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Welfare, Work and Banking: The Use and Abuse of Consumer Credit by TANF Recipients and Leavers in North Carolina

by

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I. INTRODUCTION

Most studies of families transitioning from welfare to work find leavers holding low wage jobs, with median earnings between $6.61 and $8.00 an hour, depending on the state studied (Brown & Beeferman, 2002, p. 3; Polit et al., 2001; Loprest, 1999, p. 12), with one national study estimating that 25% of leavers make less than $5.29 an hour (Loprest 1999, p. 12). With many leavers facing formidable material hardships, including food shortages, utility cutoffs, and involuntary moves or eviction, surprisingly little is known about how recipients and leavers under the Temporary Assistance for Needy Families (TANF) Program use credit to help manage their household finances, and whether excessive borrowing threatens a successful transition from welfare to work (Hofferth, Richer 2001, p. 16; Polit 2001, p. 27; Isaacs and Lyon 2000; Brauner and Loprest 1999, p. 6; Pear 2002, p. 24; Swift 2002, p. A1, Brauner, Pear 2002).

In their pioneering study of how welfare families manage to survive financially (1997, p. 13) Edin and Lein indicated that some employment opportunities and other avenues for financial growth were cut off by families' high debt and lack of assets. Edin and Nelson (1999, p. 29.) also found that among the welfare families they studied, "without a credit history (or, rather, a clean credit history), a mother or father who needed a car to get to work could generally not obtain a conventional bank loan, and thus had to rely on the private and usurious financing used car dealers were sometimes willing to provide." These families were also "relegated to rent-to-own stores, which typically charged three times the value of the item over time," Edin and Nelson reported.

Nevertheless, welfare families' management of credit remains an overlooked area of policy research, as was recognized by Texas Tech University researchers. Their 1999 meta-analysis of 750 welfare-related research studies found "no person or agency has taken steps to measure, validate, and develop strategies to assess the impact of personal finance knowledge, attitudes, and behaviors on the ability of TANF recipients to effectively move from welfare to work" (Center for Financial Responsibility 1999).

Our search of the post-1999 credit and welfare reform literature turned up no large-scale studies that focused primarily on credit and financial management issues. However, enough of them touched upon household debt issues to convince us of the need for more credit-related research.

In their in-depth survey in Cuyahoga County, Ohio, for example, Verma and her colleagues found three-quarters of all leavers had some debt, with nearly 40% owing $2,000 or more (Verma, Coulton, Hendra and Polousky, 2001, p. 57). A two-year study of 970 families in Oregon that left or were diverted from TANF in the first quarter of 1998 also found rising debt-to-income ratios and a diminishing ability to stave off crises during an economic downturn (Acker, Morgan and Gonsales, 2002, p. 17.) About half the households in a study of 670 families in Massachusetts that left welfare between December 15, 1998, and April 30, 1999, owed money, with their debts having increased after welfare was terminated. Overdue utility bills were the most common source of debt (53%); credit card debt was owed by 43% of respondents and medical bills by nearly a third (31%) of those who had left the rolls for reasons other than having reached their time limits (Seavy, 2001, pp. 7-8).

Finally, a follow-up study of 16 of the poorest families who exited Iowa's rolls in the third quarter of 1998 found most to be heavily in debt; these included "one family who owed $35,000 in student loans plus $6,000 in credit card debt; another with $8,000 in hospital bills; another owed $4,000 in child support; and another owed $2,000 in back taxes plus $1,500 in credit card bills" (Hill and Kauff, 2001, p.12.)

With as many as one in three TANF families returning to welfare within two years of leaving, (Hofferth, 2002), it is important that policy makers learn more about the role that credit use and debt management play in the welfare cycle. Using a unique statewide database, we analyze the financial services behavior—including banking relationships, the use of mainstream and high-cost non-bank credit, and debt management—of low-income households in North Carolina, including TANF recipients and those who have recently transitioned off welfare. Our findings suggest, first, that the debate over welfare reform reauthorization should include the role of banking and credit use in the lives of TANF families, the importance of access to mainstream sources of consumer credit, and the need for local welfare reform programs to.include financial education.

While the empirical analysis we present is not exhaustive, we find that, in certain respects, TANF families and leavers manage their financial affairs in ways that are significantly different from other low-income families. As have many other empirical studies of households' social and economic behavior, we also find that race and ethnicity complicate the picture in important ways; when it comes to using and managing consumer credit, African Americans and Hispanics behave in distinctly different ways from otherwise similar white low-income households.

This article proceeds as follows: First, we discuss the source of our data, the North Carolina Financial Services Survey, including sample selection and survey design. Section III summarizes how the disciplines of economics and psychology explain the role that borrowing and debt repayment play in household consumption. The empirical core of this article is in Section IV, where we first analyze the banking and credit behavior of low-income households in North Carolina, including TANF recipients and leavers, and then estimate a series of multivariate models of credit use and management that control for a wide range of household characteristics, which enables us to test for the existence of welfare- and race-effects. Our conclusions and policy recommendations are in Section V.

II. THE NORTH CAROLINA FINANCIAL SERVICES SURVEY (NCFSS)

To our knowledge, the North Carolina Financial Services Survey is the first state-wide representative survey of low-income households' banking behavior and use of mainstream and "fringe" financial and credit sources. The survey was sponsored by the North Carolina Department of Social Services (DSS), which administers the state's welfare program, called Work First. NCFSS was designed to (i) determine at a high degree of statistical accuracy the size and composition of the unbanked population of working class North Carolinians, including current and recent Work First recipients (hereafter referred to as TANF recipients), and their reasons for not owning an account at a mainstream financial institution; (ii) gain a greater understanding of how unbanked and banked[1] working families meet their financial services needs; and (iii) determine whether DSS and county TANF administrators should make greater access to mainstream financial services and asset-building a more integral part of the state's welfare reform system. Details of the survey design can be found in Stegman and Faris (2001).

Survey Design

NCFSS is a statewide survey of 1,501 lower-income North Carolina families (earning less than $30,000 per year) that was conducted from December 15 2000, to January 23, 2001.[2] Interviews were by telephone and lasted an average of 20 minutes each. To maximize our ability to analyze the behaviors of particular groups of policy interest, several subpopulations were oversampled, as described below. The survey respondent was the adult household member who handled most of the household's financial transactions; except where noted, however, the unit of analysis is the household.

Because DSS wanted to know whether there were significant behavioral differences between urban and rural TANF families, NCFSS oversampled two geographic areas: North Carolina's largest urban area, Mecklenburg County, which contains most of the city of Charlotte (667 interviews); and five contiguous rural counties[3] (421 interviews).[4] The other 413 respondents were drawn from the remaining 94 counties in the state. Again at DSS's request, NCFSS also oversampled households that either were currently receiving TANF benefits or had received benefits within the 24 months prior to the interview. Of the total of 1,501 interviews, 478 were with current

[1] A banked household is one that owns either a checking or a savings account at a bank or credit union.
[2] Because of the holiday season, interviews were halted for three weeks in late December and early January.
[3] This area includes Wilson, Greene, Johnston, Pitt, and Wayne counties.
[4] Although we controlled for geographic location in our multivariate analysis, results were rarely significant and never substantively affected other coefficients, so we dropped them for the sake of parsimony, nor do we include Meckenburg and Wilson Counties in our descriptive tables.

TANF recipients and 435 were with leavers, defined as those who had left the roles within the previous two years. Finally, to obtain a sufficient number of interviews to analyze separately, we also oversampled Hispanic households (123 interviews). Statistical weights are used to adjust for all oversampling.

III. A THEORETICAL PERSPECTIVE

Researchers have conceptualized the relationship between household consumption and debt from several perspectives. The life-cycle model from economic theory holds that households maximize their utility from consumption from one period to the next, according to their average lifetime income (Hubbard, Skinner, and Zeldes, 1994, p. 174). Households maintain a constant level of consumption by under-spending and over-spending from period-to-period based on variations in income around their lifetime average (Bae, Hanna, and Lindamood, 1993, p.13). There is no borrowing or debt accumulation in this world of perfect information, certainty about one's life span, and zero real interest rates. When current income falls below the expected mean, the household maintains an optimal level of consumption by living off its savings—withdrawing funds accumulated during periods of above-average realized income, and adding to savings when the opposite holds

Bae et al. discuss how, over time, economists have modified the life cycle model to allow for positive real interest rates, borrowing, and a measure of "household impatience"—which they refer to as the "valuation of the additional utility that spending beyond one's savings will produce in a given period" (1993, p. []). A household's optimal level of consumption will depend upon the relationship between the cost of borrowing and the subjective valuation of the additional utility gained from increasing consumption. The higher the real interest rate, the more a consumer will favor future consumption over present consumption; the more impatient the consumer, the more he or she will favor present consumption over future consumption, and increase borrowing (Bae, Hanna, and Lindamood, 1993, p. 13).

