

Financial Services, Saving and Borrowing
Among Low- and Moderate-Income Households:
Evidence from the Detroit Area Household Financial Services Survey

Michael S. Barr
University of Michigan Law School
625 South State Street
Ann Arbor, MI 48104
msbarr@umich.edu

Forthcoming in

*Insufficient Funds:
Savings, Assets, Credit and Banking Among Low-Income Households*

Michael S. Barr & Rebecca Blank, eds.

Draft: March 30, 2008

Introduction

This paper presents new empirical evidence documenting the financial services behavior of low- and moderate-income (LMI) households.¹ The Detroit Area Household Financial Services (DAHFS) survey uses a random, stratified sample to explore the full range of financial services used by LMI households, together with systematic measures of household preference parameters, demographic characteristics, and households' balance sheets. Results from over 1,000 interviews in the DAHFS study suggest that the structure of the financial services, credit and payments systems in the formal and informal sectors imposes a significant efficiency cost on LMI households.

Within the severe constraints that they face, LMI households seek to use both formal and informal mechanisms available to them to manage their financial lives. Like their higher-income counterparts, LMI households regularly conduct financial transactions: they convert income to a fungible medium, make payments, save, borrow, seek insurance, and engage in necessary financial and economic decision-making. Yet the financial services system is not designed to serve them well.

The line between formal and informal financial services systems used by LMI households is not impermeable. Contrary to popular belief, being unbanked is not a fixed state. Most of the unbanked previously had a bank account, and a good number of banked households were recently unbanked. While the unbanked are much more likely

¹ This paper is based on joint work with Jane Dokko and Benjamin Keys. Any errors are the author's alone. Data are from Michael S. Barr, Principal Investigator, Detroit Area Household Financial Services (DAHFS) Study, Survey Research Center, University of Michigan (2006). The DAHFS was supported by the Ford Foundation, the MacArthur Foundation, the Annie E. Casey Foundation, the Fannie Mae Foundation, the Mott Foundation, the Community Foundation of Southeast Michigan, the National Poverty Center, CLOSUP, and the Provost, Vice President for Research and Law School of the University of Michigan. The views presented here are those of the author and not of the supporting organizations.

to turn to alternative providers than banked households, even banked individuals often use some alternative financial services (AFS) providers, such as check cashers, that operate outside the formal banking system. In fact, one type of alternative credit provider, payday lenders, exclusively serve banked households. Though associated with high fees, both banked and unbanked sample members often describe AFS transactions as convenient. At the same time, bank accounts are usually not well structured to serve LMI households. Bank fees are quite high, and over half of banked LMI households reported paying minimum balance or overdraft or insufficient fund fees in the previous year. The financial services mismatch between the needs of LMI households and the products and services offered to them largely constrains LMI households to choose among high fee, ill-structured products offered by banking and AFS institutions. These constrained choices reduce take home pay, make it harder to save, and more expensive to borrow.

The paper first briefly describes the financial services marketplace for low- and moderate-income households. The following section describes the source of data for the paper. Next, the paper analyzes the mix of banking and alternative financial services used by banked and unbanked households. The section then analyzes why LMI households use these services, and the tradeoffs involved in their usage decisions. The paper then turns to savings patterns and attitudes among such households and the choices they make regarding their savings behavior. Lastly, the paper suggests directions for financial services and savings policy, and then concludes.

The Financial Services Marketplace for LMI Households

The financial services system does not serve LMI households well. While the overwhelming majority of low- and moderate-income households have and use bank

accounts, these households, and their “unbanked” counterparts, often face high costs for transacting basic financial services, significant barriers to saving, and more expensive forms of credit (Barr 2004; Barr and Blank, this volume). High cost and inadequate financial services reduce take-home pay, and increase the costs of administration and compliance for essential governmental programs, including Social Security, the Earned Income Tax Credit and income transfer and welfare-to-work programs administered by the states. In addition, high cost and inadequate financial services diminish the opportunities for LMI households to save readily. Saving is critical for LMI households, in part because LMI households are vulnerable to income shocks, medical emergencies, even car repairs that can upset their fragile financial stability. Moreover, the lack of account ownership and savings increases their cost of credit, reduces their opportunities for stable homeownership through sound credit choices, and diminishes their ability to save or borrow to invest in their own human capital and that of their children.

Nationally, nearly 25 percent of low-income American families – those earning under \$18,900 per year – are “unbanked.” (Bucks et al. 2006). Even among moderate-income households earning between \$18,000 and \$33,900 per year, nearly 13 percent of households lack any bank account (id.). These households lack the basic mechanisms provided by our formal financial system for the receipt of income, the store of its value, and the payment of bills. They also lack ready opportunities for saving in interest-bearing accounts as well as the ease of direct deposit and automatic savings plans that can significantly increase the level and rate of savings over time.

These unbanked households do not, however, escape the need to use financial services. Rather, they piece together strategies to use AFS providers and informal

mechanisms to achieve their financial needs. In doing so, they often seek to optimize within severe external constraints, constraints that impose serious financial costs. For example, while check cashers offer essential services, the fees involved in converting paper checks into cash are high, relative both to income and to analogous services that middle- and upper-income families use, such as depositing a check into a bank account or electronic direct deposit (Barr 2004). Pawnshops, check cashers, rent-to-own stores, tax refund lenders, and other AFS are often the dominant means for LMI households to access financial services in their neighborhoods, but they come at a high cost.

Beyond the “unbanked,” moreover, many additional low- and moderate-income families have bank accounts, but also rely on high-cost AFS providers to conduct much of their financial business—such as cashing checks, buying money orders, paying bills, or taking out payday loans. Normatively, one might think of these families as “underbanked,” in the sense that formal financial institutions are not offering them the products and services that they need in their daily lives, despite having a bank account. Far too little attention has been paid to the ways in which even “banked” LMI households are ill-served by the financial system.

Despite the importance of financial services to the lives of LMI households, little scholarly attention was paid to the topic until the path-breaking work of John Caskey (1994). Caskey showed what careful attention to the financial behaviors and attitudes of LMI households could yield in terms of a more nuanced understanding of the choices facing them. Existing national data sources that focus on financial services, such as the Survey of Consumer Finances, are geared towards the financial services used by middle- and upper-income households and over-sample wealthy households; surveys that include

large numbers of low-income households, such as the SIPP, are not focused on financial services (Scholz and Sheshadri, this volume). At the Office of the Comptroller of the Currency (OCC), which supervises national banks, Dunham et al. (1998, 2001) implemented the first random, stratified survey geared towards understanding the financial behaviors of LMI households. Shorebank, a leading community development bank, implemented a second such study (Seidman et al., 2005). Both studies, however, lacked sufficient data regarding income, asset and debt levels, employment, the broad range of financial services usage patterns across transactional services, credit, insurance, and savings, and the attitudes and preferences of LMI households.

To explore the range of financial services needs, behaviors and attitudes of LMI households, as well as the constraints that they face, collecting additional field data was imperative. LMI households operate in the context of severe constraints on income and wealth and limited supply of financial services. Understanding the costs of different financial services choices, the nature of products and services offered to LMI households, the framework within which LMI households make their financial decisions, and the preferences and attitudes of LMI households can help us to understand better both why households are unbanked and whether and how to seek to alter that status. While there are many reasons for the lack of bank account ownership among LMI households, their preferences interact with the financial and non-pecuniary costs of account ownership in their decisions to become and remain unbanked. Uncovering the tradeoffs households are willing to make between the costs and benefits of bank account ownership is paramount to ascertaining how to integrate the unbanked into the financial mainstream. In addition, preferences determine whether varying account features will induce increases

in account ownership. Despite the need to understand the role of preferences, there is little research to inform us of households' preferences for bank account ownership, as well as the kinds of products that they would find attractive enough to open some type of bank account, if banks were willing to offer such accounts to them.

As currently structured, the financial services system does not work for LMI households. For many LMI households, checking accounts are ill-suited to their needs; and for many financial institutions, checking accounts are expensive to offer for low-balance accounts (Barr, 2004). Living paycheck to paycheck, LMI households face a significant risk of over-drafting their checking accounts and paying high fees. Many LMI households have had a bank account in the past, but were unable to manage their finances to avoid overdrafts or insufficient-funds fees, or unwilling to pay high fees. Minimum balance requirements may also be a significant barrier for low-income households. By contrast, if banks could be encouraged to offer low-cost, electronically based bank accounts and payment cards, without the costly attributes of the checking system, these types of accounts in principle might provide a more efficient and effective means of serving the financial services needs of LMI households, if such households would use them; no empirical study, however, had asked LMI households about their preferences for these types of products and services.

