Barriers to Banking: A Mixed-Methods Investigation of Former Offenders' Banking Perceptions and Financial Knowledge

Katherine (Kate) S. Mielitz, AFC®, Kansas State University[1]
Joy Clady, CFP®, Kansas State University[2]
Meghaan Lurtz, Kansas State University[3]
Kristy Archuleta, Ph.D., LMFT, CFP®, Kansas State University[4]

Keywords: incarcerated, banking, barriers, mixed methods, qualitative, quantitative, financial knowledge

Introduction & Literature Review

Trust is a primary reason for the success of the American banking system. Federal insurance companies, such as the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Administration (NCUA), provide assurance that customer-member funds on deposit are safe (FDIC, n.d.; NCUA, n.d.). However, not all Americans use the mainstream banking system to take care of their financial obligations and desires (Shobe, Christy, Givens, & Murphy-Erby, 2013).

The unbanked and underbanked populations disproportionately utilize alternative financial services (AFS), such as payday loans, check-cashing services, and refund-anticipation loans (Burhouse et al., 2014). Previous studies on AFS utilization have focused on demographics, including socioeconomic status (SES), race, and age (Friedline & Rauktis, 2014). Two under-studied populations are the incarcerated and recently released offenders who are transitioning back into mainstream society. These primarily low-income populations may be likely to use AFS and may lack financial knowledge pertinent to their transition. The few available studies regarding financial knowledge and the incarcerated (Galchus, 2014;2015; Koenig, 2007; Mielitz, 2015) indicate financial knowledge levels are low. No known previous literature has addressed the financial knowledge of recently released offenders. Borrowing from literature about low-income individuals and financial knowledge, Zhan, Anderson, and Scott (2006) found that having had a bank account was associated with pre-training knowledge in a financial program for low-income individuals. To help contribute to the paucity of research in this area, this study aimed to explore the banking behaviors, perceptions, and financial knowledge of a sample of recently released offenders. Utilizing a mixed method approach, this study sought to address the overarching research question, "How are banking perceptions and behaviors associated with financial knowledge of recently released offenders?"

Methodology

A mixed methods sequential explanatory design was utilized to study the overarching research question. A sequential explanatory strategy allows for quantitative data collection analysis followed by qualitative data collection and analysis to help explain the quantitative results. In this study, quantitative data was collected and analyzed that explored banking behaviors associated with financial knowledge. More specifically, the research question addressed in Phase 1 was: Is banking experience associated with increased financial knowledge?

Phase 2 examined the research question: What are the perceptions of the banking system that inform banking behavior among recently released offenders? To address the question, qualitative methods were employed to help inform the quantitative results. Two cases were established by groups of interviewees who (a) passed scoring a 70% or above (Case 1), and (b) failed (Case 2) the financial knowledge test.

Sample

In Phase 1, quantitative data was collected from incarcerated offenders who were within 90 days of their tentative parole or max out date. A total of 307 responses were received. Of the usable responses in this study, respondents (N = 269) were primarily male, Black, and had obtained a high school diploma/GED or less (Table 1). Over half of the respondents had been incarcerated more than once and the average time incarcerated for the current sentence was close to nine years.

In Phase 2, 150 of offenders who responded to the survey in Phase 1 were contacted to participate in a qualitative interview. In total, 47 offenders were interviewed within 1-4 weeks after their release. For the purpose of study, a total of 12 interviews, six in each case, were analyzed, using grounded theory analysis techniques that included open, axial, and selective coding. Interviewees for each case were selected based on similarities in age, gender, ethnicity, and education level, so that both pass and fail cases possessed similar demographic characteristics (Table 2).

Results

Quantitative Results

The quantitative financial knowledge test was a modified version of the Jump$tart instrument (Mandell, 2008). Two OLS regressions were conducted to investigate banking behaviors as a function of financial knowledge. The regressions (Table 3) reflect different banking behaviors as variables of interest in predicting higher financial knowledge scores. Issues with multicollinearity necessitated the split of the various banking behavior variables. With the exception of loan use, banking behavior variables were not predictors of financial knowledge, but they did improve the model.