Elliehausen and Lawrence use a variation of life-cycle theory to explain the willingness of many low- and moderate-income households in early family stages to pay triple-digit interest rates for very short-term consumer loans. Given these households' low levels of savings and the high subjective returns on household investments that the loans finance, demand for credit by financially strained borrowers is relatively unresponsive to increases in annual percentage rates or financing fees (Elliehausen & Lawrence, 2001, p. 12).

Option theory is also used by economists to help explain the conditions under which a consumer will choose to stop payments on a loan or default on a debt that he or she has incurred. This perspective is especially useful in models of residential mortgage default, in which a borrower's decision to default depends largely on whether the unpaid loan balance exceeds the market value of the house securing the mortgage (Deng, Quigley, & Van Order, 2000). Having applied option theory to credit card defaults by households with blemished credit and identified a strong statistical relationship between credit card default and individual bankruptcy filings, Sullivan and Worden (as cited in Deng et al, 2000, p. 124) suggest that less creditworthy households may use credit cards more intensely because they value highly the default option this payment form allows. This theory may also help explain why some credit-constrained individuals prefer pawnshops over other sources of credit—since it is widely known that the borrower's option not to redeem a pawned item (i.e., to default) is neither reported to credit bureaus nor has any impact on his or her credit rating.

Psychological theory has also been used to explore household debt accumulation and payment behaviors because, according to Bachman, "an individual's motivation to eliminate indebtedness flows from financial means as well as emotional desire" (2001, p. 1). Debtors interviewed in a study of borrowing behavior among residents in South West England were more likely than non-debtors to describe themselves as coming from more debt-tolerant surroundings, posit the existence of a "culture of indebtedness" (Lea, Webley and Walker, 1993, p. 682). "An important factor in predicting debt status was whether respondents knew other people around them who were in debt, and how they thought those around them would react if they knew that the respondent was in debt" (Lea et al., 1993, p. 691). Around the same time, Tokunaga (as cited in Lea, Webley and Walker 1993, p. 683) found that people's reports of their parents' use of and views on credit correlated with their own ability to use credit successfully.

Using a combination of economic and psychological reasoning, Elliehausen and Lawrence (2002, p. 16) suggest that credit-constrained consumers who believe they lack the discipline to become regular savers choose to save "via debt repayment rather than fritter future income on the numerous goods and services that are available in the market"

Finally, in suggesting that poor households may use credit as rainy-day funds, Bird, Hagstrom and Wild (1997, p. 22) tie this form of indebtedness to welfare reform. "If credit cards do play a role, it would be to soften the short-run consequences of welfare reform while lengthening and hardening its long-run consequences." While credit card debt might substitute for reduced welfare payments or related benefits in the short run, the authors worry that "a great increase in credit card debt may become a significant hurdle to the new welfare-to-work policies, since [it] may greatly reduce the disposable income that can be generated from regular gainful employment" (Bird et al., 1997, p. 22). In the following sections we use NCFSS data to explore how TANF recipients and recent leavers in North Carolina use and repay selected kinds of debt, and the implications for welfare reform.

IV. MEASURING FINANCIAL MANAGEMENT

This section describes the financial services behavior and credit management practices of a representative sample of low-income households in North Carolina—including TANF recipients, recent leavers, and other households whose total income in the year preceding our survey was less than $30,000. Because our initial descriptive (bivariate) analysis does not control for differences in family and other characteristics of the populations of interest besides their welfare status, we cannot determine whether TANF recipients and leavers actually use and manage credit differently from other low-income households. We address this limitation in the next section, where we model consumer credit behavior using appropriate statistical controls.

Although time and resource constraints prevented us from undertaking an exhaustive analysis of respondents' household finances, the NCFSS contains nine measures of credit use and payment practices. Two of these—having a bank account and owning credit card(s)—have to do with accumulating savings, diversifying payment options, and accessing mainstream sources of credit. Two others—amount of credit card debt and timeliness of paying down that debt—are about borrowing habits and debt management. A third set—writing bad checks, being referred to a collection agency for failing to pay bills on time, and participating in a credit counseling program because of excessive debts—are direct measures of more acute financial management problems and a seriously impaired credit rating. While the final two measures—obtaining financial services from payday lenders and pawnshops—are not by themselves indicators of credit abuse, they might suggest reduced access to mainstream credit sources, while chronic borrowing from these high-cost suppliers reflects severe credit problems.

In the following discussion we relate each measure to the research literature and describe the behavior of TANF recipients, leavers, and other low-income households in North Carolina.

Banking Experience

In today's economy, it is increasingly important to have access to a basic bank account and mainstream financial services. Without bank accounts, families often pay high fees—as much as $15,000 over a lifetime—to check cashers and other fringe bankers to conduct basic daily financial transactions (Hawke, 2000). More importantly, banking status has profound implications for families' long-term self-sufficiency. People with bank accounts are more than twice as likely to hold savings as are people who are unbanked and are more likely to add to their savings on at least a monthly basis (Dunham, 2001, cited in Kim, 2001). In fact, controlling for income and other factors, lower-income individuals with bank accounts are 43% more likely than those who are unbanked to have positive net financial assets of any kind. Indeed, for more than half the unbanked (54%), their only asset is their car (Federal Reserve Board, 1998).

Having a bank account may also be related to payment habits. In their survey of 2,250 households in Devon, England, Lea, Webley and Walker (1993) "found debtors were less likely to have a bank or building society account, rated themselves as poorer money managers, put money away for regular bills less often, were less likely to pay bills by standing orders or similar arrangement, and preferred to pay bills more frequently" (p. 692).

One of every six (17%) lower-income families in North Carolina—over 222,000 households—does not own a bank account. This suggests that a significant portion of North Carolina working families lack a safe and secure place to store and save money, use more costly means of transacting their financial business, and lack ready access to a wide range of financial services and products, such as auto loans, home mortgages, and retirement savings (see Table 1).

The situation in North Carolina is somewhat better than in the United States as a whole, however, where 19% of all lower-income households were unbanked in 1998 (Federal Reserve Board, 1998). North Carolina also fares better than America's two largest cities, New York and Los Angeles, where a survey by the United States Office of the Comptroller of the Currency found more than two thirds of families with incomes of less than $15,000 to be unbanked, as are 40% of families earning between $15,000 and $30,000 (Dunham, 2001). The corresponding unbanked rates in North Carolina are 27% and 10%, respectively.

More problematic than the overall unbanked rate among lower-income North Carolinians is that nearly two fifths of TANF households are unbanked. Leavers—

ostensibly, those who are on the path to greater economic security—are even worse off. Forty-two percent of the families who left welfare in the 24 months prior to the survey are unbanked. This means the already difficult transition from cash assistance to the work force poses additional challenges: Paying monthly bills is more time-consuming and costly, saving money is made more difficult, and investing in long-term financial security is all but impossible.

Credit Card Ownership and Unpaid Balances

In 2001, three quarters of American households held at least some debt. Home mortgages, installment loans, and credit cards are the most common forms of credit in the United States, each at a rate of roughly 45% (Azicorbe, Kennickell, and Moore, 2003). The proportion of poor U.S. households with a credit card doubled from 20% to 40% between 1983 and 1995, while those with credit card debt more than twice their monthly incomes nearly quadrupled (Bird et al., 1997), with unmarried poor households more than doubling their debt between 1992 and 1995, from $600 to $1300. According to Bird et al, "since this group includes unmarried parents, these figures lead one to suspect some connection between credit card use and the welfare system" (Bird, p. 16). In short, with more than 400 million bank cards, 300 million "store" cards, and 100 million "gasoline" cards in circulation (Carrow and Staten, 2002, p. 216), it made sense to focus the NCFSS on how this increasingly common payment option is associated with debt accumulation among low-income North Carolinians.

We also focus on credit card debt because mounting monthly balances may not be just demand-driven, but the result of a conscious marketing strategy by the credit card industry to target the poor. Manning (2000) suggests, for example, that for a variety of reasons—including lower credit scores, higher interest rates, and a greater incidence of penalties for late or missed payments—low-income card holders are more profitable to credit card companies than high-income holders.

Consistent with these studies, we found widespread use of credit cards among our low-income study population. Over half of all North Carolina families with incomes under $30,000 hold a bank credit card, a retail store card, or both (see Table 1). However, there are significant demographic differences in rates of credit card ownership: Lower income white families are roughly 50% percent more likely than African American families, and more than twice as likely as Hispanic or other minority families, to own a credit card (see Table 2).

Also consistent with other research, NCFSS found that the majority of cardholders carry a balance, with 61% "hardly ever" or never paying off the balance at the end of the month (see Table 1). Results are fairly consistent across demographic groups, although minorities and those who never finished high school are more likely than whites to carry credit card debt (see Table 2).

