FE BRIEF

FINANCIAL EMPOWERMENT

FEBRUARY 2011

Introduction

Access to consumer credit yields benefits for American families, from providing liquidity to cover household expenses to establishing a solid credit history and facilitating major asset purchases from higher education to home ownership. But too much access or overextension of credit can adversely affect credit scores, hampering people's ability to obtain basic needs, including stable housing and employment, or increasing the costs of goods and services, such as cell phone plans. Access to credit opportunities has increased dramatically in recent decades and with it excessive consumer debt. According to the Survey of Consumer Finances, in 2007, 73 percent of American families held credit cards, 60 percent carried a balance, and the average amount of debt was $7,300, compared to an average of $2,300 in 1992.[i] In New York, many families rely on credit to bridge everyday cost-of-living expenses, unexpected job losses, and other financial obligations. From 2007 to 2008, average New York households' credit card and loan bills increased by 18 percent.[ii] Excessive debt severely impedes a family's overall household stability.

Research on the consumer credit market, particularly focused on individuals and families with low incomes, informs financial empowerment and asset-building efforts to ensure that programs and policies remain dynamic and relevant to the needs of consumers. To this end, the New York City Department of Consumer Affairs Office of Financial Empowerment (OFE) has released two studies that contribute to the understanding of banking services, access to credit, and debt burdens on New Yorkers. In 2008, OFE released a *Neighborhood Financial Services Study*, which examined the availability and usage of financial services and products in two neighborhoods—Jamaica, Queens and the Melrose section of the Bronx. In an effort to expand on the results of the Study and explore a more complete picture of financial stability of consumer finances in the City, OFE commissioned the *Citywide Financial Services Study*.

Citywide Financial Services Study Research Methodology

OFE commissioned Social Compact, a leading nonprofit research firm, and Axciom, a global marketing services company, to provide analytical estimates of banking patterns, debt levels, and indicators of financial stability across New York City. Data sources used in the study derive from various public and private data sets, including InfoBase-X data, the largest collection of U.S. consumer data available in one source, allowing for estimates at the local level.

This Brief summarizes findings in three key indicator categories: access to credit, debt levels and credit card use, and financial distress. Access to credit is measured by the percent of households which have at least one credit card, the number of credit cards held, and the credit limit granted on new credit lines. Debt levels are measured by the percent of overall credit being used and outstanding balances on credit cards. Financial distress is measured by how much disposable income is available to families. This data complements banking data that OFE released in February 2010. Because New York City's unbanked households are highly concentrated in certain neighborhoods, this summary of findings focuses on these low- and moderate-income neighborhoods.[iii]

825,000
NYC adults with no bank account

$4,000
or more in **credit card debt** held by 59% of households in low-income NYC communities

46%
of NYC households have **3 or more** credit cards

48%
of NYC households have **$0** in discretionary income

Source: 2010 Citywide Financial Services Study

Department of Consumer Affairs
Office of Financial Empowerment

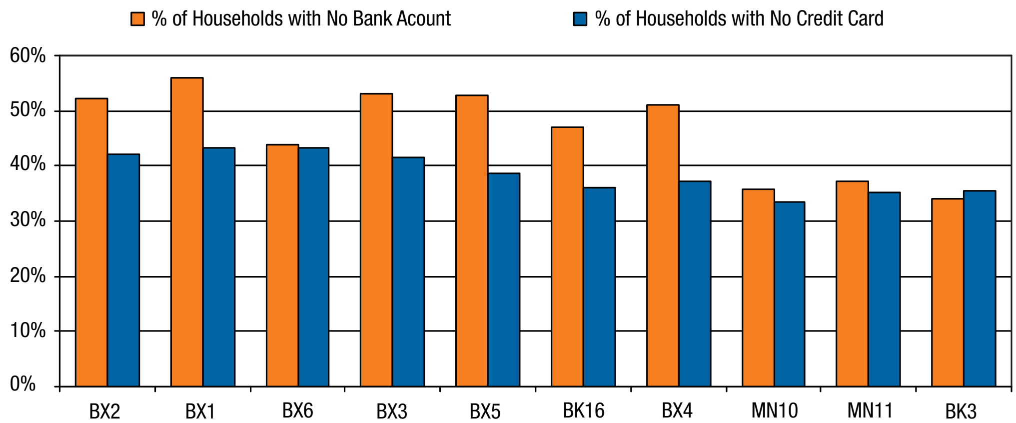
Findings

Finding #1: Households in low-income neighborhoods are more likely to hold a credit card than a bank account.