Description of Survey, Sampling, and Data

The Detroit area study, conducted with the University of Michigan's Survey Research Center, attempted to fill that gap. The data for this paper are from a survey the

author and Jane Dokko designed, which was administered by the Survey Research Center (SRC) at the University of Michigan. The survey focuses on LMI individuals' experiences with formal and informal financial institutions, in addition to their socio-economic characteristics. Because there is no such comprehensive survey about the financial services experiences and attitudes of low- and moderate-income households, the questionnaire required extensive development, pretesting, and validation. There were numerous challenges in tailoring a survey for LMI households. We built on the work of the OCC and Shorebank, described above, which had conducted more limited surveys regarding low-income households' banking status, as well as the Survey of Consumer Finance, Panel Study on Income Dynamics, and the Health and Retirement surveys, which are not focused on low-income households and are not tailored to their experiences. We adapted questions for LMI households, developed a wide range of new questions to cover the broad range of financial services of interest, and vetted the survey instrument with our advisory board and a wide range of outside experts in financial services, low-income communities, survey methodology, psychology, sociology, economics and related disciplines, as well as with practitioners.

SRC's Survey Methods Group provided invaluable assistance in working with us on question wording and ordering. We also conducted extensive pretesting on a representative subsample of LMI households to validate our methodology and instrument. Moreover, we were concerned about the overall literacy level and the ability of LMI households to provide reliable responses to seemingly difficult questions about financial behavior and individual preference parameters. To address these concerns, we conducted cognitive interviews regarding the most difficult questions and modified the

instrument based on how these subjects processed the questions. The final survey was programmed for computer-assisted, in-person interviewing, and then the programmed survey was tested again multiple times.

In addition to standard survey methodology, we employed a conjoint, choice-based test of consumer preference. In this survey, we asked LMI households to choose from among sets of hypothetical purchase cards with varying features and price. We analyze these data using a hierarchical discrete-choice model and investigate consumers' preferences for alternative payment card designs. The conjoint analysis focuses on a payment card intended to facilitate the receipt of income, storage of value, and payment of bills. We chose this type of an account for two main reasons. First, as noted above, electronically based bank accounts and payment cards can be offered by financial institutions, payment card providers, employers and government agencies at lower cost and lower risk to LMI households, as compared to checking accounts. But little is known about whether such products provide sufficient utility to LMI households to generate scale. Second, given the inefficiencies in the payments system from an over-reliance on paper checks, which impose costs on the national economy, we felt that exploring the potential take-up of a payment card would be useful for policy. Increasing the efficiency in the payments system for the poor could have modest positive effects on the economy as a whole. Because of positive network externalities, funds spent converting the poor to electronic payment might speed conversion to electronic payments more generally.

After a year's work on sample design and survey development, we were in the field interviewing households from July 2005 through March 2006. In addition to SRC's regular oversight of our field staff, the SRC's Survey Design Group aided in monitoring

and, as necessary, adjusting our field strategy. The final survey instrument is, on average, approximately 76 minutes in length, and required nearly 9 hours of interviewer effort for each completed interview. All interviews were conducted in person, usually in the home of the respondent. Occasionally, interviews were conducted at the respondent's place of work, in their automobile, or at other locations.

Our sample consists of 1,003 completed interviews, with a response rate of 65 percent. The sample members are selected to form a stratified random sample of the Detroit metropolitan area (Wayne, Oakland, and Macomb counties). We drew sample members from census tracts with median incomes that are 0-60% ("low"), 61-80% ("moderate"), and 81-120% ("middle") of the Detroit area's median income of \$49,057. The sample frame includes more census tracts from the LMI strata than the middle one. Hence sample members are more likely to be drawn from the low- and moderate-income strata. Stratum definitions do not, however, restrict the income levels of the sample members to fall within these ranges. For purposes of this paper, data are restricted to households living in LMI census tracts and are weighed to represent these LMI communities. Household income largely mirrors tract-wide medians, but data reported here are not otherwise restricted with respect to the income of households in LMI tracts.

Overall, the demographic characteristics of our sample reflect the average characteristics of LMI households in the Detroit metropolitan area as reported by Census, although a significantly higher percentage of our sample is female as compared to Census data for the Detroit area (see Table 1). Our sample is socio-economically disadvantaged relative to the average American household. The sample is more two-thirds African-American and nearly two-thirds female. Only 20% of respondents are currently married,

and 46% have never been married. Nearly 30% have less than a high school diploma, but 47% have some education beyond high school. While most of the respondents are of working age, only 54% were employed at the time of interview. The median household income of the sample is \$20,000, which is much lower than the Detroit metropolitan area's median income of \$49,057 and the national median of \$44,684. Thirty-three percent of these households lived below the poverty line. The modal respondent to the survey is an African-American working-age woman, without children, who has lived in the Detroit area for a long time. Her income from work is low and close to the federal poverty line, and she likely receives some assistance from the government.

Unbanked Household Financial Behaviors and Preferences for Banking Services

While most LMI individuals have bank accounts, a significant portion does not. Twenty-nine percent of individuals in our sample do not have a bank account. Some of these individuals live in households in which another adult has an account, which in some instances may be available to meet the needs of the unbanked individual in the household. Although 29% of individuals in our sample are unbanked, nearly a fifth of unbanked respondents live with another adult with a bank account, leaving 23% of all households in the DAHFS sample unbanked. This sample proportion is consistent with previous large-scale surveys of the low- and moderate-income population, which have estimated the proportion unbanked as 20-30% of households and 28-37% of individuals (Aizcorbe, 2003; Dunham, 1998; Seidman, 2005). Evidence from the nationally-

representative Survey of Consumer Finances suggests that the number is close to 10% of the overall population (Aizcorbe, 2003).

The unbanked subpopulation of our sample differs from the banked population in several observable ways (see Table 1). The unbanked group is younger, predominantly African-American, and with relatively less education than the banked. The unbanked are much more likely to be unemployed and much more likely to live below the poverty line. Only 42% of the unbanked are employed, and 50% of the unbanked live in poverty. The unbanked are economically more isolated and have worse job prospects than those with bank accounts.

Despite these demographic differences, being unbanked is not a permanent state of the world (see Table 2). Of the sub-sample of unbanked respondents, 70% previously had a bank account, and 66% of these individuals had an account within the last 5 years. Among those who formerly had a bank account, 70% chose to close the account themselves, citing moving, worrying about bouncing checks, and excessive fees as their reasons for closing the account. The remaining formerly banked, 30%, report that their bank closed their account. In the majority of cases in which the bank closed their account, the primary reason was bounced checks and overdrafts. Without bank-based transactions, the first option for the formerly banked respondents in seeking financial services is a grocery or liquor store (55%), which often cash checks and sell money orders, though many of the formerly banked individuals turned to check cashing outlets (31%) for their financial services (see Table 3).

Not only are the bulk of the unbanked formerly bank account holders, but the reverse is sometimes true as well: many banked households had previously been

involuntarily unbanked. Despite currently being banked, 12% of bank account holders had a previous bank account closed by the bank (not due to a move). Nearly 2/3 of the banked say the accounts were closed by the bank due to a low balance or an inactive account (63%), or bounced checks or overdrafts (51%). Despite having been previously made unbanked, these households were able to transition back into the banking system. In addition to those who had had their accounts involuntarily closed, a large portion of the banked had previously closed a different account. Nearly 55% of the banked sub-population closed a previous bank account, most commonly because of the convenience of another bank (27%), or a desire to reduce excessive fees (21%). Far from the belief that banked or unbanked status is a permanent state, tightly linked to demographics or attitudes, in fact there appears to be a great deal of cycling in and out of being banked.

Moreover, the unbanked report that they would prefer to be banked. There is significant interest among the unbanked population in entering the mainstream financial services sector. Of the unbanked respondents, 75% say they would like to open a bank account in the next year, and 33% say they have recently looked into getting a bank account. However, 17% report that a bank denied their application to open a bank account when they sought to open one, reflecting continued external constraints on account opening.

Unbanked individuals report a variety of reasons for why they were unbanked (see Figure 1). About two-thirds cite primarily financial reasons for their current status. Such financial reasons get described in different ways, but can be analyzed as relating to low income and asset levels of the household in relation to high bank fees or other bank requirements. For example, 15% report that they do not have enough money, 10% report

that they are unemployed, and 16% report that they don't need one; these might be thought of as demand-reducing functions. Financial supply reasons include the 8% of respondents who cite high bank fees. Non-financial reasons include not trusting banks (6%), inconvenience, the belief that bank accounts are not secure, or the belief that one can have more control over one's finances or conduct transactions more easily without an account (about 5% for each of these latter three reasons).