Qualitative Results

Case 1 (Pass, n = 6). For those in the "pass" financial knowledge case, five main themes emerged: (a) confidence in banking (b) prudency in banking, (c) banking literacy (d) employment related perceptions, and (e) barriers. The confidence in the banking system theme reflected interviewees perceiving the banking system as trustworthy and useful. Prudency of banking referred to positive judgements toward banking in general related to responsible financial behavior, personal ownership, and believing that banking was a necessity. Banking literacy related to participants being aware of banking services and perceived themselves as having ability to apply the banking knowledge. The theme of perception connected to employment encompassed interviewees' beliefs of bank account being directly associated with a job. In other words, when a person gets a job, these interviewees believed they needed a bank account. Barrier to banking referred to interviewees' experiences of encountering a roadblock or barrier, preventing them from using a bank upon release. For these interviewees not having appropriate identification was commonly cited as a barrier.

Case 2 (Fail, n = 6). Four major themes emerged for those who failed the financial knowledge test. These themes included: (a) banking myopia, (b) prudency of banking, (c) barrier to banking, and (d) trepidation towards banking. Banking myopia reflected interviewees' beliefs about the need, usefulness, and products available at banks. Prudency of banking referred to the positive judgements towards banking, in general, which related to responsible behaviors and viewing the bank as less hazardous than alternatives like putting money under the mattress. Similar to the "pass" financial knowledge case, barrier to banking referred to interviewees encountering roadblocks that prevented them from using the bank upon release. Trepidation towards banking reflected interviewees' feelings of fear and anxiety related to perceptions of the banking system due to the lack of experiences with the banking system, naivety, misunderstanding, and lack of financial knowledge.

Discussion and Implications

Those in both pass and fail cases felt the act of banking was responsible and indicated interest in a banking relationship rather than just being another account. Both groups also reported barriers accessing banking. For example, TC Respondent 104 (Pass) said she used the bank where the (Transitional) Center does business,

> "...'Cause I didn't have a driver's license. The only thing I had was the release ID."

In contrast, the pass and fail cases perceived the banking system in different ways. For example, members of the pass group believed banking was essential. TC Respondent 244 explained how his parents influenced his perceptions of the banking system:

> "...use the banking system as a means uh to an end. And uh help safeguard my money. Um, and so there's confidence…."

Conversely, the fail group presented banking as the lesser of two evils. TC Respondent 103 said,

> "I honestly really don't like the banking system. Well, I, I don't like carrying a bunch of cash around either."

The results from the qualitative study help to inform the quantitative results in three ways. First, the lack of a significant connection between basic banking tools (e.g., debit card) and financial knowledge as well as the banking myopia theme may indicate that the use of the basic banking tools does not necessarily speak to the respondent's understanding of financial institutions. Second, having experience with taking out a loan – a more advanced banking service – was connected to higher financial knowledge. Qualitative analyses revealed that respondents with higher financial knowledge often had experience with more complex products and expressed a broader understanding of banking. The use of a loan may have necessitated the development of a personal relationship with the bank and introduced loan related concepts. Finally, interviews uncovered a feeling of trust in the banking system among the respondents who passed. This trust may have boosted the respondents' willingness to utilize banks beyond the basics.

Limitations

This study encountered several limitations. First, only offenders located at transitional centers (TCs) in a southern state were surveyed and then interviewed following release. Although the results from this study can provide helpful implications, the sample is not nationally generalizable. Second, interviewees seemed confused at times when responding to questions. The confusion may reflect interviewees' (a) lack of financial knowledge but answering to please the interviewer and (b) attempt to demonstrate to the interviewer that they participated in what they perceived were appropriate financial behaviors.