OFE examined access to credit across New York City neighborhoods by analyzing households that held at least one bank-issued credit card. Overall, New Yorkers are less likely than people in the rest of the country to hold a credit card. In 2009, just over two-thirds (68 percent) of New York City households had a credit card, compared to more than three-quarters (76 percent) nationwide. However, there is considerable variation across City neighborhoods. Residents of higher-income neighborhoods, such as Staten Island and Midtown Manhattan, are more likely to hold a credit card than residents of lower-income neighborhoods, such as Bushwick and Bedford-Stuyvesant in Brooklyn. New Yorkers who do access credit are also much more likely to have multiple credit card lines (three or more) compared to households nationally (46 percent versus 34 percent).

While residents of lower-income neighborhoods have less access to consumer credit (in the form of credit cards) than the City and nation as a whole, they are more likely to hold a credit card than have a relationship with a mainstream financial institution. In nine of the 10 lowest-income neighborhoods, households are more likely to go without a bank account than a credit card (see Chart 1). In some neighborhoods, such as Morris Heights and Highbridge in the Bronx, there is as high as a 14 percentage point difference between the presence of credit cards and that of bank accounts.

Chart 1. 10 Lowest-Income NYC Neighborhoods: Banking and Credit Card Access



Neighborhood Legend

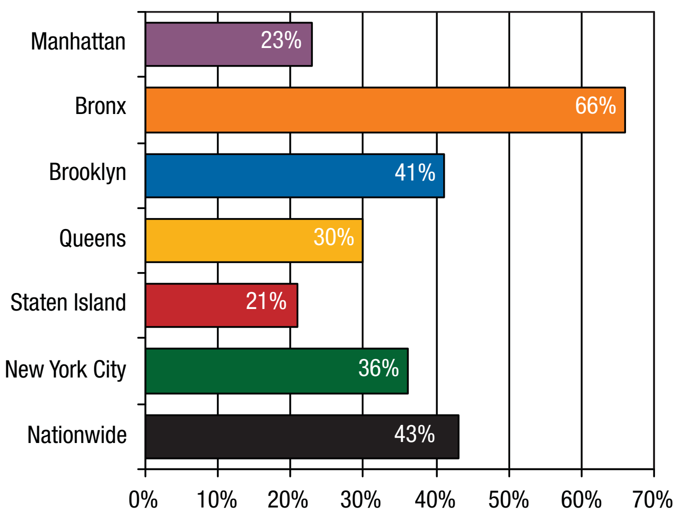
BX1= Bronx Community District 1 (Mott Haven, Melrose, Port Morris)
BX2 = Bronx Community District 2 (Hunts Point, Longwood)
BX3 = Bronx Community District 3 (Melrose, Morrisania, Claremont, Crotona Park East)
BX4 = Bronx Community District 4 (Highbridge, Concourse)
BX5 = Bronx Community District 5 (Morris Heights, University Heights, Fordham, Mount Hope)
BX6 = Bronx Community District 6 (East Tremont, Bathgate, Belmont, West Farms)
BK3 = Brooklyn Community District 3 (Bedford Stuyvesant, Tompkins Park North)
BK16 = Brooklyn Community District 16 (Ocean Hill, Brownsville)
MN10 = Manhattan Community District 10 (Central Harlem)
MN11 = Manhattan Community District 11 (East Harlem)

Finding #2: Households in low-income neighborhoods have higher credit card utilization rates than households in high-income neighborhoods.

Consumers' credit card utilization rates are indicators of how well people are managing credit. If households are using more than 30 percent of the credit available to them, lenders perceive them as higher risk. High utilization of credit also has a significant negative impact on credit scores, with as much as 30 percent of a consumer's credit score depending on the utilization rate.

Credit card utilization rates are a function of how much credit is available to consumers. Compared to households nationally, New York City households are just as likely to receive new credit above $5,000 (35 percent). However, residents of low-income neighborhoods with high concentrations of unbanked households tend to have fewer lines of credit and lower credit limits than residents of high-income neighborhoods. Families in higher-income neighborhoods are more likely to receive larger credit lines (over $10,000). In the top 10 unbanked neighborhoods, roughly three-quarters of households which access credit received new credit less than $5,000. Since residents of low-income neighborhoods have lower credit limits, this can lead to higher credit card utilization rates.