To assess which barriers to account opening were most important to the unbanked, they were asked to focus on what improved feature of a bank account would make them most likely to open an account (Figure 2). For 29% of the sample, lower fees were perceived as the primary facilitator to opening an account, while 20% considered more convenient bank hours and locations as being the most important reason why they might open an account. Respondents cite less confusing fees (16%), lower minimum balances (14%), and the ability to get money faster (10%) as the other main obstacles they'd like to see removed. More than 10% stated that none of these changes in bank account features would encourage them to open an account. Figure 2 reports the distribution of responses of the unbanked regarding the feature that would make them most likely to open a bank account.

Household Preferences for Electronic Banking and Payment Cards

To further test these preferences, we included a discrete choice method to predict consumer interest in payment cards as a function of the features that the card offers the consumer. We explored the potential use of debit cards, prepaid debit cards, and payroll

cards among low-income households, including the individuals without bank accounts. These payment cards may provide a means of providing financial services to low- and moderate-income households that is lower cost and lower risk than traditional checking accounts and thus may be attractive to both banks and LMI households.

Generally, discrete choice analysis is a statistical method of identifying the structure of consumer preferences for a product with many attributes (Luce and Tukey, 1964; Green and Srinivasan, 1978). Based on individuals' responses to a series of questions about the characteristics of a payment card they would like, it is possible to uncover several aspects of the respondents' decision-making process. The analysis decomposes products and/or services into discrete components and then methodically varies the product configurations while measuring consumers' responses to the changes. The variation in the attributes follows an orthogonal design that exhibits no interattribute correlations across the questions. This approach enables us to identify the effect each attribute has on the decisions of individuals in choosing a payment card. We use the Sawtooth software program to both design the questionnaire and analyze the results.

Our main findings, reported in Barr, Bachelder & Dokko (2007), are twofold. First, we report that many households without bank accounts express a desire to open one. In particular, the most attractive payment card achieved a hypothetical "take rate" of 60 percent among unbanked LMI households, and only slightly less than that rate among banked LMI households (results not shown). In light of the general patterns of account ownership among LMI households, we believe this finding suggests that there is a sizeable opportunity for commercial banks to offer products that would be meaningful to LMI households. Our second finding pertains to the particular types of payment cards

banks may offer to LMI households. We find that the two most important features influencing individuals' decisions to pick a particular payment card are monthly cost and the availability of federal consumer protection with respect to the account (see Figure 3), although there is significant heterogeneity in preferences among LMI households. We hope that our analysis will inform commercial banking institutions, payment card providers, employers, and government agencies regarding how to design accounts and payment cards to bring LMI households into the financial mainstream.

Banked and Unbanked Household Behavior: Income Receipt and Bill Payment

Despite the usual characterization of LMI households as operating in a cash economy, these households usually receive their income through other means (see Table 3). During the month prior to the interview, 54% of the sample received a check, 21% received cash, and 22% received government cash benefits through a Bridge Card, Michigan's electronic benefits transfer program that uses a prepaid debit card. Another 5% received income from an electronic transfer to a place that is not a bank (e.g. check cashing outlet), while only 1% has a payroll card from their employer.

Both banked and unbanked households use a mix of banking and AFS to meet their transactional needs to receive their income and pay their bills. Unbanked households are more likely to use AFS than banked households but still rely significantly on banking services. Despite their lack of ready ability to cash checks at a bank, unbanked households are *more* likely than banked households to be paid by check: nearly 64% of unbanked households report receiving income by check. Unbanked

households are also, more predictably, more likely than banked households to be paid in cash: nearly 30% are paid that way. Given their lower incomes and greater reliance on government support programs, unbanked households are also much more likely to receive income through Michigan's Bridge Card: more than 40% receive funds that way.

Unbanked households use a variety of formal and informal means to convert the income they receive by check into useable form. The dominant strategy used by unbanked households to cash checks is to go to a bank. Over 83% of unbanked households cash checks at a bank, most likely the bank that issued the check. The next most common place to cash checks for the unbanked is grocery and other stores, with 56% of unbanked households reporting such a strategy. More than 30% of unbanked households use check cashers. Another mechanism deployed by the unbanked is to sign over their check to family members or friends: over 15% of unbanked individuals do so.

In paying bills, unbanked households cannot rely on writing personal checks, automatic payment through one's bank, online payment using a credit card, or payment over the phone with a credit card. Instead of such services, 63% of unbanked households have used money orders, 53% of unbanked households have paid in cash, and 45% have visited a payment center in person. Usage of each of these AFS bill payment services is in the range of 15 percentage points higher for the unbanked than for the banked. Interestingly, use of AFS bill payment by the unbanked may also be related to whether mainstream bill payment would be accepted in their community. For example, only 38% of unbanked renters stated that their landlords would accept personal checks for payment of rent, while nearly two-thirds of banked renters stated that their landlords would accept

personal checks. Thus, in future research we need to examine whether neighborhood effects influence financial service choice.

Banked respondents use a variety of services offered by their banks, as well as a range of AFS (see Table 3). Among the banked, there is a surprisingly strong usage of mainstream financial products for such a low-income population. For example, 63% of the banked receive their income through direct deposit, a higher percentage than generally reported for the U.S. population as a whole. During the 12 months prior to the interview, banks played an important role in facilitating bill payments. Among the banked, 62% paid bills by check and 41% used a credit or debit card over the phone. Thirty-two percent used automated bill payment, and 22% paid their bills online, most likely by allowing the recipient to access their bank accounts electronically.

Despite their access to checks and automated payment systems, the banked are also likely to use AFS for their financial transactions. A surprisingly large fraction of the banked population, 65%, purchased a money order, and 48% used a money order to pay a bill. Moreover, 14% report that they purchased a money order from a bank, in effect purchasing an alternative payment mechanism through a mainstream financial provider. In addition, 38% of the banked population also paid a bill in cash, and a third visited a payment center in person to pay bills. Despite having access to a bank account, 6% of the banked also paid bills using a prepaid debit card, which can be purchased without the need for a bank account. Although the overwhelmingly dominant check-cashing strategy for banked households is to use a bank, more than 16% of the banked population used a check casher and 21% cashed a check at a supermarket or other store.

Financial Hardships among LMI Households

LMI households face numerous obstacles to financial and physical well-being (Table 4). Overall, 27% feel that it is “very difficult” to live on their household’s income. In addition, 27% of the sample has had a major illness or paid a significant medical expense in the last 12 months. Moreover, in the last 12 months, 6% of the respondents were evicted, 10% had a utility shut off, 18% had their phone disconnected, 17% did not have enough food to eat, and 4% filed for bankruptcy, a rate far above the national average. About 90% of LMI households experienced at least one of these hardships in the prior year.

The unbanked are characterized by a much greater likelihood of facing financial hardships. Nearly 38% of the unbanked say that it is very difficult to live on the household’s current income, compared to 23% of those with bank accounts. The unbanked are nearly three times more likely to be evicted and twice as likely to state that they did not have enough food to eat, or that they had a phone connection or utility shut off, as the banked sample. The banked and unbanked are comparably likely to have had a major illness or suffered a significant medical expense in the last twelve months. However, the unbanked are much more likely to classify themselves as in poor health; this could be the result of different subjective self-classification scales between the groups, or a different view of what a “significant medical expense” entails. In any event, the unbanked consider themselves to be much less healthy than the banked population.

Financial Services and Savings

LMI households exhibit considerable diversity in their savings behaviors (Table 5). Given financial hardships, pressing needs, and low income, saving is difficult for many LMI households. Moreover, many LMI households lack access to ready mechanisms that enable saving, such as bank accounts with direct deposit and automatic savings plans, or retirement plans at work. Nonetheless, more than half of LMI households contributed to savings in the year before the survey. Banked households were nearly twice as likely to have added to savings as unbanked households. Households also vary in the regularity of their saving. About 30% of respondents contributed to financial savings at least every month. A larger portion of respondents never contributed to savings (46%), while 11% contributed once or twice a year. In the year prior to the survey, the mean contribution to savings (among those who saved) was \$2,475 and the median contribution was \$1,000.

Households deploy different methods of saving, using both formal and informal mechanisms. For example, nearly half of households save through savings accounts, and more than a third through retirement vehicles, while 15% save through holding jewelry, electronics, appliances or cash. Moreover, as reported in Barr & Dokko (2007), 75% of LMI households who file tax returns want to over-withhold their income. We demonstrate that such over-withholding is related to dynamic inconsistency and wanting to use the withholding system, with its built-in capacity to generate illiquid savings, as a pre-commitment device against over-consumption. In addition, more than half of LMI tax filers report that they save some or all of their tax refund, suggesting that tax filing is an important savings opportunity for LMI households.