Although low-income North Carolinians have smaller balances than comparably situated families nationally, outstanding balances are still significant. The average outstanding credit card debt is $905. Of these, half have incomes of less than $1,600 per month and owe over $500, nearly one-third their monthly income.

Within the NCFSS population as a whole, credit card debt rises with income—from under $500 to nearly $1,200 when income increases from the $10,000-$20,000 range to between $20,000 and $30,000. Current TANF recipients also carry significant unpaid credit card balances, an average of nearly $600, while leavers owe even more—on average over $700. Among all household cohorts, current TANF recipients are least likely to pay off their credit cards—80% hardly ever or never do so. Leavers are also somewhat more likely than others to carry consumer debt (66%).

Alternative Financial System: Payday Lenders and Pawnshops

Consistent with a growing body of empirical research on the rapidly growing market for fringe banking services (Caskey, 1997, Stegman and Faris, 2002), a small subset of low-income families in North Carolina are frequent patrons of payday lenders and pawnshops. A payday loan, variously referred to as a "payday advance" or "deferred deposit" loan, is a high-interest, two-to-four-week loan backed by a post-dated personal check that a borrower promises to repay out of his or her next paycheck.

At the time of the NCFSS, North Carolina state law set a ceiling of $300 on the amount that could be borrowed at any one time, limited fees to 15% of the amount borrowed, and provided for a maximum term to maturity of 31 days (which translates to triple digit interest rates).

Across the country and in North Carolina, "the core of the market for payday loans comes from households with checking accounts, steady employment, impaired credit and annual incomes under $50,000" (Elliehausen and Lawrence, 2001, p. 29). How much under $50,000 depends upon geography and source of the data. For instance, in Indiana regulators report payday loan customers to be in the $25,000 to $30,000 range (cited in Wisconsin Department of Financial Institutions, n.d.), while in Illinois the average is reported to be $24,000 (Illinois Department of Financial Institutions, n.d.). Borrowers in Wisconsin, according to state regulators, are even less affluent, with an average income of just $19,000 (Wisconsin Department of Financial Institutions n.d.).

In North Carolina, according to the NCFSS, 6% of all families with incomes under $30,000 had taken out at least one payday loan in the 24 months preceding the survey (see Table 1). African-American households are about twice as likely to borrow from a payday lender as whites (see Table 2). About 10% of low-income black families have taken out at least one payday loan in the past two years, compared to 5% of all lower-income whites.

More problematic is the fact that once families use this easy-to-obtain high-cost credit, many become chronic borrowers. One sixth of all lower-income white borrowers and nearly one-third of African-American customers either renew their loan or pay it off and take out a new one at least once a month.

Chronic reliance on all types of credit can take a serious toll on families' financial solvency, but this is especially true for payday loans. The average payday loan in North Carolina during the time of the NCFSS was $244 and had a term of two weeks or less and a one-time fee of $36. If each loan is repaid on time, the cost of taking out one loan a month is more than $400 a year, and if existing loans are rolled over or renewed, the cost can skyrocket to well over $1,000 a year (Stegman and Faris, 2003, p. 19).

Regardless of race, families who have been involved with the welfare system in North Carolina are also more likely than other families to take out a payday loan. While just 6% of all lower-income families with checking accounts have used payday lenders in the past two years, this is true for 11% and 12%, respectively, of current TANF recipients and leavers (see Table 1). More than one fifth of the latter and over 40% of current welfare customers have become chronically dependent upon payday loans, having taken out at least one loan a month over the past two years. This kind of chronic indebtedness—the stringing together of one payday loan after another in an effort to make up the deficit until the next paycheck or benefit payment arrives—makes the transition from welfare to work all the more challenging.

Like payday lenders, pawnbrokers offer another source of readily accessible credit to which low-income consumers and credit-constrained households frequently turn. Caskey (1991, p. 7) traces the recent increased demand for pawnshop services to an "increase in the number of Americans who do not use mainstream financial institutions because of poverty and the effects of bank deregulation"

Pawning can also be costly. Under North Carolina law, loans for a maximum term of six months can cost up to $500.[5] However, one pawnbroker revealed that the terms for loans can be easily extended beyond the six-month limit simply by writing a new pawn ticket and that "this happens all the time."[6] The pawnbroker suggested that

[5] As allowed by the North Carolina Pawnbrokers Modernization Act of 1989.
[6] Conversation between [name of interviewer] with an anonymous pawnbroker in Durham, North Carolina, February 21, 2002.

half of his customers pay off the 20% fee at the end of the first month, one quarter roll over the loan for several more months, and another quarter never return to reclaim their property. This pattern is similar to the observed pattern of NCFSS families: 69% of all pawn customers reclaimed the most recent items they pawned, while 25% defaulted. Both default rates are close to the 30% percent national default rate identified by Manning (2000), who suggests that despite the high likelihood that they will not recover their property, many lower-income customers use pawnshops because failure to 'renew' (pay monthly interest) or 'redeem' (pay loan and interest) a pawned item is not reported to a credit bureau.

As with payday loans, TANF recipients are much more likely than others to pawn—while 5% of all low-income families have borrowed from a pawnbroker in the past 24 months, this is true for 20% of all TANF recipients, and 25% of all leavers (see Table 1). Even though they are more likely than other lower-income families to have frequented a pawnshop, TANF recipients pawn property less frequently than leavers and non-welfare borrowers. While 45% of all leavers and other borrowers pawned assets more than twice in the past two years, only one third of all TANF recipients did so.

Credit Counseling, Collection Agencies, and Bounced Checks

As indicated earlier, NCFSS asked respondents about several events that are direct indicators of serious credit problems: having one's delinquent account(s) referred to a collection agency for failure to make agreed-upon payments, seeing a credit counselor to repair bad credit, and bouncing checks. Collection agency referrals are reported to credit bureaus and remain on an individual's credit reports for up to 7 years (Yahoo! Finance Education Center, 2000). While reporting practices vary by industry and business, accounts that are 60 days to 90 days past due typically are good candidates for referrals.

Among all lower-income families in North Carolina, 30% have been reported to a collection agency at some point, with current TANF recipients (59%) and leavers (65%)

being twice as likely as non-welfare households to have had such an experience (see Table 1). Minority-headed households are also substantially more likely than those headed by Whites to be reported to bill collectors (see Table 2).

According to Staten, Elliehausen, and Lundquist (2002), credit counseling of severely debt-burdened households typically involves a comprehensive “budget review, education, advice, possibly referrals to social service agencies or other institutions to solve specific problems, and recommendations for specific changes in the client’s behavior” and possibly a “Debt Management Plan and creditor concessions such as reduced interest rates, fees and minimum payments” (p. 1). Staten et al. also report that “in 2001, between 2.0 and 2.5 million Americans felt themselves under sufficient financial pressure to seek advice and other assistance from a credit counseling agency, sometimes prior to bankruptcy, but mostly as an alternative to bankruptcy,” and the number is growing rapidly (p. 1).

Of all the measures of credit impairment and financial management used in the NCFSS, the most ambiguous one is whether a person is working with a credit counselor. Having seen a credit counselor implies the existence of a credit problem, as well as a decision—voluntary or otherwise—to do something to repair bad credit. Moreover, while it is true that every family that sees a credit counselor has some credit problem(s), the severity of problems can differ in very real ways—all the way from simply correcting a merchant’s mistake to having to file for bankruptcy.[7]

Consistent with patterns regarding payday loan and pawning, relatively few (7%) NCFSS respondents have ever used credit-counseling services. TANF recipients are twice as likely as nonrecipients to have done so, while leavers use credit counseling at

[7] In addition, enrolling in a debt management program (DMP) through a credit counselor has several negative consequences (Eckard 2002). Participation in a DMP shows on one’s credit record and receives a rating from each of the major credit bureaus. Families who enter credit counseling with good credit could have accounts that show as past due during the first few months of the program while counselors work out new payments plans with creditors. Finally, families have no access to existing credit or new credit during the DMP. This can be difficult for many who have come to rely upon credit to pay bills throughout the month.

about the same rate as all other low-income families (see Table 1). Blacks are more likely than whites to have seen a credit counselor, and Latinos' less likely (see Table 2).

Some low-income families bounce checks as a means of obtaining short-term credit, a way to buy time. This may be especially true for those who do not own a credit card or who have reached their credit limit. This source of credit, whether used intentionally or otherwise, can be a very costly alternative, however. Nationally, the fee per bounced check averages about $25 —$50 including the merchant's fee. The cost of bouncing a $100 check just once translates to an annualized interest rate of more than 600%. And because many banks clear the largest checks first when a customer's balance is not sufficient to clear all checks received on a given day, families that overdraw their account by even a small amount could face multiple bad check fees.

According to the NCFSS, one third of all low-income families with a checking account have bounced at least one check in the past 5 years, with TANF recipients (66%) and leavers (70%) at least twice as likely to have done so (see Table 1). Black families are more likely to bounce checks than whites, while Hispanics are somewhat less likely (see Table 2).