Implications

With the Community Reinvestment Act (CRA) in mind, banks close to TCs are well-positioned to develop financial rehabilitation programs for offenders being released. Programs in which simulation experiences can be provided may help offenders to gain knowledge and experience implementing skills. Additionally, financial educators can help provide classroom knowledge beyond basic banking skills, by teaching about the range of financial services banks offer that are geared toward the recently released and low-income populations. Most importantly, financial educators, banks, and TCs should partner to close the financial knowledge and experience gap of recently released offenders; offering them steps toward successful financial rehabilitation.

References

Boss, P. (2002). *Family stress management: A contextual approach* (2nd ed.). Thousand Oaks: Sage Publications.

Burhouse, S., Chu, K., Goodstein, R., Northwood, J., Osaki, Y., & Sharma, D. (2014). *2013 FDIC National Survey of Unbanked and Underbanked Households*. Washington, DC: Federal Deposit Insurance Corporation.

FDIC (n.d.) https://www.fdic.gov/about/strategic/strategic/mission.html

Friedline, T., & Rauktis, M. (2014). Young people are the front lines of financial inclusion: A review of 45 years of research. *The Journal of Consumer Affairs, 48*(3), 535-602.

Karger, H. J. (2005). Credit and financial services in America's fringe economy. *Social Development Issues, 27*(2), 86-101.

Lyons, A., & Scherpf, E. (2004). Moving from unbaked to banked: Evidence from the Money Smart Program. *Financial Services Review, 13*(3), 215-231.

Mandell, L. (2008). The financial literacy of young American adults. Retrieved from http://www.jumpstart.org/assets/files/2008SurveyBook.pdf

Mielitz, K. S. (2015). Financial Education for Prisoners: Program Development and Implementation in a Work-Release Facility. Proceedings of the Association for Financial Counseling and Planning Education. Retrieved from http://www.afcpe.org/wp-content/uploads/2015/11/2015-Proceedings-Final-1115.pdf

NUCA (n.d.) https://www.ncua.gov/About/Pages/Mission-and-Vision.aspx

Prawitz, A. D., Kalkowski, J. C., & Cohart, J. (2013). Responses to economic pressure by low-income families: Financial distress and hopefulness. *Journal of Family and Economic Issues, 34*, 29-40. doi: 10.1007/s10834-012-9288-1

Shobe, M.A., Christy, K., Givens, A., Murphy-Erby, Y. (2013). The fringe economy: Predictors of utilization among low-and moderate-income households. *International Journal of Arts & Sciences, 6*(3), 375-389.

Zhan, M., Anderson S. G., & Scott, J. (2006). Financial knowledge of the low-income population: Effects of a financial education program. *Journal of Sociology and Social Welfare, 33*(1), 53-74.

Table 1. Financial Knowledge of Former Offenders: Descriptive Statistics (N = 269)

Variable	n	%	*M*	*SD*
Gender				
Male	244	90.71%		
Female	25	9.29%		
Age			37.952	10.671
Race				
Black/African American	169	62.83%		
Non-black/non-African American	100	37.17%		
Education				
Less than high school/GED	63	23.42%		
High school graduate/GED	143	53.16%		
More than high school	63	23.42%		
Employment status at time of arrest				
Full-time (30+ hours per week)	153	56.88%		
Less than full-time(incl. unemployed)	116	43.12%		
Number of times incarcerated				
Once	105	39.03%		
Twice	53	19.70%		
Three times	42	15.61%		
Four times	28	10.41%		
Five or more times	41	15.24%		
Total time incarcerated (months)			105.807	84.501
Financial knowledge score (out of 12)			7.015	2.007
Had account prior to arrest				
No	156	57.99%		
Yes	113	42.01%		
Type of account				