Households tend to express “pro-savings” attitudes. About 67% of respondents strongly agreed that it is hard to save because most of their money goes towards basic necessities, such as food, rent, or housing. When asked if it is hard to resist the temptation to spend money, 41% strongly agreed and only 8% strongly agreed that savings just isn’t worth it. Bank account ownership may help some LMI households save. For those who have a bank account, 85.1% believe that it helps them to save. For those who are “un-banked”, 37% strongly agree that it will help them to save while 30% somewhat agree.

“Savers” are in some ways different from those who do not save. Savers tend to be more educated and more likely to be currently employed. Strikingly, however, there were no significant differences between African Americans, Whites and other races or ethnicities when looking at savers and non-savers. Bank account ownership is an important factor which may distinguish savers from non-savers. About 83% of savers have bank accounts while 58% of non-savers have an account. Poor credit history, surprisingly, is not related to savings behaviors.

Income plays a significant role in both the regularity of savings and in the amount contributed to savings. Respondents who contributed to savings have a higher mean and median income than respondents who do not contribute. More than 3/4ths of respondents who save are above the poverty line, while a ¼ of respondents remain below the poverty line. Of those who contributed to savings in the past 12 months, the average amount of savings was \$2,474 and the median amount was \$1,000. Savers with incomes above the poverty level contributed an average amount of \$2,852 and a median amount of \$1000. When looking at savers who are below the poverty level, the amount contributed falls dramatically—with a mean contribution of \$1,317 and a median of \$300.

While the debate over national savings policy is often focused exclusively on retirement saving, households save for a variety of reasons and many LMI households have savings needs other than retirement; for example, they may save for investment, precautionary reasons, or future consumption. Savings policy for LMI households should encompass the range of savings needs of LMI households. The Detroit survey demonstrates that most LMI households are saving for precautionary reasons. About 78% save to feel financially secure, 70% save for emergency and medical expenses, and 51% save for unanticipated job loss. Nearly three-quarters of respondents also save for consumption in the near future—in order to make purchases this year or the next. This includes special events (53%), house or home improvements (49%), or furniture and household appliance (33%). Still, a sizeable portion of respondents also save for investment purposes. About 40% are saving to invest in education or training while roughly 16% are saving to invest in business. Nearly half are saving for retirement.

Saving is challenging for many low and moderate income households. Many LMI households face severe income volatility, start from a low base of asset-holding, shoulder high debt service burdens, and have ongoing informal financial obligations, such as the 45% of households who save in order to help family or friends in need. Strikingly, nearly a quarter lost their job in the year prior to the interview, and 46% saw their income go down (or go up and down). One of the main reasons that families find asset development a challenge is that they are simply poor and saving is difficult with little income. Roughly 86% of respondents find it hard to save because most of their money goes towards basic necessities. About 27% of respondents find it *very difficult* to live on current household income while 44% of respondents find it *somewhat difficult*.

Nearly two-thirds of respondents have experienced a financial hardship in the year prior to the survey, such as having utilities or phone shut off, food insufficiency, or eviction, and about 18% of respondents view themselves as being in *deep financial trouble*.

Nearly 30% of the sample has monthly expenses which exceed income during most of the year. For half of these households, family and friends play a significant role in contributing to basic living expenses. If they can not rely on family or friends, 25% of respondents will spend down assets while 15% will borrow from the bank or use their credit card. While 45% report that they are always able to cover their expenses out of current income, about 40% of households are in debt on their credit cards. The median debt burden among LMI households, excluding home and automobile, was \$500 and the mean debt outstanding was more than ten times that amount. Looking forward, a significant portion of households (37%) anticipate a major expense over the next 5-10 years for which they are unable to save.

Poor health and major illness can also negatively affect a household's ability to save. At the time of the interview, 28% had a health condition inhibiting work, and in the previous year, 27% faced a major illness or medical expense. About 20% of respondents do not have insurance, and therefore, may be extremely vulnerable to major medical expenses if an illness occurred.

Asset Holding Among LMI Households

Despite the difficulty of asset accumulation, many LMI households are able to build savings. About 90% of the LMI households accumulate physical and financial

assets in both formal and informal ways; 75% hold formal or informal financial assets. Nearly half have savings accounts, 36% have retirement savings, and 30% have life insurance, while only 17% have money market funds, bonds, or CDs, and 15% save through holding cash, jewelry, gold, appliances, and electronics. Non-financial assets are more valuable than financial assets for LMI households. Roughly 75% of respondents own a car and 45% own a home. Owning a car and home significantly increases the median value of assets for respondents. The median value of assets is about \$68,000, but that amount falls to \$2,500 when the value of homes and automobiles is excluded.

LMI households often need liquid assets in case of emergencies. A higher proportion of households hold immediately liquid assets as compared to assets with other liquidity levels. For households above the poverty line, the median amount of asset holdings is \$1000, which may be helpful towards an unexpected emergency. However, with a median liquid asset holding of only \$400, households below the poverty line may not be able to cover a serious emergency. Even lower proportions of poor households hold financial assets that are not immediately liquid and generate higher rates of return. While the average amount of asset holdings increases from \$1,636 to \$4,277 when examining assets that are not immediately liquid, the proportion of those who holds these assets drops from 44% to 13.7%.

The results suggest that savings policy needs to be more nuanced for LMI households. Many LMI households are simply too poor to save and must rely (to the extent that they can) on the social safety net; for many of these households, that social safety net is too weak and financial crises lead to further deterioration in their lives. For some LMI households, saving—and even asset accumulation—is possible. Rather than

focusing on retirement savings, as national policy tends to do, savings policy for LMI households should focus on the wide range of savings needs of many LMI households. These include the need for liquid savings for emergencies as well as the need for illiquid savings for medium- and longer-term savings goals. Also, given the breadth of savings approaches LMI households take, savings policy will need to develop a range of alternative savings products to meet the needs of LMI households, including direct deposit initiatives, automatic savings plans, and tax refund savings programs. These issues are taken up in more depth later in this chapter in discussing policy.

Debt Patterns Among LMI Households

While access to credit can help households smooth consumption, investment in human capital development, and build assets through homeownership and other investments, the high cost of credit presents another obstacle towards savings for low and moderate income households. Reduced access and increased cost of credit limits how much households can borrow today and increases debt service burdens, crowding out both current consumption and savings. Dis-saving through borrowing may be necessary for many LMI households but its toll on these households needs to be better understood. The median debt outstanding (excluding home and automobile loans) among LMI households is a mere \$500, but the mean is more than ten times that amount.

Households use a variety of alternative financial service providers to meet their credit needs (Table 6), based in part on whether or not they have a bank account, and on their available collateral. Rather than utilizing each alternative service as a substitute, low-income borrowers use payday loans, pawnshops, refund anticipation loans, rent-to-

own contracts and other formal and informal credit services as complementary products. While payday lending services has driven growth in the AFS sector over the last fifteen years and garners significant public attention, payday loan services are still a lending practice on the financial fringe for LMI households. As Table 6 provides, only 4.4 percent of DAHFS respondents say they "looked into getting a loan of \$100 or more from a check casher, payday loan store, or other place that gives you a payday loan" in the last 3 years. And only 3.4% reported actually taking a loan or cash advance from a payday lender or check casher in the previous 12 months. Part of the reason that so few respondents approached payday lenders may be because of the restrictive qualifications to be eligible for a loan, including holding a bank account and a steady job. African-Americans are much more likely to use payday lenders than whites.

An open question in the literature on alternative financial services (AFS) is whether these services act as substitutes for one another, and for formal sector financial services, or whether borrowers use a range of services depending on the situation. The DAHFS suggests that the services are inter-related in most cases. Tables VIIa & b, for example, show that, overall, individuals using other types of credit are also more likely to use payday loans. For instance, those using a pawnshop are much more likely to use a payday loan (16% vs. 3%). Those who used a credit card for a cash advance are much more likely to use a payday loan (14% vs. 4%). Households who took out a Refund Anticipation Loan (RAL) at tax time (see Barr & Dokko 2007) are much more likely to use a payday loan (9% vs. 3%), as are rent-to-own users (16% vs. 4%), and those who cashed out a pension or insurance policy in the last three years (12% vs. 4%). Moreover, payday usage in the AFS sector and bank overdrafts in the formal sector are often

complementary; those who used an overdraft from their bank account are over five times more likely to use a payday lender than those who have not overdrafted.

The use of these alternative financial services is interconnected among each other as well as with respect to payday borrowing. Figure 4 shows a correlation matrix of alternative financial services. The highest correlation is between pawnshop use and payday borrowing. Payday borrowing is also correlated with using an overdraft from a bank account. Nearly every entry in the table is positive, suggesting that individuals who use one are more likely to use another. Although usage appears complementary, most of the correlations are not large, implying relatively weak direct relationships within the network of financial services outside of the mainstream banking sector.