Chart 2. Percent of Households Using More Than 30% of Available Credit



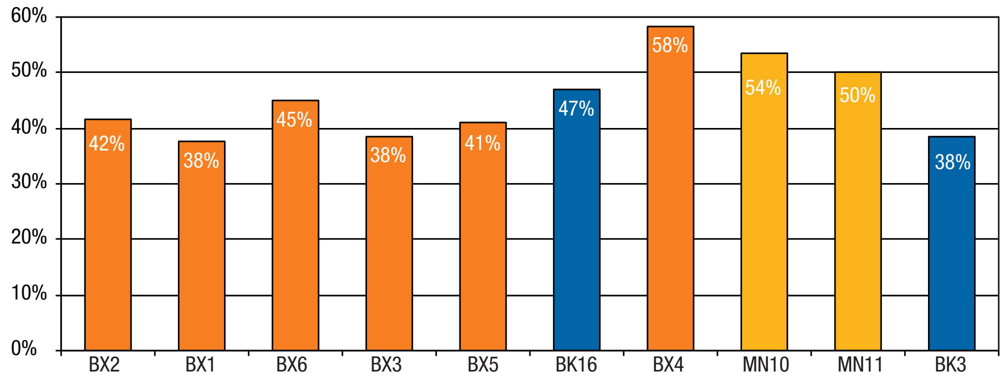
Although New York City residents as a whole are less likely than the rest of the country to use more than 30 percent of their available credit (36 percent compared to 43 percent), Bronx residents have alarmingly high utilization rates, indicating real financial distress (see Chart 2). Two-thirds of Bronx households are using more than 30 percent of the credit available to them, and in some neighborhoods more than 80 percent of the households are using over 30 percent. Further, we found a positive relationship between lacking a bank account and having high credit card utilization rates. In 18 of the top 20 unbanked neighborhoods, residents have the highest credit card utilization rates in the City. While we are unable to attribute these high utilization rates to the absence of a bank account, the implications are profound. Such high utilization rates can negatively impact credit scores and make future asset-building opportunities more expensive, in the form of higher interest rates and payments. This finding highlights the need for financial empowerment services in these neighborhoods.

Finding #3: Revolving debt burdens for households in low-income neighborhoods are greater than those of high-income households.

Credit card debt is one of the most common types of consumer debt held. Today, Americans owe $800 billion in credit card debt.[iv] New Yorkers carry an estimated average balance of $9,660 on their credit cards, compared to $11,863 nationally.[v] As expected, residents in higher-income neighborhoods have higher credit card balances and more available lines of credit than those in lower-income neighborhoods. Nearly one in five New York households (18 percent) have extremely high credit card balances (more than $10,000), higher than nationally (13 percent). In certain higher-income Manhattan neighborhoods, one out of every 10 households is carrying credit card balances in excess of $10,000.

In analyzing revolving balances held by households in New York City's 10 lowest-income neighborhoods we found that residents are carrying relatively high credit card balances, given that the median income of these neighborhoods is less than $28,000. In some neighborhoods, over half of households carry a balance greater than $4,000. Even though residents of these neighborhoods are less likely to have high credit card balances compared to residents of higher-income neighborhoods, outstanding balances are a larger burden given the lower income levels. For example, in Central Harlem, where the neighborhood median income is $27,000, more than half (54 percent) of residents have a credit card balance above $4,000. This is 15 percent of a typical household's income, which makes a seemingly low credit card balance much greater.

Chart 3. 10 Lowest-Income NYC Neighborhoods: Percent of Households with Revolving Balances Greater Than $4,000



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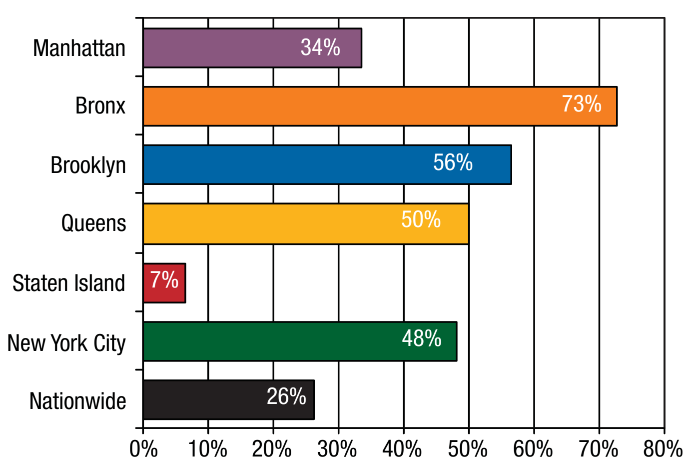
Finding #4: Almost half of New York City households have no money at the end of the month—twice as much as the national average.