Table 1: Credit Use and Credit Impairment, by Welfare Status, N.C., 2001

	All Low-Income	Non-Welfare	Current Adult Welfare	All Recent Adult Welfare Leavers
Banked	16.9%	14.5%	38.1%	41.9%
Own any credit card	54.6%	55.7%	35.1%	44.7%
Owns major credit card	47.9%	49.3%	25.9%	34.1%
Owns store credit card	33.4%	34.2%	19.1%	25.3%
Average current balance:	$905	$899	$598*	$720*
Pay off balance:				
Every month	42.8%	44.4%	30.8%	27.0%
Almost every month	12.1%	12.4%	9.2%	10.2%
Sometimes	16.9%	16.8%	4.5%	19.9%
Hardly ever	8.0%	6.2%	34.2%	13.7%
Never	20.2%	20.2%	21.3%	29.3%
Total:	100.0%	100.0%	100.0%	100.1%
Used a payday loan in past two years	6.4%	5.7%	11.2%	11.9%
If yes, frequency:				
Once or twice a year	52.7%	50.9%	19.1%	51.8%
Three or four times a year	26.4%	29.5%	39.4%	25.6%
Monthly	12.0%	11.3%	16.2%	8.6%
Biweekly	8.9%	8.3%	25.2%	14.0%
Total:	100.0%	100.0%	99.9%	100.0%
Used a pawnshop in past two years	4.5%	3.1%	20.4%	23.4%
If yes, frequency:				
Once	38.4%	65.1%	39.1%	18.4%
Twice	16.6%	17.0%	26.9%	36.9%
Three times	6.5%	1.6%	14.1%	16.9%
Four or more times	38.4%	16.3%	19.9%	27.8%
Total:	99.9%	100.0%	100.0%	100.0%
Bounced a check in the past five yea	31.6%	29.6%	65.6%	70.4%
If yes, number:				
1 to 2	52.3%	54.5%	46.7%	54.5%
3 to 6	27.3%	27.3%	30.0%	36.7%
7 to 10	10.6%	9.3%	8.7%	7.4%
11 or more	9.8%	8.9%	14.6%	1.5%
Total:	100.0%	100.0%	100.0%	100.0%
Been referred to a collection agency	30.3%	27.0%	59.0%	63.0%
Seen a credit counselor to repair cre(	7.2%	6.6%	17.0%	8.1%

N = 1,501; Source: Center for Community Capitalism, North Carolina Financial Services Survey, 2001.

* Data are unweighted due to low frequency of debt reporting and extreme weight values.

According to 2000 Census figures, there are approximately 1,267,000 households earning less than $30,000 in North Carolina.

Table 2: Credit Use and Credit Impairment, by Race and Ethnicity, N.C., 2001

	All Low-Income	White	Black	Latino
Banked	16.9%	9.2%	33.9%	48.9%
Own any credit card	54.6%	61.2%	41.4%	26.9%
Owns major credit card	47.9%	52.8%	38.0%	27.4%
Owns store credit card	33.4%	37.7%	24.9%	14.8%
Average current balance:	$905	$916	$922	$76
Pay off balance:				
Every month	42.8%	47.0%	23.2%	72.8%
Almost every month	12.1%	12.1%	12.5%	7.6%
Sometimes	16.9%	15.7%	22.5%	7.6%
Hardly ever	8.0%	4.5%	22.5%	3.5%
Never	20.2%	20.7%	19.4%	8.6%
Total:	100.0%	100.0%	100.0%	100.0%
Used a payday loan in past two years	6.4%	5.3%	10.7%	4.2%
If yes, frequency:				
Once or twice a year	52.7%	58.0%	44.3%	40.0%
Three or four times a year	26.4%	27.5%	25.4%	32.8%
Monthly	12.0%	13.3%	7.6%	27.2%
Biweekly	8.9%	1.3%	22.7%	0.0%
Total:	100.0%	100.0%	100.0%	100.0%
Used a pawnshop in past two years	4.5%	3.6%	7.4%	3.2%
If yes, frequency:				
Once	38.4%	60.2%	37.1%	7.8%
Twice	16.6%	24.0%	19.1%	3.9%
Three times	6.5%	5.4%	11.6%	31.7%
Four or more times	38.5%	10.4%	32.2%	56.6%
Total:	100.0%	100.0%	100.0%	100.0%
Bounced a check in the past five years	31.6%	29.1%	44.9%	25.7%
If yes, number:				
1 to 2	52.3%	53.8%	48.9%	17.6%
3 to 6	27.3%	27.0%	26.0%	81.0%
7 to 10	10.6%	10.7%	11.2%	0.9%
11 or more	9.8%	8.6%	14.0%	0.6%
Total:	100.0%	100.0%	100.0%	100.0%
Been referred to a collection agency	30.3%	24.9%	44.9%	31.2%
Seen a credit counselor to repair credit	7.2%	6.6%	9.4%	3.1%

N = 1,501; Source: Center for Community Capitalism, North Carolina Financial Services Survey, 2001.

V. Modeling Financial Behavior: Controlling for Household Differences

We are particularly interested in determining whether, using our measures of financial management, we can detect what might be referred to as a "welfare effect." In other words, controlling for household characteristics and other relevant factors, do TANF recipients behave differently from other low-income households in their patterns of credit use and debt management practices? Conceivably, a welfare effect could arise through TANF families' perceptions or misperceptions about program rules regarding bank accounts, savings, and other assets. Likewise, merchants and credit providers could stereotype these families as poor credit risks, thereby forcing them into the high-cost subprime and nonbank credit markets.

A corollary hypothesis, a "leaver effect," recognizes that recent leavers are likely to have higher debt burdens and impaired credit records than TANF recipients. This is based on the well-documented high costs of moving from welfare to work, which include daycare, clothing, transportation and other consumption necessities, which the family cannot afford to pay for out of current income. (Danziger, Heflin, Corcoran, Oltsman and Wang, 2002, p. 5).

While there are several categories of welfare recipients in North Carolina, as there are in other states, the two of greatest interest to us are time-limited adult TANF recipients and recent adult leavers.[8] However, we include in our models as control variables current and recent child-only TANF cases—caretaker families where a minor, but no adults, receives cash assistance, and benefits are not time-limited.

While this paper is not directly about race, given the extensive body of empirical research on discriminatory credit markets, and the withdrawal of banks from minority

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[8] *TANF Recipients* refers to those households where the adult(s) and the child or children in the family receive cash assistance. These households are generally subject to time limits and work requirements. *Child-only* refers to those households in which the child or children are the only ones receiving cash assistance. The child-only cases are not subject to time limits or work requirements, and are included in our models as a control variable. *Recent Adult Work First or Leavers* refers to households receiving no current cash assistance participant but with at least one adult member who received TANF benefits between January 1999 and December 2000.

and low-income neighborhoods, it is necessary to pay careful attention to race and ethnicity in all our models. A significant body of research shows strong relationships between race and credit in housing and consumer credit markets (Kantor & Nystuen, 1982; Oliver & Shapiro, 1995; Tootell, 1996). Godwin (1999) reports, for example, that the odds of white households experiencing difficulty repaying consumer debt are about half what they are for nonwhite households (p. 74). In their bivariate analysis, Sullivan and Fisher (as cited in Godwin, 1988, p. 68) found nonwhite or Hispanic households had a higher incidence of debt delinquency than did those headed by whites.

We identify race and ethnicity in four categories: Non-Hispanic White (the reference category), non-Hispanic Black, Hispanic (regardless of race), and Other Minority (predominately Native American and Asian).[9]

In the following analysis, we first treat banking status as a dependent variable in an effort to explore the factors that influence the decision of low-income households to be banked or not. We then use a household's banking status as one of the factors that explains household patterns of credit use and debt management. Empirical research suggests that younger households, minorities, and those with lower incomes and less education are less likely to have a bank account (Hogarth, 1999; Kennickel, 2001; Dunham, 2001; Hungerford, 2000). And, as discussed earlier, a substantial body of research suggests that banking status is related to debt management behavior.

We include three measures of banking experience—unbanked, banked, and previously banked—with those who have never owned a bank account serving as the reference category in our models. We also include whether the respondent grew up in a household in which the parents were banked, because the literature suggests that, like attitudes toward debt, the investment behavior of children is affected by parents' portfolio choices (Ngina and Stafford, 1999).

[9] We ran models treating Hispanic as a separate ethnicity variable, but results did not differ substantively.