In addition, certain credit card behaviors are related to payday borrowing. Those who have paid late fees on a credit card are more likely to have used a payday loan than those who have a credit card and have not missed payments (9.2% vs. 3.4%). Nearly 8% of those who say they never pay off the entire balance on their credit card have looked into using a payday loan, compared to less than 4% of those who pay off their entire credit card balance each month. Payday loans were used by 12.5% of those who pay only the minimum amount due. In addition, the least credit-worthy cardholders, those whose cards require a deposit—known as “secured” credit cards—are much more likely to use payday lending: 17.4% compared with 3.3% of the rest of credit card users. These relationships to credit suggest that payday borrowers have a history of credit problems, which make it difficult for payday borrowers to acquire short-term credit elsewhere. Also, the higher rate of credit problems among payday borrowers also suggests that this group exhibits riskier borrowing behavior. Riskier credit card behavior also translates

into difficulty acquiring loans from mainstream providers, and, once denied, over 10% of those who were rejected by mainstream loan providers (banks, savings & loan, credit union, finance and mortgage companies) sought payday loans. Although payday borrowers exhibit similar saving frequency as non-borrowers, payday borrowers have lower levels of financial assets and homeownership rates than non-payday borrowers. In short, payday users tend to seek more borrowing opportunities than non-users, exhibit riskier credit behavior, have lower asset levels, and face higher rates of rejection from mainstream lenders.

Our evidence on the reasons for taking out a payday loan suggests that individuals use them to pay for necessities. Of those who most recently looked into getting a payday loan, 60% said they needed the money for everyday expenses such as food, gasoline or regular bills. No other response came close, though 11% said they borrowed against their paycheck to pay off credit card or bank debts and 8% said they needed the funds for car expenses; 8% needed the funds for education expenses; and 6% needed the funds for medical or dental expenses. While this evidence is consistent with the view that payday borrowers take out loans when their income cannot meet their expenses, it is not sufficient to preclude that payday borrowers' spending on non-necessities crowds out spending on necessities, which then leads to high-cost borrowing. Future research would need to include data on consumption patterns to better understand borrowing decisions.

Respondents who use payday lenders often use them multiple times. The most common number of loans or cash advances (for those with at least one) in the past year was two (31%), with three and four times being the next most common (19.9%, 14.2%). Our estimates regarding repeat loans are far smaller than other studies. The median

number of loans in our sample was three in the past year, in stark contrast to studies such as Elliehausen and Lawrence (2001), which report a median between five and six loans (pg. 39, table 5-11). It is possible our measure did not fully capture rollovers when we asked “how many times have you taken a loan....” Separately, we asked specifically about rollovers: Of those who used a payday lender, 40.2% paid a fee to postpone paying back the loan, but we do not know how many times. An additional 14.3% took a loan from one payday lender to pay back a loan to a different payday lender. Overall, the rollover experiences of the payday borrowers in the DAHFS sample suggest that the costs of repeated borrowing may be high. Nonetheless, we did not find evidence that rollovers are as extensive as reported elsewhere, and, from the view of borrowers, payday lenders appear to fulfill a unique niche in the credit market. The most important reasons given for going to payday lenders among other credit options were the convenience and accessible hours of the payday outlet (23.6%), the expectation of being approved for the loan (22%), and the need a small amount or to pay a bill (19.2%).

Despite the high costs, customers choose payday lenders over other possible sources of credit because they recently have been turned down by other, lower-priced alternatives, and are confident that they will be approved for a payday loan. Serving as a “lender of last resort” fills a critical need, but allows payday lenders to charge high fees to a segment of the population that is in some ways disconnected from the financial mainstream, is credit-constrained, and finds it difficult to save regularly. After obtaining a payday loan, many borrowers fall into a debt trap, often paying fees to postpone or “rollover” payments, or borrowing from one payday lender to pay back another.

Overall Levels of Indebtedness and Net Worth

Given significant debt levels and low levels of asset holding, not surprisingly, net worth is relatively low. As Table VII shows, banked households carry significantly more debt than unbanked households. Median indebtedness is approximately \$10,000 among the banked and approaches \$0 for the unbanked; the means are about \$35,000 and \$8,000 respectively. Given higher level of asset holding, the banked have greater net worth than the unbanked, with median net worth at nearly \$39,000 for the banked and only \$1,500 for the unbanked; the respective means are about \$100,000 and \$25,000. Net worth is strongly connected to income. The mean and median net worth of respondents is significantly higher for those above the poverty level as compared to those below. The median amount of those whose income is above the poverty line is about \$38,000 while those with incomes below the poverty line hold about \$1000.

Directions for Policy

The results of the Detroit study suggest that LMI households would benefit from a range of financial services products to meet their needs to receive their income, pay bills, and save their hard-earned funds. The private sector should begin with a safe and affordable bank account. Such an account would be federally insured, and carry straightforward fees. Rather than promoting traditional checking accounts, which often are high-cost and high-risk for these households, the initiative will encourage debit-card based bank accounts with no overdraft and no hidden or back-end fees. The accounts would not require a minimum balance or account opening balance, and, given the no-

overdraft restriction, would not require complicated reviews to open. The accounts should be made available to those who had difficulty managing checking accounts in the past, given that these accounts would not permit check-writing. Funds could be accessed at ATMs and point-of-sale. Over time, the accounts could increase in functionality. The accounts could provide for bill payment, an automatic savings plan, and reasonable consumer credit options. For example, banks could offer a six-month, self-amortizing consumer loan up to \$500 with direct debit from the account; such a loan would be relatively low-risk and paid automatically, could be offered without the need for labor-intensive interaction with the customer, and could be offered at reasonable interest rates.

Public policies in support of such accounts would reduce the need for payday loans and other forms of expensive, short-term credit by helping low-income households create savings cushions to reduce the impact of monthly variation in income. Direct deposit programs and automatic savings plans are two straightforward measures which would reduce the demand for payday loans and alleviate part of the strain of living “paycheck to paycheck.” In addition, the demand for short-term loans among the low- and moderate-income population is largely not being met by banks and other loan providers. Policy makers should encourage the financial sector to provide better-structured alternatives to payday loans (Bair 2005), including direct debit, longer-term, self-amortizing consumer loans with a savings feature (see Barr 2004, 2007).

The primary goal of public policy changes to strengthen financial security for LMI families should be to facilitate the provision of safe and affordable bank accounts that meet the transactional, savings and short-term credit needs of LMI households. Given the relatively low profit margins available to the financial sector for offering such accounts,

public policy needs to provide incentives to the financial sector to provide them, and needs to make it easier for LMI households to get access to them. The chapter provides three brief examples of policies that would promote these twin goals.

A New Tax Credit for Safe and Affordable Accounts for Working Americans. To overcome the financial services mismatch, Congress should enact a tax credit for financial institutions to offer safe and affordable bank accounts to LMI households (see Barr 2004, 2007). The tax credit would be pay-for-performance, with financial institutions able to claim tax credits for a fixed amount per account opened by LMI households. The tax credit program would be administered by the Financial Management Service, which would track bank performance, in cooperation with the IRS, which would administer the reduction in the bank's quarterly withholding tax to adjust for the credits earned. The initiative could be coupled with outreach to employers to encourage direct deposit and automatic savings plans.

A New Opt-Out, Direct Deposit Tax Refund Account. Congress should enact a new "tax refund account" plan to encourage savings and expanded access to banking services, while reducing reliance on costly refund loans (see Barr 2007). Under the plan, unbanked low-income households who file their tax returns would have their tax refunds directly deposited into a new account. Banks agreeing to offer safe and affordable bank accounts would register with the IRS to offer the accounts, and a fiscal agent for the IRS would draw from a roster of banks offering these services in the taxpayer's geographic area in assigning the new accounts. On receiving the account number from its fiscal agent, the IRS would directly deposit EITC (and other tax refunds) into those accounts. Taxpayers could choose to opt-out of the system if they did not want to directly deposit their refund

but the expectation is that the accounts would be widely accepted since they would significantly reduce the costs of receiving one's tax refund. Once the tax refund account is set up through the IRS-mechanism at tax time, households would receive their tax refund in the account, weeks earlier than if they had to wait for a paper check. Moreover, once it is established, the account could continue to be used long past tax time. Households could also use the account just like any other bank account—to receive their income, to save, to pay bills, and the like. By using an opt-out strategy and reaching households at tax time, this approach could dramatically, efficiently, and quickly reach millions of LMI households and bring them into the banking system.

