditional banks and credit unions and fringe banking establishments with Census data on ethnic concentration and neighborhood socioeconomic characteristics in four small and medium-sized metropolitan areas with varying ethnic compositions: Boise, Idaho; Yakima, Washington; Rapid City, South Dakota; and Waterloo-Cedar Falls, Iowa. The first two areas have Hispanic populations of varying sizes, with a large population in Yakima (41 percent) and a smaller one in Boise (11 percent). Rapid City has a large Native American population (9 percent), and Waterloo-Cedar Falls has a small minority population, and African Americans are the largest share (6 percent of the population). Using Poisson regression techniques, the researchers examined the explanatory power of models that included measures of the number of traditional banking establishments, the local business environment, socioeconomic factors, and ethnic group concentrations in predicting the number of fringe banking establishments in a neighborhood.

**Findings.** The researchers' results suggest that place matters for the location of fringe banking services, although the patterns they found vary across the four case study sites. They found mixed support for the suggestion that traditional banks avoid areas where fringe banking services locate. Only in Rapid City were traditional banks and fringe banks located in separate areas. In all four areas, commercial activity was a strong predictor of the number of fringe banking establishments. The possibility that fringe banks target ethnic neighborhoods also received mixed support. In Boise and Yakima, the cities with concentrations of Hispanic residents, business activity and socioeconomic factors could not explain the association between ethnicity and the prevalence of fringe banking establishments, suggesting that there may be targeting based on ethnicity in those areas. In the other two areas, the number of businesses and socioeconomic factors were significant predictors of fringe banking concentration, but ethnic concentrations were not.

# Poverty Research Flash

## **The West Coast Poverty Center**

at the University of Washington serves as a hub for research, education, and policy analysis leading to greater understanding of the causes and consequences of poverty and effective approaches to reducing it in the west coast states.

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## **Poverty Research Flash 2011-07**

### **Minorities on the Margins? The Spatial Organization of Fringe Banking Services**

**New research from Jane Cover, Amy Fuhrman Spring, and Rachel Garshick Kleit**

#### **Key Findings**

- Previous research has shown positive associations between the percent minority in an area and the concentration of fringe banking establishments. Because these studies have not controlled for other potentially confounding variables, such as the socioeconomic status of residents of an area or the level of commercial activity in an area, these may be spurious relationships.
- After combining spatial data on business activity and the location of banking establishments with Census data on population characteristics in four small and medium-sized metropolitan areas with varying ethnic composition, this research found mixed support for the hypothesis that fringe banking establishments are targeting minority neighborhoods.
- In all four areas, the level of business activity was the most significant predictor of the number of fringe banking establishments in a neighborhood. However, in Boise and Yakima, the metropolitan areas with concentrations of Hispanic residents, an association remained between neighborhoods with large concentrations of Hispanics and the prevalence of fringe banking establishments even after controlling for business activity and socioeconomic factors, suggesting that there may be targeting based on ethnicity in those areas.