Control Variables

In addition to race/ethnicity, welfare status, and banking relationship, each of the seven models of financial management, unless noted otherwise, includes the following other independent (i.e., control) variables:

Marital Status. Most of the empirical research on banking and credit use includes some measure of marital status. Canner and Luckett (as cited in Godwin, 1999, p. 68) found that divorced or separated heads of households were more likely than their married counterparts to report debt payment problems while Lea, Webley and Walker ([year]) report that debtors were more likely to "be women, to be employed part-time, to be housewives, to have more children in their households" (p. 691). Similarly, Bird et al. ([year]) found that among all U.S. households, married householders were much more likely than their unmarried counterparts to own at least one credit card, although there was little difference in the percent balances carried by each group. The same relationships held true among poor households (Bird, p. 11). In our analysis, we include four marital status categories: single female, single male, unmarried couples (the reference category), and married couples.

Education. This is measured by the highest degree of either the respondent or his or her spouse or partner, and has four categories: no high school degree, high school degree only, attended college, and college graduate or higher (reference category). Based on literature indicating that credit problems are a function of practical financial management skills and not formal education, we expect the relationship between our dependent variables and education to be nonlinear—credit impairment should be more frequent among those with the lowest levels of education, and among college-level families who use credit to compensate for their temporarily low (transitory) income.

Age. The life cycle theory and abundant empirical research suggest that age influences borrowing and debt accumulation. The literature confirms that the age of the head of a household relates significantly to debt repayment, with younger households much more likely to be delinquent than those headed by older people (Canner & Luckett, 1990, 1991; Sullivan & Fisher, 1988; cited in Godwin, [year], p. 68). In their study of credit card use by college students, Staten and Baron (2002, p. ii) found higher delinquency rates among active students compared to older adults, but larger dollar charge-offs among the latter because student balances tend to be lower. We measure age of the head of the household—the person who "handles most of the household's financial business"—as a continuous variable and expect age to be negatively related to poor credit practices.

Number of Children. As suggested above, other things equal, we expect debt to be positively related to family size. We measure the number of children living in the household who are under 18 years of age.

Household Income. Our low-income population is divided into five categories: under $10,000 (the reference category), $10,000 to $15,000, $15,000 to $20,000, $20,000 to $25,000, and $25,000 to $30,000. While there is little empirical research of credit use among low-income populations, and a mixed record regarding the role that household income plays in debt management, on balance we would expect household income to be inversely related to credit difficulties.

Employment. In addition to income, our models also control for employment status, measured by the number of working adults in the household. We include four categories: no employed adult, one adult working part-time, one full-time worker (or two part-time workers, although very rare), and more than one full-time worker (reference category).

Savings. Saving can take many forms, from "mattress money" to stocks, bonds, and jewelry, and is measured in NCFSS in three categories: regular saver (contributes to savings monthly), irregular saver (has savings, but does not contribute monthly—the reference category), and without savings of any kind. Savers—regular and other—should exhibit fewer credit problems than non-savers, both because of the option to draw down liquid assets as an alternative to borrowing, and because accumulating savings requires financial discipline that should be reflected in better credit management.

Credit card ownership. Although we know that large numbers of poor families have accumulated more credit card debt than they can handle, it does not necessarily follow that poor households without credit cards are better financial managers. However, because cardless households may not be able to borrow as conveniently as those with credit cards, on balance, we might expect them to be less credit-impaired than credit card holders.

Empirical Results

We estimate a series of multiple regression models to test for welfare, leaver, and race effects. First, we estimate a pair of logistic regressions to explore the factors that influence low-income households' decisions to have a banking relationship, and own credit card(s), respectively. Next, we estimate an ordinary least squares model (OLS) of credit card debt, and an ordered logistic regression of the likelihood of households to carry over unpaid balances from one month to the next. The next pair of models focuses on the frequency with which households take out payday loans or pawn property in exchange for cash. Finally, we fit three more models to explore the factors that contribute to the likelihood that families (i) will have had contact with bill collection agencies, (ii) participated in a formal credit counseling program, or (iii) passed bad checks during the previous five years. To help organize our findings and test our hypotheses, we summarize our results (see Table 3) prior to discussing the impacts of individual independent variables on households' financial behavior. Detailed results are recorded in Tables 4-7.

Welfare and Race Effects

Welfare Effects. Compared with other low-income families, TANF recipients are much less likely to have a bank account but more likely to frequently bounce checks, be engaged with bill collectors, and use pawnshops to access credit. On the other hand, TANF families are indistinguishable from other low-income families with respect to their ownership and use of credit cards, including accumulation of credit card debt, and their tendencies to carry over unpaid balances from one month to the next.

Leaver Effects. Compared with TANF recipients, leavers have greater credit card debt and are more likely to postpone paying off their end-of-month balances. While leavers are just as likely to own credit cards as non-TANF families, they are significantly more likely to postpone paying down their monthly balances and to use pawnshops to access credit. In all other respects, leavers' use and management of financial services are indistinguishable from other low-income North Carolinians.

Race Effects. Controlling for family social and economic characteristics and welfare status, we find lingering racial and ethnic differences in the use and management of financial services and credit. First, racial minorities as a whole are much less likely to be banked and more likely to use alternative (fringe) financial services than whites. While there are no racial or ethnic differences in the rate of credit card ownership, or participation in credit counseling, there are significant differences among minorities in their tendency to manage their checking accounts, and in their preferred choice of fringe financial service providers. Blacks are significantly more likely than white or Hispanics to bounce checks and to frequently patronize payday lenders. Hispanics are as likely as whites to own credit card(s), but have lower total credit card debt, and are more likely than whites or blacks to pay off their monthly balances. Hispanics are also less likely to bounce checks than either whites or black families. While they are relatively more likely to use fringe financial services than whites, Hispanic families' preferred choice of provider is the pawnshop, while for blacks it is the payday lender.

Table 3: Significant Findings, by Welfare and Race/Ethnicity

Dependent Variable	Current Adult Welfare (vs. Non-welfare)	Welfare Leavers (vs. Non-welfare)	Welfare Leavers (vs. Current Welfare)
Banked	Yes: --	No	No
Own credit card	No	No	No
Credit card debt	No	No	Yes: +
Postpone debt repayment	No	Yes: +	Yes: +
Payday loans	No	No	No
Pawnbroking	Yes: +	Yes: +	No
Collection Agency	Yes: +	Yes: +	No
Credit Counseling	No	No	No
Bounced checks	Yes: +	No	No

Dependent Variable	Black (vs. White)	Latino (vs. White)	Black (vs. Latino)
Banked	Yes: --	Yes: --	No
Own credit card	No	No	No
Credit card debt	No	Yes: --	Yes: +
Postpone debt repayment	Yes: +	Yes: --	Yes: +
Payday loans	Yes: +	No	Yes: +
Pawnbroking	No	Yes: +	Yes: --
Collection Agency	Yes: +	Yes: --	Yes: +
Credit Counseling	No	No	No
Bounced checks	Yes: +	Yes: --	Yes: +

Source: Center for Community Capitalism, North Carolina Financial Services Survey, 2001.

Banking Status

Welfare status does not matter. Perhaps even more importantly, controlling for other factors, families who have recently transitioned from welfare are just as likely to be unbanked as current Work First participants. However, non-welfare households are 44%more likely to be banked than current welfare households, which suggests that banking issues should be of greater concern to TANF officials (see Table 4).

Race does matter. Consistent with a significant body of social science research, NCFSS found that lower-income households headed by minorities are much less likely to be banked than are white families, even after controlling for a large number of other factors. African Americans and Latinos are two thirds as likely—and other minorities one fifth as likely—as whites to own an account.

Education also matters. As expected, although the relationship is not linear, the greater the education level of the most highly educated member, the more likely a family is to own a bank account. Families with no high school graduates are just 40% as likely as those with at least one college graduate to own an account.

Income matters. There is a threshold effect among lower-income households when it comes to account ownership. Families with annual incomes between $20,000 and $30,000 are almost twice as likely to be banked as the poorest families, those with incomes under $10,000. On the other hand, there is no statistically significant difference in banking status between families with incomes between $10,000 and $20,000, and those earning less than $10,000.[10]

Employment status does not matter. Contrary to some published research, controlling for income and other factors, including welfare status, we find no relationship between a family's employment composition and its banking status. Employed and unemployed householders with incomes under $30,000 are equally likely to be banked.

Savings do matter. While more than three quarters (77%) of banked households have some savings, this is true of just one third (32%) of all unbanked respondents. Other things equal, families who do not save are just 25% as likely to own a bank account as families who do save.[11] Similarly, families who have a way to borrow $500 in an emergency[12] are 1.5 times more likely to be banked than those who do not.

Parental influence is important. As we posited earlier, one's childhood experiences with respect to banking is important. Respondents who grew up in families who were banked are more than twice as likely as other families to be banked themselves.

[10] We can only approximate the impact of income on banking status because we did not collect actual income from respondents, only the income group to which they belonged (e.g., <$10,000, etc.)

[11] Causal interpretation is difficult here, as bank accounts can encourage savings just as savings habits can drive account ownership. We include it because it captures an important, otherwise unobserved, characteristic—the desire to save.

[12] We are able to include this variable because, unlike some asset measures, it is not directly tied to banking.