State Strategies to Move Families into the Financial Mainstream. States can integrate access to financial services as a core element of welfare-to-work strategies. For example, states now use card-based products for many state benefits, but many of these programs do not permit direct deposit of other sources of income; are pooled accounts not owned by the customer; and are not an account that can be used for other purposes or retained when benefits end. The household does not develop any transactional or credit history and cannot use the card as a means of conducting their daily financial needs. Instead of using these pooled accounts, states should increasingly use individually-owned, safe and affordable bank accounts to receive direct deposit of TANF and related state benefit payments as an essential component of their EBT programs. In addition, many states are considering linked deposit programs, using their fiscal relationships and leverage with banks, to encourage more responsible banking products. Lastly, states employ millions of LMI households who would benefit if they could be automatically signed up for bank accounts, with direct deposit and automatic savings programs.

Conclusion

High cost financial services, barriers to saving, the lack of insurance and credit constraints may contribute to poverty and other socio-economic problems. Low-income individuals often lack access to the financial services they need from banks and thrifts and turn to expensive alternative financial service providers such as check cashers, payday lenders and money transmitters. Many low-income households live paycheck to paycheck, and are vulnerable to emergencies that may endanger their financial stability. Often lacking access to insurance, reasonably priced credit, or regular savings plans, low-income households suffering such emergencies suffer worse outcomes. Moreover, the lack of longer-term savings options tailored to low-income households may undermine their ability to invest in human capital or to build assets over time. More generally, heavy reliance on alternative financial services reduces the value of take-home pay as well as government assistance programs, such as the Earned Income Tax Credit.

Results from the Detroit study show the extent to which LMI households are badly served by the financial marketplace. LMI households face severe supply constraints, with high transaction costs, high credit costs, and limited financial service and saving options. These constraints alter the incentives and capacity for LMI households to save for emergencies, and contribute to the difficulties LMI households have coping with financial distress. Moreover, such financial services constraints make it much harder for households to build assets, save for the future, and improve their lives.

References

Aizcorbe, Ana M., Arthur B. Kennickell, and Kevin B. Moore. 2003. "Recent Changes in U.S. Family Finances: Evidence from the 1998 and 2001 Survey of Consumer Finances." *Federal Reserve Bulletin* 89(January): 1-32.

Barr, Michael S., 2004. "Banking the Poor," *Yale Journal on Regulation*, 21(1): 121-237.

Barr, Michael S., and Jane K. Dokko, 2007. "*Paying to Save*," working paper.

Barr, Michael S., Ed Bacheldor and Jane K. Dokko, 2007. "*Consumer Choice in Payment Cards*," working paper.

Bertrand, Marianne, Sendhil Mullainathan, and Eldar Shafir, 2004. "A Behavioral-Economics View of Poverty," *American Economic Review*, 94(2): 419-423.

Bucks, Brian K., Arthur B. Kennickell, and Kevin B. Moore. 2006. "Recent Changes in U.S. Family Finances: Evidence from the 2001 and 2004 Survey of Consumer Finances." *Federal Reserve Bulletin* 92(February): A1-A38.

Caskey, John, 1994. *Fringe Banking: Check-Cashing Outlets, Pawnshops, and the Poor*, Russell Sage Foundation Press.

Dunham, Constance R., 2001. "The Role of Banks and Nonbanks in Serving Low- and Moderate-Income Communities," in J. L. Blanton, S. L. Rhine, and A. Williams, eds., *Changing Financial Markets and Community Development: A Federal Reserve System Research Conference* (2001) Federal Reserve Bank of Richmond, pp. 31-58.

Dunham, Constance R., Fritz J. Scheuren, and Douglas J. Willson, 1998. "Methodological Issues in Surveying the Nonbanked Population in Urban Areas," in *Proceedings of the Survey Research Methods Section, American Statistical Association*, pp. 611-16.

Green, Paul E. and Srinivasan, V., 1978. "Conjoint Analysis in Consumer Research: Issues and Outlook," *Journal of Consumer Research*, 5: 103-123.

Luce, R. Duncan and Tukey, John W., 1978. "Simultaneous Conjoint Measurement: A New Type of Fundamental Measurement," *Journal of Mathematical Psychology*, 1: 1-27.

Seidman, Ellen, Moez Hababou, and Jennifer Kramer, 2005. "A Financial Services Survey of Low- and Moderate-Income Households," Center for Financial Services Innovation.

Toussaint-Comeau, Maude, and Sherrie L.W. Rhine, "Access to Credit and Financial Services Among Black Households," Federal Reserve Bank of Chicago, Consumer Issues Research Series, June 2000.

TABLE I: Characteristics of Sample Members by Banked Status
(Standard Errors in Parentheses)

	Census	All	Banked	Unbanked
Black	70.5%	69.1%	65.3%	78.3%
White	21.8	20.4	23.1	13.6
Arab	NA	1.9	2.0	1.5
Other	7.7	8.6	9.5	6.5
Female	52.3%	64.3% (1.6)	64.5% (2.3)	63.6% (3.4)
Less than HS Diploma	35.8%	29.6%	26.6%	37.1%
HS Diploma or GED	31.0	23.0	19.1	32.7
Greater than HS Diploma	33.2	47.4	54.3	30.2
Employed at Interview	44.5% ²	54.3%	59.3%	41.9%
Unemployed at Interview	8.2	5.8	3.9	10.7
Not in Labor Force at Intv.	47.0	39.9	36.8	47.5
Age	NA	43.5 (1.0)	44.9 (1.1)	40.0 (1.2)
Born in the US	92.7%	92.1% (1.9)	90.5% (2.4)	95.9 (1.4)
Single/Never Married	44.1%	45.6%	37.7%	65.1%
Married and Living with Spouse	24.5	19.7	24.0	9.1
Living with Partner		4.1	3.7	5.0
Separated/Widowed/Divorced	31.3	30.6	34.6	20.9
% HHs with no Children	NA	67.2% (2.2)	70.6% (2.5)	58.9% (4.3)
Total HH Monthly Income	NA	2,248 (334)	2,703 (439)	1,156 (399)
Annual HH Income in 2004	NA	28,435 (2,118)	33,224 (2,573)	17,078 (1,467)
Median HH Income in 2004	24,146	20,000	25,000	10,000
% Below the Poverty Line	31.5%	33.2% (2.4)	26.2% (2.5)	50.5% (3.9)
Sample Size	626 ³	938	668	270

Source: Detroit Area Household Financial Services study.

Notes: Not in labor force includes respondents who said they were retired, homemakers, students, did not have the required documentation, or chose not to work. Unemployed is the percentage of people currently unemployed who are in the labor market.

Poverty guidelines come from the Department of Health and Human Services, obtained from

<http://aspe.hhs.gov/poverty/04poverty.shtml>.

² Based on civilian employment rate.

³ Sample in "Census" column consists of census tracts in the Detroit metropolitan area (Wayne, Oakland, and Macomb counties) with median income under \$36,073 (80% of the Detroit metropolitan area's median \$49,051).

TABLE II: Transitions into and out of Banking
(Standard Errors in Parentheses)

	All	Banked	Unbanked
R has bank account	71%	100%	0%
HH has bank account	77%	100%	20%
Previously had bank account	91.5%	100%	70.3%
-- Chose to close account		54.6%	70.3%
Reasons:			
Worried about bouncing checks		4.2%	14.2%
Moved		NA	13.0
Minimum fees too high		21.0	11.5
Convenience/dif. bank		27.4	
-- Bank closed account		12.3%	29.9%
Reasons:			
Bounced checks		51.3%	55.2%
Low balance/inactive		63.4	29.2
Fraud		7.2	9.5
% who grew up with banked adults in home	72.2%	72.9%	70.7%
Have shopped around for bank accounts ⁴	36.1%	37.3%	33.2%
Want to open bank account in next year	.	.	75.1%
Denied when tried to open account	.	.	16.9%
Income volatility previous 12 months:			
Gone up	24.0%	27.5%	15.3%
Gone down	17.0	15.1	21.4
Up and down a little	23.0	22.3	25.0
Up and down a lot	7.0	5.1	11.6
Stayed the same	29.1	30.0	26.7
Lost job in last 12 months	22.9%	18.9%	32.8%
Major medical expense in last 12 months	26.9	26.1	28.8
Sample Size	938	668	270

Source: Detroit Area Household Financial Services study.

⁴ Banked respondents are asked if they shopped around before getting their current account; unbanked respondents are asked if they have shopped around to look into getting an account.