Chart 4. Percent of Households with No Discretionary Income



A telling indicator of financial distress is how much discretionary income families have available every month. Discretionary income describes the spending capacity of a household after basic cost-of-living expenses are met, such as housing, food, clothing, and transportation. Nationwide, just over a quarter (26 percent) of households have no discretionary income. In New York City, almost twice as many households have no discretionary income (48 percent). This is not surprising given the high cost of living in New York City, where the average family must devote nearly half its monthly income to rent[vi]. In eight of the top 10 unbanked neighborhoods, households have the least spending capacity. In these neighborhoods, more than 80 percent of families have no discretionary income. These households are living paycheck to paycheck, with limited capacity to save, get out of debt, or plan for the future.

Conclusion

Access to credit has shifted in recent decades. Individuals and households who may not be formally engaged with the banking system have access to credit to meet consumer needs. While this has provided many consumers with greater liquidity to cover costs, establish credit, and build assets, there can be adverse effects if credit is not used productively and managed well.

The *Citywide Financial Services Study* provides evidence of households in highly unbanked neighborhoods relying more on credit cards and carrying larger balances (as a percentage of their income and their credit limits) than those in other neighborhoods. Since the economic downturn, financial institutions have been reducing credit limits and availability of new lines of credit. This can lead consumers to overextend their credit usage rather than using conventional banking and savings accounts. Combined with low credit limits, a reliance on credit can cause credit scores to plummet, further impacting the cost of future credit as well as access to housing, jobs, and affordable goods and services.

Examining and understanding these patterns of credit access, use, and debt levels can provide a blueprint to developing the types of programs, policies, and initiatives that can empower New Yorkers to move out of debt, improve their credit, and establish long-term banking practices.

How To Use This Data

The NYC Department of Consumer Affairs Office of Financial Empowerment has compiled this data on credit availability and usage at the neighborhood level to better target its programs and initiatives to support populations most in need. Data can be used by researchers, practitioners, policymakers, and financial institutions to determine the banking and credit needs of targeted communities.

For Financial Institutions:

- Identify underserved areas and tap new branch and market opportunities
- Develop innovative programs and tailor products to meet customer demand

For Nonprofit Organizations:

- Develop new programs and initiatives
- Improve outreach by targeting high-need neighborhoods
- Use community level data to identify need
- Demonstrate the need for services to funders, policymakers, and others

For Policymakers and Advocacy Organizations:

- Identify legislative solutions that provide equitable banking and credit access in low-income communities

For a complete data set of findings and neighborhood profiles, visit **www.nyc.gov/ofe**

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[i] Federal Reserve Board. "Changes in U.S. Family Finances from 2004 to 2007: Evidence from Survey of Consumer Finances," Federal Reserve Bulletin, vol. 95 (February 2009)

[ii] The percent increase was obtained from January 2007–January 2008 Experian Data on monthly debt payments (excluding mortgages) by borough and weighting it by the adult population of each borough using U.S. Census Bureau, 2005–2007 American Community Survey data.

[iii] They include: Washington Heights / Inwood (46%); Highbridge / Concourse (51%); Morris Heights / University Heights (53%); Ocean Hill / Brownsville (47%); Bushwick (47%); West Harlem (38%); Central Harlem (36%); East Harlem (37%); Jamaica (24%); and Mott Haven / Melrose (56%)

[iv] Federal Reserve Board G19 Report (August 2010), available at http://www.federalreserve.gov/RELEASES/g19/.

[v] (2009) "Assets & Opportunity Profile: New York City." Corporation for Enterprise Development. Asset poverty estimates calculated by Beacon Economics, based on U.S. Census Bureau's 2004 Survey of Income and Program Participation, Wave 6 (2006) and 2005–2007 American Community Survey.

[vi] Community Service Society Press Release, Making the Rent: Escalating Rents Creating New Hardships for the City's Poor (Dec. 14, 2006), available at http://www.cssny.org/news/releases/2006_1214.html.

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