This suggests that cultural factors may be associated with people's attitudes and experiences with mainstream financial institutions.

Credit Card Debt and Repayment

While income and banking experience have strong positive effects on credit card

Table 4: Logistic Regressions of Being Banked and Owning a Credit Card, Lower-Income Families, N.C., 2001						
Variable	**Banked**	**Odds**	**S.E.**	**Credit Card**	**Odds**	**S. E.**
Current Adult Welfare	-0.39 ^	0.68	(0.27)	-0.04	0.96	(0.18)
Recent Adult Leavers	-0.11	0.90	(0.21)	0.19	1.21	(0.15)
Current Child-Only Welfare	0.07	1.07	(0.26)	0.31	1.36	(0.20)
Recent Child-Only Welfare	0.31	1.36	(0.58)	-0.12	0.89	(0.20)
African-American	-0.81 ***	0.45	(0.19)	-0.09	0.91	(0.28)
Latino	-0.41 ^	0.67	(0.24)	-0.05	0.95	(0.19)
Other minority	-1.62 ***	0.20	(0.42)	-0.10	0.91	(0.30)
Single female	-0.08	0.92	(0.21)	-0.39	0.68	(0.25)
Single male	-0.22	0.81	(0.43)	-0.82 **	0.44	(0.29)
Married couple	0.06	1.06	(0.20)	-0.13	0.88	(0.20)
High school dropout	-1.14 **	0.32	(0.40)	-0.88 ***	0.41	(0.19)
High school graduate	-0.89 *	0.41	(0.38)	-0.61	0.54	(0.39)
Some college	-0.32	0.73	(0.36)	-0.24	0.78	(0.44)
Age of household head	0.03 ***	1.03	(0.01)	0.01	1.01	(0.00)
Number of children	-0.03	0.97	(0.04)	-0.20 ***	0.82	(0.03)
Income $10,000 to $15,000	0.35 **	1.42	(0.14)	0.34 *	1.40	(0.16)
Income $15,000 to $20,000	0.48 **	1.62	(0.17)	0.73 ***	2.08	(0.15)
Income $20,000 to $25,000	0.60 ***	1.82	(0.16)	0.65 ***	1.91	(0.19)
Income $25,000 to $30,000	0.71 ***	2.03	(0.21)	0.84 ***	2.32	(0.16)
No employed adult	-0.25	0.78	(0.38)	-0.03	0.97	(0.17)
One part-time worker	0.23	1.26	(0.32)	0.02	1.02	(0.16)
One full-time worker	-0.05	0.95	(0.30)	-0.02	0.98	(0.15)
Owns bank account	--	--	--	2.20 ***	8.99	(0.28)
Owned a bank account in the past	--	--	--	1.13 ***	3.08	(0.35)
Parents were banked	0.89 ***	2.43	(0.17)	0.24 *	1.27	(0.12)
Has no savings	-1.15 ***	0.32	(0.13)	-0.09	0.91	(0.15)
Saves regularly	0.72 **	2.06	(0.28)	0.38 ***	1.47	(0.11)
Attended financial education	-0.03	0.97	(0.20)	-0.06		(0.22)
Constant	0.31		(0.71)	-1.94 ***		(0.38)
Log Likelihood	-517.2			-640.3		

N = 1,133; Source: Center for Community Capitalism, North Carolina Financial Services Survey, 2001.

* p<.05; ** p<.01; ***p<.001; ^p<.05, one-tail test.

Reference categories: current adult welfare, white, unmarried couple, college graduate, income less than $10,000, more than one full time worker, never been banked, and saves irregularly.

ownership, we found no significant differences by race/ethnicity or welfare status (even when shifting the reference category to non-welfare households). Thus, the variation in credit card ownership rates reflected in Table 1 is largely explained by differences in income and other socioeconomic characteristics.

Because the distribution of total credit card debt (including all bank and store cards owned) is highly skewed, we estimate an OLS model using log credit card debt as the independent variable (see Table 5). Leavers have significantly higher credit card debt—20% more, on average—than current TANF recipients. This effect holds even when controlling for income and employment (neither of which has substantial effects on debt). This finding is consistent with Edin and Lein (1997), who demonstrated how, despite significantly higher incomes, employed leavers fared worse than stayers because "in most cases, the costs of work eroded this income advantage" (cited in Danziger et al, 2002, p.5).

As indicated earlier, households headed by Latinos have significantly *lower* credit card debt than those headed by whites, even when controlling for the type of cards owned, income, and other factors. Age is also negatively related to credit card debt. Both the type and number of cards are also significantly related to total debt; households with both bank and store card(s) have the highest debt, while those owning bank cards have higher debt than those owning only store card(s).

We ran an ordered logistic regression of credit card repayment frequency, using the categories shown in Table 1, where a value of 1 refers to paying off the balance every month and a 4 refers to never paying off the balance (see Table 5). Leavers are 55% more likely than current TANF recipients to postpone paying off their credit cards. Combined with (and possibly due to) their higher debt, this means that leavers are under great financial strains as they make the transition from welfare to work. When we rotate the reference category, we find leavers to be significantly more likely than non-welfare households to postpone paying off their debt.

Compared to white credit card owners, blacks are 39% more likely—but Latinos just half as likely—to postpone paying off their credit card debt. Age is negatively related to both amount of credit card debt and length of time debt is carried: each additional year of age reduces the likelihood of postponement by 1%. Income has no effect on payment habits.

Contrary to expectations, being banked increases the likelihood that a household will postpone credit card payments. Banked and previously banked households are 6.6

and 3.0 times, respectively, more likely to postpone repayment than those who have never owned an account.

Table 5: OLS of Log Credit Card Debt and Ordered Logit of Postponing Repayment, Lower-Income Families, NC, 2001

	Log Credit Card Debt			*Postpone Repayment*		
Variable	**Coefficient**	**Std Beta**	**S. E.**	**Coefficient**	**Odds**	**S. E.**
Current Adult Welfare	-0.59	0.15	(0.48)	0.06	1.06	(0.21)
Recent Adult Leavers	0.38	0.10	(0.47)	0.41 **	1.51	(0.16)
Current Child-Only Welfare	0.60	0.12	(0.53)	0.79 ***	2.20	(0.22)
Recent Child-Only Welfare	-0.22	0.03	(0.85)	0.51	1.67	(0.52)
African-American	0.18	0.03	(0.34)	0.33 ^	1.39	(0.19)
Latino	-1.39 ***	-0.10	(0.38)	-0.71 **	0.49	(0.25)
Other minority	0.46	0.02	(0.88)	0.21	1.24	(0.51)
Single female	0.23	0.03	(0.38)	0.16	1.18	(0.17)
Single male	-1.30	-0.07	(0.69)	-0.63 *	0.53	(0.29)
Married couple	-0.37	-0.05	(0.26)	-0.34	0.71	(0.20)
High school dropout	-0.94	-0.08	(1.00)	-0.02	0.98	(0.68)
High school graduate	-0.58	-0.08	(0.77)	0.09	1.10	(0.31)
Some college	-0.11	-0.01	(0.56)	0.40 *	1.49	(0.16)
Age of household head	-0.03 **	-0.12	(0.01)	-0.01 *	0.99	(0.00)
Number of children	0.13	0.05	(0.22)	0.09	1.09	(0.09)
Income $10,000 to $15,000	0.11	0.01	(0.61)	-0.11	0.90	(0.29)
Income $15,000 to $20,000	0.25	0.03	(0.60)	-0.15	0.86	(0.29)
Income $20,000 to $25,000	1.16 **	0.12	(0.40)	-0.14	0.87	(0.25)
Income $25,000 to $30,000	-0.04	0.00	(0.53)	-0.27	0.77	(0.21)
No employed adult	0.14	0.02	(0.51)	-0.29	0.75	(0.23)
One part-time worker	-0.07	-0.01	(0.42)	-0.57	0.56	(0.30)
One full-time worker	0.21	0.03	(0.55)	-0.17	0.85	(0.21)
Owns bank account	2.15 **	0.19	(0.65)	1.89 ***	6.62	(0.36)
Owned a bank account in the past	1.04	0.08	(0.66)	1.11 ***	3.03	(0.33)
Parents were banked	-0.13	-0.02	(0.34)	-0.17	0.85	(0.22)
Has no savings	0.51	0.06	(0.37)	0.46 **	1.59	(0.17)
Saves regularly	-0.21	-0.03	(0.43)	-0.34 *	0.72	(0.16)
Attended financial education class	0.59	0.05	(0.67)	0.16	1.17	(0.32)
Owns store and major credit cards	1.52 ***	0.21	(0.39)	0.72 **	2.05	(0.23)
Owns major credit card only	0.89 *	0.12	(0.36)	0.12	1.13	(0.24)
Constant 1	0.71	--	(1.10)	0.90	--	(0.66)
Constant 2	--	--	--	1.50	--	(0.63)
Constant 3	--	--	--	2.47	--	(0.66)
Constant 4	--	--	--	3.32	--	(0.69)
R-squared:	0.13			--		
Log likelihood:	--			-772.3		

N = 538; Source: Center for Community Capitalism, North Carolina Financial Services Survey, 2001.