TABLE III: Transactional Services: Income Receipt, Check Cashing, and Bill Payment
(Standard Errors in Parentheses)

	All	Banked	Unbanked
How Receive Income			
Direct Deposit		62.9%	NA
Check	54.3%	50.5	63.6%
Cash	20.7	17.1	29.5
Payroll Card	1.2	0.8	2.2
Bridge Card	21.6	14.0	40.5
Check Cashier	5.0	5.9	2.7
Other	4.3	4.1	4.8
Number of checks cashed in last month⁵	2.56 (.35)	2.83 (.51)	2.06 (.11)
Converting Income:			
Cashed checks ⁶ :			
At a bank	93.4%	96.1%	83.1%
Mean # (conditional)	2.5 (.11)	2.7 (.12)	1.8 (.16)
At a check cashier	21.4%	16.3%	30.7%
Mean # (conditional)	2.2 (.15)	2.0 (.22)	2.3 (.23)
At Work Place	5.2%	5.1%	5.5%
Mean # (conditional)	2.5 (.39)	2.4 (.52)	2.6 (.64)
Sign over to family/friend	8.5%	4.6%	15.4%
Mean # (conditional)	1.5 (.25)	1.7 (.35)	1.4 (.22)
At Supermarket/store	33.3%	20.7%	55.7%
Mean # (conditional)	2.11 (.13)	1.93 (.18)	2.24 (.18)
Bill payment method⁷:			
Personal check	.	62.1%	.
Automated payment	.	32.3	.
Pay online	.	21.9	.
Over phone (w/credit, charge, or debit card)	.	41.3	.
In cash	42.1	37.8	52.8
Money order	52.1	47.6	63.2
Payment center	36.6	33.2	45.2
Prepaid debit card	5.6	6.2	4.1
Purchased money order	68.3%	64.8%	77.1%
Does landlord accept personal checks? ⁸	54.6%	64.9%	38.4%
Sample Size	938	668	270

Source: Detroit Area Household Financial Services study.

⁵ Conditional on receiving income by check.

⁶ Conditional on having cashed at least once in the month prior to interview: n(all)=404; n(banked)=265; n(unbanked)=139

⁷ Personal check, automated payment, paying online, and paying by phone questions are only asked to banked respondents.

⁸ Asked only of renters.

TABLE IV: Hardships Facing Respondents in the DAHFS in the Last 12 Months

Hardship Experienced	All	Banked	Unbanked
In poor health	7.9%	6.7%	11.0%
Very difficult to live on household income	27.3	23.1	37.7
Major illness/medical expense	26.9	26.1	28.8
Evicted	5.9	4.1	10.5
Utility shut off	10.0	7.5	16.2
Phone disconnected	18.3	13.9	29.4
Filed for bankruptcy	3.9	3.9	4.1
Did not have enough food	16.8	13.1	25.9
Lack health insurance	20.1%	15.0%	32.9%
How deal when expenses > income:			
Family and friends	53.0%	50.7%	56.7%
Spend down assets	24.6	32.6	11.4
Borrow from the bank/use credit card	14.6	21.3	3.6
Sample Size	938	668	270

Source: Detroit Area Household Financial Services study.

TABLE V: Savings
(Standard Errors in Parentheses)

	All	Banked	Unbanked
Savings Horizon⁹:			
This year	47.6%	47.8%	46.3%
Next year	33.9	33.7	34.8
In 5 years	17.4	17.9	14.9
In 10 years	7.3	7.3	7.1
In >10 years	14.2	14.9	10.8
Face major expense for which unable to save	37.0%	36.7%	37.7%
Feel in deep financial trouble	18.4	14.6	28.0
Saving is not “worth it”			
Agree	16.4	16.6	16.4
Disagree	83.4	83.3	83.6
Hard to save b/c money goes to necessities			
Agree	85.1	81.7	93.5
Disagree	14.6	17.9	6.5
Hard to save b/c hard to resist spending			
Agree	64.9	61.3	73.8
Disagree	34.6	38.3	25.6
Frequency of saving:			
Contribute in past year	54.1%	62.7%	32.8%
More than once a month	10.4%	12.8%	4.5%
Every month	19.2	23.2	9.4
Most months	4.0	4.0	4.0
About half of months	3.7	4.6	1.7
A few months	5.5	6.3	3.7
Once or twice	11.3	12.0	9.5
Never	45.9	37.3	67.2
Amount contributed:	\$2,474 (385)	\$2,825 (447)	\$949 (202)
	\$1,000	\$1,000	\$300
Method of saving:			
Account-based ¹⁰	37.1%	45.9%	15.3%
Physical asset-based ¹¹	6.9	3.6	15.3

⁹ Asked only of respondents who have saved in the past 12 months. Respondents are able to give multiple responses.

¹⁰ Account-based savings includes: IRAs, annuities, or pension/retirement accounts through an employer; money market funds, savings or treasury bonds, CDs; mutual funds, stocks or bonds; other tax-advantaged savings plan; bank account; safe deposit box; cash value in a life insurance policy; over-withholding taxes; giving money to others/holding onto others' money; loaning money to friends; lottery savings, social security, and money loaded on a debit-card.

Both	27.0	31.3	16.3
No savings	29.0	19.3	53.2
Asset Holdings:			
Savings account	49.2%	67.8%	0.0%
Retirement savings	48.2	51.1	34.9
Life insurance	30.3	35.7	16.9
Money market funds	17.0	22.9	2.4
Jewelry, electronics	15.3	14.9	16.5
Car	73.0	79.6	56.5
Home	45.4	53.4	25.7
Reasons to save:			
To feel financially secure	78.2%	79.1%	74.3%
Emergency/medical costs	69.9	68.7	75.8
Unanticipated job loss	50.9	48.1	64.3
Special events	52.8	49.3	69.2
Home improvements	49.3	49.1	50.3
Furniture/appliances	33.5	30.7	46.9
Education/training	39.5	37.0	51.3
Invest in business	16.4	16.0	18.5
Retirement	48.2	51.1	34.9
Overwithhold to save	75.3%	77.1%	69.5%
Save some/all tax refund	50.2%	53.2%	40.1%
Agree account helps/would help respondent save	.	81.5%	67.4%
Sample Size	938	668	270

Source: Detroit Area Household Financial Services study.

¹¹ Physical asset-based savings includes: real estate other than primary residence; business or farm; money orders or uncashed checks; jewelry, gold, appliances, or electronics; cash kept at home; antiques or collectibles; rent payments; fur coats; and computers.

TABLE Vb: Characteristics of Savers
(Standard Errors in Parentheses)

	All	Savers	Non-Savers
Black	69.1%	68.7%	70.5%
White	20.4	21.2	18.8
Arab	1.9	1.2	2.7
Other	8.6	8.9	8.0
Less than HS Diploma	29.6%	19.5%	40.9%
HS Diploma or GED	23.0	20.2	26.8
Greater than HS Diploma	47.4	60.3	32.3
Employed at Interview	54.3%	65.6%	41.0%
Unemployed at Interview	5.8	3.1	9.1
Not in Labor Force at Intv.	39.9	31.3	49.9
Banked Status	71.3%	82.6%	57.9%
% Below the Poverty Line	33.2% (2.4)	23.6% (2.6)	44.5% (2.8)
Sample Size	938	427	504

Source: Detroit Area Household Financial Services study.

TABLE VI: Borrowing and Alternative Financial Services
(Standard Errors in Parentheses)

	All	Banked	Unbanked
Borrowing:			
% looking to borrow	61.5%	62.7%	58.6%
% actually borrow	51.0%	51.0%	51.5%
Method considered:			
Bank	27.5%	33.9%	11.6%
Finance Company	13.6	16.6	6.3
Short-term credit	47.0	44.7	52.7
Cash Advance from CC	7.9%	10.1%	2.3%
Borrowed from	6.9	8.4	3.1
pension/retirement			
Payday loan	4.4	4.9	3.4
Buy on layaway	25.7	27.2	21.9
Pawn anything	11.2	7.2	21.1
Rapid tax refund loan	21.8	18.9	29.1
Rent-to-own	5.3	5.4	5.2
Overdraft from account	20.3	24.1	10.9
Land contract on house	1.9	2.0	1.5
Sample Size	938	668	270

Source: Detroit Area Household Financial Services study.

TABLE VIIa: % of Users of other AFS who use Payday Loans

AFS Use	% of Users use Payday Loans	% of Non-users use Payday Loans
Pawnshop*	16%	3%
Cash Advance*	14%	4%
RAL*	9%	3%
Rent-to-Own*	16%	4%
Cash out Pension*	12%	4%
Overdraft*	13%	2%

Source: Detroit Area Household Financial Survey

Note: Data are limited to income strata 5 and 6 and are weighted using the w_overall_selection__release_we weight.

* Means significant difference at 10% level after controlling for age, race, gender, and income.

TABLE VIIb: % of Payday Loan Users who use other AFS

AFS Use	Payday Users	Non-users
Pawnshop*	40%	10%
Cash Advance*	24%	7%
RAL*	45%	21%
Rent-to-Own*	20%	5%
Cash out Pension*	19%	6%
Secured Card*	37%	9%
CC Late Fee	43%	21%
Overdraft*	57%	19%

Source: Detroit Area Household Financial Survey

Note: Data are limited to income strata 5 and 6 and are weighted using the w_overall_selection__release_we weight.