Checking	28	10.41%		
Savings	16	5.95%		
Both	69	25.65%		
No account	156	57.99%		
Use of online banking				
No	81	30.11%		
Yes	39	14.50%		
Not applicable	149	55.39%		
Use of debit card				
No	18	6.69%		
Yes	102	37.92%		
Not applicable	149	55.39%		
Write checks				
No	71	26.39%		

Table 1 Continued

Variable	n	%	*M*	*SD*
Yes	49	18.22%		
Not applicable	149	55.39%		
Use the ATM				
No	13	4.83%		
Yes	107	39.78%		
Not applicable	149	55.39%		
Take out a loan				
No	83	30.86%		
Yes	37	13.75%		
Not applicable	149	55.39%		
Bank credit card				
No	233	86.62%		

Yes	36	13.38%
Overdrawn account		
No	111	41.26%
Yes	20	7.43%
Not applicable	138	51.30%
Comfort balancing checking account		
Very comfortable	107	39.78%
Somewhat	93	34.57%
Not very	18	6.69%
Not at all	51	18.96%

Table 2. Financial Perceptions of Former Offenders: Descriptive Statistics for Small Qualitative Group (N = 12)

Variable	n (Pass)	n (Fail)
Gender		
Male	3	3
Female	3	3
Age (years)	43.5	35.5
Race		
Black/African American	4	4
Non-black/non-African American	2	2
Education		
Less than high school/GED	0	1
High school graduate/GED	0	2
More than high school	6	3
Total time incarcerated (months)	93.5	65.2
Banked prior to incarceration	6	4

Table 3. Regression Results. Dependent Variable: Financial Knowledge (N=269)

	Model 1		Model 2	
Variable	*B*	*SE B*	*B*	*SE B*
Constant	5.527***	0.653	5.826***	0.640
Gender (female)				
Male	0.069	0.417	0.013	0.414
Race (Non-Black/non-African American)				
Black/African American	-0.480	0.264	-0.555*	0.259
Number of times incarcerated (Once)				
Twice	0.658*	0.329	0.564	0.326
Three times	-0.263	0.374	-0.360	0.366
Four times	-0.331	0.462	-0.469	0.453
Five or more times	-0.488	0.381	-0.673	0.372
Employment (< full-time, incl. unemployed)				
Full-time (30+ hours per week)	0.155	0.250	0.186	0.252
Education (Less than high school/GED)				
High school graduate/GED	1.134**	0.290	1.145**	0.291
More than high school	1.530***	0.363	1.599***	0.363
Age group (33-39)				
19-25	-0.449	0.407	-0.546	0.405
26-32	0.168	0.348	0.120	0.347
40-46	0.238	0.364	0.230	0.364
47+	-0.126	0.371	-0.049	0.366
Banking experience				
Debit card	0.057	0.282		
Loan	0.965*	0.430		
Checks	-0.094	0.388		
Had account prior to incarceration (No)				
Yes			0.247	0.263
Comfort balancing checking account (Very)				
Somewhat	0.246	0.276	0.174	0.274
Not very	0.465	0.494	0.364	0.495

Not at all	-0.073	0.341	-0.121	0.342
Intent to open account after release (No)				
Yes	0.551	0.316	0.453	0.316
Adjusted R^2	.149		.138	

*p < .05. **p < .01. ***p < 0.001.

[1]Ph.D. Candidate, Institute of Personal Financial Planning, Kansas State University, Manhattan, KS. Phone: 706-840-6140. Email: mielitz@k-state.edu.
[2]Ph.D. Candidate, Institute of Personal Financial Planning, Kansas State University, Manhattan, KS. Email: cladyjoy@k-state.edu.
[3]Ph.D. Student, Institute of Personal Financial Planning, Kansas State University, Manhattan, KS. Email: meghaan@k-state.edu.
[4]Associate Professor, Institute of Personal Financial Planning, Kansas State University, 316 Justin Hall, Manhattan, KS. Phone: 785-532-1474. Email: kristy@k-state.edu.