* p<.05; ** p<.01; ***p<.001; ^p<.05, one-tail test.

Reference categories: current adult welfare, white, unmarried couple, college graduate, income less than $10,000, more than one full time worker, never been banked, owns store cards only, and saves irregularly.

Consistent with our hypothesis, savings matter. Households who save regularly are nearly 30% less likely than irregular savers to postpone repayment; those who save irregularly are nearly 40% less likely than those who never save to postpone debt repayment.

Fringe Banking

Recognizing that many low-income families use non-bank sources of credit and financial services, we estimated an ordered logistic regression to analyze the frequency of payday loan use[13] among banked and recently banked families (see Table 6). We found no welfare effects on the frequency of payday borrowing, nor are TANF recipients any more or less likely to use payday lenders than leavers or other low-income households.

There are, however, distinctly different racial patterns. Households headed by African Americans are nearly three times more likely than whites to use payday loans frequently. Hispanics' use of payday lenders is no different from that of whites or other low-income households.

Income differences are also unrelated to payday loan use within the universe of households with incomes below $30,000. However, education is significantly related to payday borrowing, with those with higher education more likely than those with less schooling to be frequent borrowers. Households with at least one adult who attended (but did not finish) college are more than three times more likely to be frequent users of payday loans than households containing no high school graduates.

Although employment is unrelated to a household's banking status, it is strongly related to payday loan use, and in the expected direction. Two-worker families are 1.9, 5.5, and 2.2 times more likely to patronize payday lenders than those with one full-time worker, one part-time worker, and no employed adult, respectively.

[13] The model uses categories shown in Table 1, where 0 = never used, 1 = once or twice a year; 2 = three or four times a year; 3 = monthly; and 4 = biweekly.

We first tested the frequency of pawnshop borrowing using the actual number of times the respondent borrowed from a pawnshop over the previous 18 months, and found strong evidence of over-dispersion, and therefore estimated a negative binomial regression rather than a Poisson regression (see Table 5). We find that recent leavers are no more likely than current recipients to borrow from pawnshops but substantially more likely to do so than non-welfare households.

As mentioned earlier, while Hispanic households are less likely than whites to use payday lenders, they are significantly more likely to borrow from pawnshops. However, the opposite is true for minority households classified as "Other," who are predominantly Native Americans and Asians. Single women are less likely, and single men more likely, than unmarried couples to use pawnshops. As with other forms of credit usage, age is negatively related to pawning.

Table 6: Ordered Logit of Payday Loans and Negative Binomial Regression of Pawnshop Borrowing, N.C., 2001

	Payday Lending			*Pawnbroking*		
Variable	**Coefficient**	**Odds**	**S. E.**	**Coefficient**	**Odds**	**S. E.**
Current Adult Welfare	-0.04	0.96	(0.23)	1.68 ***	5.37	(0.52)
Recent Adult Leavers	-0.12	0.89	(0.20)	1.70 ***	5.47	(0.46)
Current Child-Only Welfare	0.63 *	1.88	(0.28)	2.03 ***	7.61	(0.51)
Recent Child-Only Welfare	-0.22	0.80	(0.65)	2.00 **	7.39	(0.51)
African-American	1.02 ***	2.78	(0.28)	-0.16	0.85	(0.12)
Latino	-1.08	0.34	(0.75)	2.29 ***	9.84	(0.28)
Other minority	0.60	1.83	(0.59)	-1.38 *	0.25	(0.58)
Single female	-0.06	0.94	(0.21)	-1.13 ***	0.32	(0.20)
Single male	-2.06 **	0.13	(0.68)	1.58 *	4.87	(0.79)
Married couple	-0.63 **	0.53	(0.20)	0.35	1.42	(0.20)
High school dropout	-1.05 *	0.35	(0.45)	-0.02	0.98	(0.35)
High school graduate	-1.13 ***	0.32	(0.29)	0.18	1.20	(0.27)
Some college	-0.39 ^	0.68	(0.22)	0.33	1.40	(0.27)
Age of household head	-0.02 ***	0.98	(0.01)	-0.05 **	0.95	(0.02)
Number of children	-0.20 **	0.82	(0.07)	-0.04	0.96	(0.06)
Income $10,000 to $15,000	-0.01	0.99	(0.28)	-0.44	0.64	(0.26)
Income $15,000 to $20,000	-0.15	0.86	(0.56)	-0.41	0.67	(0.27)
Income $20,000 to $25,000	0.27	1.32	(0.36)	-0.40	0.67	(0.30)
Income $25,000 to $30,000	-0.22	0.80	(0.45)	-1.73 ***	0.18	(0.40)
No employed adult	-0.80 ***	0.45	(0.18)	0.23	1.25	(0.16)
One part-time worker	-1.72 *	0.18	(0.67)	0.20	1.22	(0.31)
One full-time worker	-0.66 *	0.52	(0.28)	-0.26	0.77	(0.19)
Owns a bank account	0.12	1.13	(0.26)	0.08	1.08	(0.36)
Owned a bank account in the past	--	--	--	0.51	1.66	(0.38)
Parents were banked	0.11	1.12	(0.17)	0.32 *	1.37	(0.15)
Has no savings	-0.12	0.89	(0.17)	-0.62 **	0.54	(0.21)
Saves regularly	-0.55 ***	0.58	(0.16)	-0.33 ^	0.72	(0.20)
Attended financial education class	0.66 ***	1.93	(0.15)	1.25 ***	3.49	(0.20)
Owns store and major credit cards	-0.50	0.60	(0.36)	-0.98 **	0.37	(0.33)
Owns major credit card only	-0.23	0.79	(0.24)	-0.70 ***	0.50	(0.19)
Constant 1	-0.21	--	(0.62)	2.05 *	--	(0.98)
Constant 2	0.66	--	(0.61)	--	--	--
Constant 3	1.19	--	(0.68)	--	--	--
Constant 4	1.93	--	(0.75)	2.35	--	(0.20)
Ln Alpha	--	--	--	10.48	--	(2.12)
Alpha	--	--	--	-714.6		
Log likelihood:	-417.3					

N = 885 for payday lending, 1,116 for pawn; Source: Center for Community Capitalism, North Carolina Financial Services Survey, 2001

* p<.05; ** p<.01; ***p<.001; ^p<.05, one-tail test.

Reference categories: current adult welfare, white, unmarried couple, college graduate, income less than $10,000, more than one full time worker, never been banked, and saves irregularly.

Households with the highest incomes, between $25,000 and $30,000, are significantly less likely than those with less than $10,000 to borrow from pawnshops. As hypothesized, saving regularly reduces the frequency of pawning, but so too does not having any savings at all. Perhaps those with no savings have much less property of value to pawn.

Credit Impairment

As mentioned earlier, we use three measures of credit impairment: whether the household has participated in a formal credit counseling program, whether the household has been contacted by a bill collector, and the frequency with which the household has bounced checks in the past five years (see Table 7).[14] We have detected no welfare or leaver effects associated with credit counseling, although there are some race effects worth noting. While African Americans are no more or less likely to have participated in credit counseling than whites, Latino households are significantly less likely to have done so.

While TANF recipients are no more likely than leavers to have been called by a collection agency. However, compared with other low-income but non-welfare households, both groups are much more likely to have been referred to a collection agency (2.3 more likely for TANF recipients and 1.9 times more likely for leavers). Black households are 1.6 times as likely to be contacted by bill collectors as those headed by whites, while Latinos are just a third as likely as whites to have been involved with bill collectors.

Once again, banking status is positively related to credit impairment, with banked families 2.6 times more likely—and previously banked families 3 times more likely—than those who have never been banked to have been referred to a collection agency.

Saving behavior, however, is related to timely bill payment, as hypothesized. Compared to irregular savers, monthly savers are 25% less likely—but non-savers 44% more likely—to have been called by a bill collector.

[14] This model includes only banked households, and uses the categories shown in Table 1, where 0 = no bad checks, 1 = one or two, 2 = three to six, 3 = seven to ten, and 4 = eleven or more.

We estimated an ordered logistic regression of bounced check frequency among banked families, and while we find no leaver effects, current TANF recipients with bank accounts are much more likely (1.6) than non-TANF families to frequently bounce checks. There are also strong race effects. Households headed by African Americans are 1.9 times more likely than whites to bounce checks, but Hispanic families are 28% less likely to do so.