* Means significant difference at 10% level after controlling for age, race, gender, and income.

TABLE VIIc: Use of Recent Loan (up to 2 responses)
Conditional Having Most Recently Taken Out a Payday Loan

Use of Loan	Percentage
Everyday expenses (bills, food, gas, etc...)	59.5
Gift to a relative or friend	3.2
Car or transportation	7.7
Auto repair	2.3
Vacation, entertainment, casinos, dog racing, leisure	3.2
Education, tuition	7.7
Legal expenses, tickets	3.2
Medical or dental expenses	5.9
Debt consolidation, credit card debt, bank debt	10.9
Just to have money, to have cash, "just to see if I could get it"	3.2

Source: Detroit Area Household Financial Survey

Note: Data are limited to income strata 5 and 6 and are weighted using the w_overall_selection__release_we weight.

TABLE VIII: Total Indebtedness and Net Assets by Banked Status

Characteristic	Banked	Unbanked
Total Indebtedness		
Mean (SE)	\$35,056 (7,407)	\$8,365 (1,392)
Median	10,230	0
Net Assets (Assets – Debts)		
Mean (SE)	\$103,965(42,278)	\$25,029 (4,404)
Median	38,800	1,500
Sample Size	668	270

Source: Detroit Area Household Financial Survey

Note: "Total Indebtedness" is an aggregated dollar value of all debts and liabilities. Net Assets aggregates the value of assets and subtracts out the respondent's debts and liabilities. Data are limited to income strata 5 and 6 and are weighted using the w_overall_selection__release_we weight

Figure 1: Unbanked Stated Reasons Why Unbanked

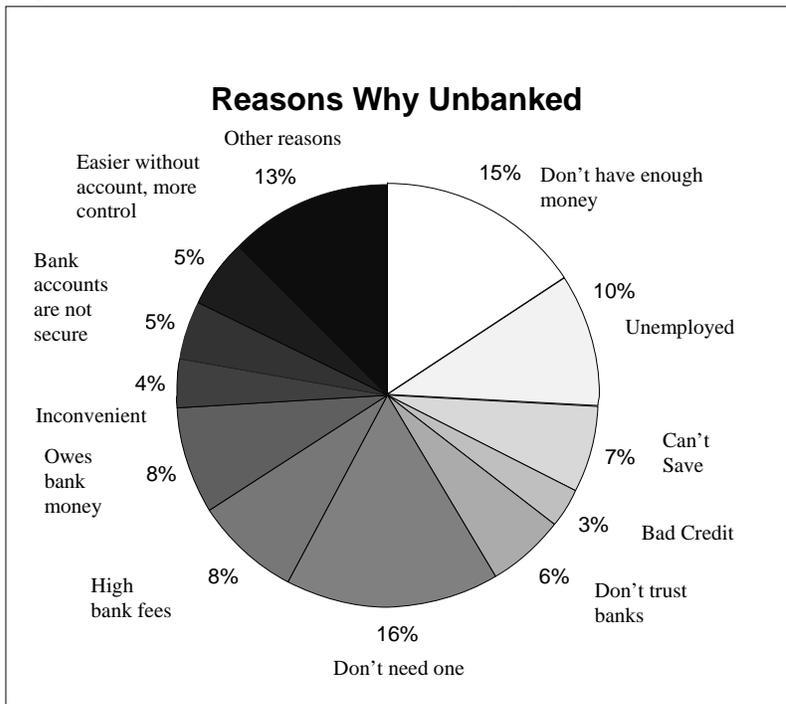


Figure 2: Unbanked Desired Account Changes to Induce Bank Account Opening

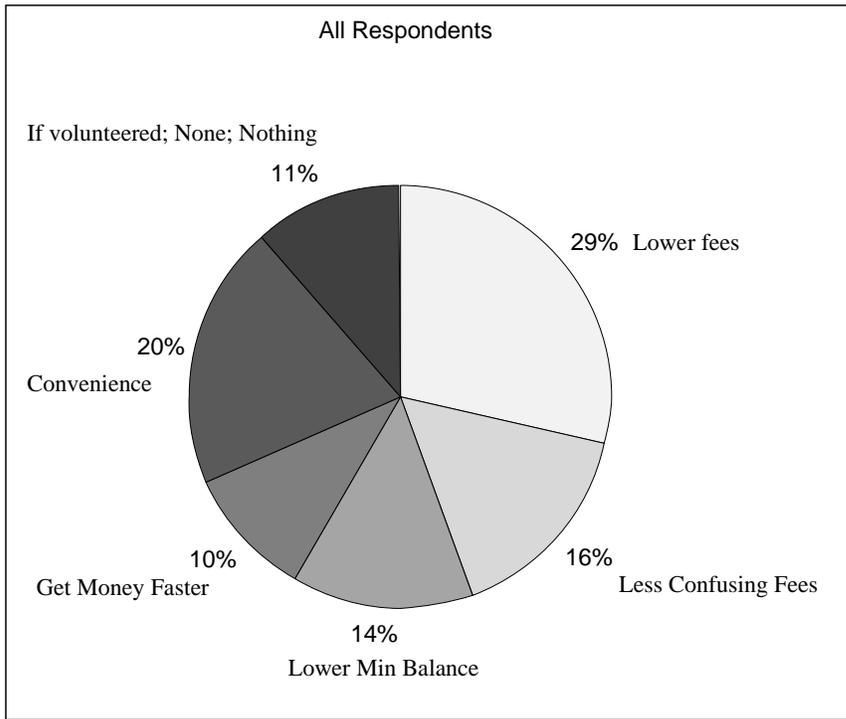


Figure 3: Relative Importance of Attributes on Choice of Product

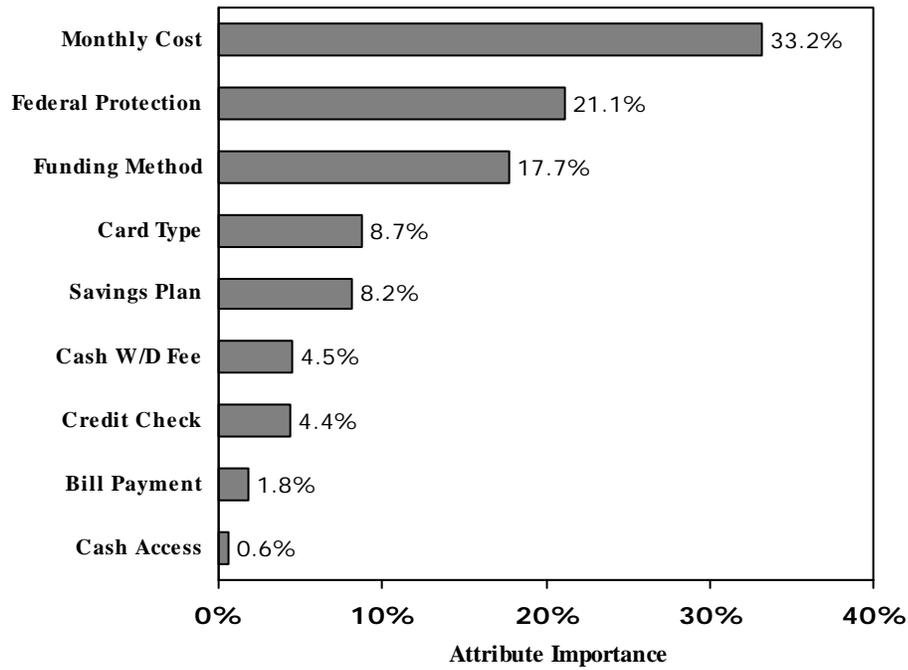


FIGURE 4: Correlation Matrix of Alternative Financial Service Usage

	Payday Loan	Pawnshop	RAL	Rent-to-own	Layaway	Cash Advance on Credit Card	Overdraft	Cash Out on a Pension
Payday Loan								
Pawnshop	0.200							
RAL	0.124	0.151						
Rent-to-own	0.136	0.171	0.187					
Layaway	0.027	0.041	0.192	0.086				
Cash Advance	0.133	0.073	-0.009	-0.014	0.105			
Overdraft	0.196	0.057	0.092	0.105	0.144	0.193		
Cash Out a Pension	0.105	0.017	0.077	0.040	0.021	0.119	0.065	
Any AFS	0.101	0.184	0.276	0.125	0.306	0.076	0.141	0.011

Source: Detroit Area Household Financial Survey

Notes: Any AFS includes pawnshop, rent-to-own, RAL, money order, or layaway. Data are limited to income strata 5 and 6 and are weighted using the w_overall_selection__release_we weight.