Unmarried couples are between 27% and 39% more likely to bounce checks

Table 7: Logistic Regression of Collections and Credit Counseling, and Ordered Logit of Bad Checks, N.C., 2001

	Collection Agency			*Credit Counseling*			*Bounced Checks*		
Variable	**Coefficient**	**Odds**	**S. E.**	**Coefficient**	**Odds**	**S. E.**	**Coefficient**	**Odds**	**S. E.**
Current Adult Welfare	0.72 ***	2.05	(0.18)	0.09	1.09	(0.28)	0.49 *	1.63	(0.22)
Recent Adult Leavers	0.96 ***	2.61	(0.21)	0.25	1.28	(0.27)	0.28	1.32	(0.28)
Current Child-Only Welfare	1.01 ***	2.75	(0.21)	0.56 *	1.75	(0.28)	0.62 ***	1.86	(0.16)
Recent Child-Only Welfare	0.87 **	2.39	(0.32)	-0.17	0.84	(0.43)	0.13	1.14	(0.27)
African-American	0.46 ***	1.59	(0.13)	0.36	1.44	(0.25)	0.64 ***	1.89	(0.14)
Latino	-1.14 ***	0.32	(0.26)	-0.33	0.72	(0.42)	-0.33 ^	0.72	(0.19)
Other minority	0.30	1.34	(0.41)	0.33	1.39	(0.62)	-0.19	0.83	(0.33)
Single female	-0.33 **	0.72	(0.11)	0.17	1.18	(0.19)	-0.31 **	0.73	(0.11)
Single male	-0.14	0.87	(0.28)	-0.19	0.83	(0.41)	-0.50 **	0.61	(0.18)
Married couple	0.13	1.14	(0.16)	-0.04	0.96	(0.22)	-0.44 **	0.65	(0.15)
High school dropout	-0.13	0.88	(0.22)	-0.48	0.62	(0.36)	-0.47	0.63	(0.30)
High school graduate	-0.07	0.93	(0.21)	-0.23	0.80	(0.35)	-0.66 *	0.52	(0.33)
Some college	0.13	1.14	(0.21)	0.01	1.01	(0.38)	-0.09	0.92	(0.29)
Age of household head	-0.01	0.99	(0.01)	-0.01	0.99	(0.01)	-0.01	0.99	(0.01)
Number of children	0.08 *	1.09	(0.04)	0.16 ***	1.18	(0.04)	0.12 **	1.13	(0.04)
Income $10,000 to $15,000	-0.11	0.89	(0.13)	-0.47	0.62	(0.27)	-0.26	0.77	(0.25)
Income $15,000 to $20,000	0.02	1.02	(0.17)	-0.15	0.86	(0.18)	-0.23	0.79	(0.24)
Income $20,000 to $25,000	-0.20	0.82	(0.20)	0.10	1.11	(0.23)	-0.44 *	0.64	(0.22)
Income $25,000 to $30,000	-0.48 ***	0.62	(0.12)	-0.19	0.83	(0.23)	-0.67 ^	0.51	(0.36)
No employed adult	-0.33	0.72	(0.24)	-0.50	0.60	(0.33)	-0.83 ***	0.44	(0.26)
One part-time worker	-0.49 *	0.62	(0.21)	-0.07	0.94	(0.34)	-0.73 ***	0.48	(0.20)
One full-time worker	0.15	1.16	(0.23)	0.12	1.12	(0.23)	-0.37 ^	0.69	(0.19)
Owns a bank account	0.96 ***	2.60	(0.20)	0.63	1.88	(0.40)	--	--	--
Used to own a bank account	1.09 ***	2.96	(0.24)	0.82 *	2.28	(0.33)	--	--	--
Parents were banked	0.47 ***	1.61	(0.14)	0.57	1.77	(0.30)	-0.03	0.97	(0.15)
Has no savings	0.36 **	1.44	(0.13)	-0.11	0.90	(0.29)	-0.07	0.93	(0.15)
Saves regularly	-0.29 **	0.75	(0.10)	-0.08	0.92	(0.16)	-0.56 ***	0.57	(0.08)
Attended financial education	0.54 *	1.72	(0.23)	1.58 ***	4.84	(0.15)	-0.29 *	0.75	(0.13)
Owns store and major cards	0.18	0.21	(0.17)	-0.04	0.21	(0.26)	-0.25	0.21	(0.22)
Owns major credit card only	0.11	0.12	(0.13)	0.62 ***	0.12	(0.15)	-0.14	0.12	(0.21)
Constant 1	-0.57		(0.39)	-2.78 **		(0.94)	-1.91		(0.32)
Constant 2							-0.89		(0.32)
Constant 3							0.56		(0.35)
Constant 4							1.56		(0.41)
Log likelihood:	-663.9			-399.9			-807.0		

N = 1,126 for collections and credit counseling, 685 for bounced checks; Source: Center for Community Capitalism, NCFSS, 2001.

* p<.05; ** p<.01; ***p<.001; ^p<.05, one-tail test.

Reference categories: current adult welfare, white, unmarried couple, college graduate, income less than $10,000, more than one full time worker, never been banked, and saves irregularly.

frequently than single women, single men, or married couples (see Table 8). The greater the number of children in the household, the greater the frequency of bouncing checks. Each additional child in the household increases the likelihood of frequently bouncing checks by 13%.

Households with incomes of at least $20,000 are significantly less likely to bounce checks than those with incomes of less than $10,000. A household's employment situation also affects its management of the family checking account. Other things equal, households with more than one full-time worker are more than twice as likely to bounce checks as those with either a part-time employee or no employed adult.

Finally, while regular savers are 40% less likely than irregular savers to bounce checks, there are no significant differences in this regard between irregular savers and those who do not save at all.

V. Conclusions and Recommendations

The NCFSS was sponsored by the North Carolina Department of Health and Human Services because enlightened welfare reform officials believed that access to financial services and affordable sources of credit should be more widely available to families who come into contact with the welfare system. They also believed, and our work has confirmed, that families who leave TANF do so with significant debt burdens, which continue to grow even as they seek and secure work. Unless former welfare recipients can better manage their financial affairs and begin to save for emergencies, they may be more likely to cycle back onto welfare when they suffer even modest reversals. This is especially true in an economic recession, where spells of unemployment are likely to become more frequent. One way to keep in touch with leavers even though they are no longer receiving benefits is for local TANF agencies to contract with community-based organizations and local community action agencies to provide financial education and counseling support to leavers. With respect to national policy, our work suggests that issues regarding banking, financial education, credit access, and savings should play a more significant role in congressional deliberations around reauthorization of welfare reform.

While NCFSS was never about race, our findings are nevertheless striking. Controlling for a wide range of household characteristics among our low-income respondents, we found racial minorities to be significantly isolated from the financial mainstream—much less likely to have a bank account and much more likely to meet their financial services needs through high-cost payday lenders and pawn brokers. Importantly, we also found Latino families to be more careful with their use of credit—less likely than non-Hispanic whites and blacks to accumulate more credit card debt, more likely to pay off their monthly balances on time, and less likely to bounce checks. Given the enormous growth of the Latino population in North Carolina and the nation, mainstream financial institutions should take note of these findings, which suggest, among other things, a significant, untapped market for retail banking products, home mortgage loans, and other financial services.

Among other important research results, we found that differences in income, employment, and education among low-income families were not consistently influential in explaining differences in credit use and management. The good news here is that sound financial management is not inherently tied to conditions or levels of achievement that are beyond the reach of most low-income families. The NCFSS indicates that better budgeting, more careful use of credit, and account management are potentially within reach of all low-income families.

We have also produced compelling evidence that savings do matter. The causes may not be entirely clear. Are households that save less likely to be in financial disarray? Or is it that families who better manage their finances are more likely to save on a regular basis? What is clear, however, is that savers have fewer debts and are better financial managers. Savers at the financial margin, with some liquid resources to draw down in an emergency, are likely to keep from getting more deeply into debt.

We have also confirmed that a significant number of families would benefit enormously from "second chance" loan programs—partnerships between local TANF agencies, foundations, and mainstream banks—to help people with bad credit get out of the clutches of high-cost fringe bankers. One such program is the Ways to Work Detroit Loan Project, a joint effort of Catholic Social Services of Wayne County and two local banks that provide money for car repairs or purchase to help welfare mothers get to work, or find a job (Tompor, May 10, 2003, p. 13A).

The NCFSS results also suggest that banking, financial education, credit access, and savings issues be included in the deliberations around the reauthorization of welfare reform. Similarly, because the unbanked have a more difficult time enrolling in matched savings and asset building initiatives, such as those supported under the federal Assets for Independence Act, it is important that efforts to expand Individual Development Accounts include the large segment of the income-eligible population that is unbanked, which includes large numbers of individuals who are or have recently been part of the welfare system (Sherraden, 2000).

Finally, although the Federal Reserve Board's triennial Survey of Consumer Finances will continue to be the empirical anchor for national policymakers on issues of savings and assets for years to come, the results of the NCFSS should encourage more states and localities to conduct their own similar studies for fine tuning their welfare reform strategies.

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