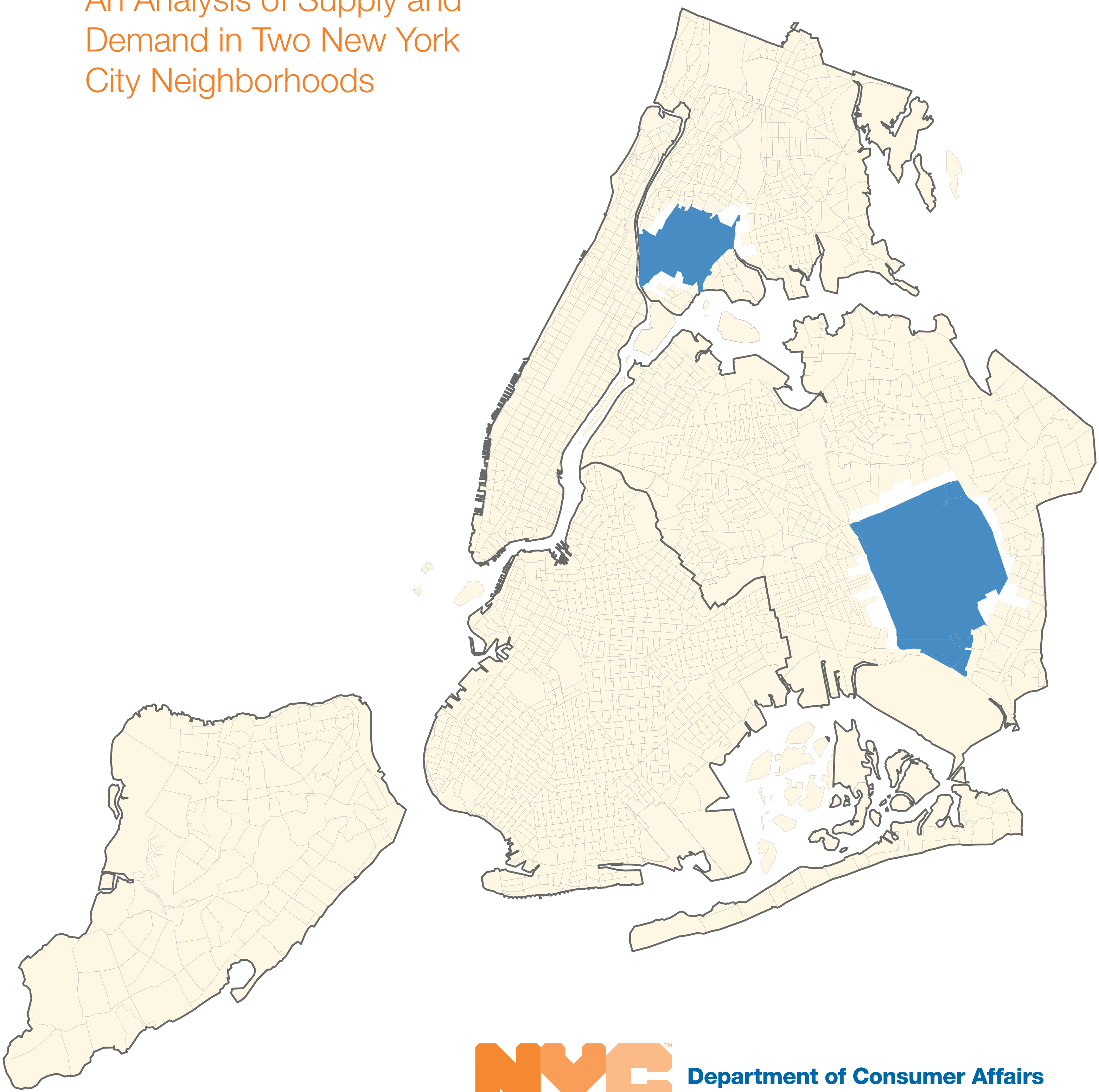
Neighborhood Financial Services Study

An Analysis of Supply and Demand in Two New York City Neighborhoods



Department of Consumer Affairs
Office of Financial Empowerment

Neighborhood Financial Services Study:

An Analysis of Supply and Demand in Two New York City Neighborhoods

New York City Department of Consumer Affairs
Office of Financial Empowerment

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Mayor

Jonathan Mintz
Commissioner

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In addition, the NFS Study was well guided by an Advisory Group, including Zubin Taraporevala, McKinsey & Co.; Barbara Berger Opotowsky, New York City Bar Association; William Snipes, Sullivan & Cromwell LLP; William Schroeder, Sullivan & Cromwell LLP; Mark Menting, Sullivan & Cromwell LLP; Trooper Sanders, William J. Clinton Foundation; and Arelis Hernandez, William J. Clinton Foundation. Both Neighborhood Housing Services of Jamaica and the Phipps Community Development Corporation in Melrose played a fundamental role in this study by recruiting surveyors and coordinating focus groups to provide an in-depth look into the neighborhoods they serve. We also thank Gwen Robinson for her work shaping survey methodology and facilitating the focus groups, as well as Jack Northrup of New England Market Research for developing the survey instrument and providing initial data analysis.

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Table of Contents

List of Tables and Figures

Executive Summary

Neighborhood Financial Services Study

Executive Summary

For most New Yorkers, financial services today are more accessible and easier to use than ever before. Yet, for many low-income households, banking has become more costly, unpredictable, and out-of-step with their actual needs. As a result, hundreds of thousands of New York families living on low incomes choose to remain "unbanked" and rely upon "fringe" financial service providers, such as check cashers and pawnshops, for basic financial transactions and credit services. Researchers have posited a variety of reasons why people in low-income communities are more likely to use high-cost fringe transactional and credit products: insufficient financial education and awareness, lack of physical bank availability in their communities, inaccessibility of mainstream loan products, and greater comfort and convenience offered by check cashers and other fringe providers. Instead, the Neighborhood Financial Services (NFS) Study identifies a mismatch between the needs of residents in two low-income New York City neighborhoods and the financial products and services offered, suggesting market-based reasons why residents disproportionately use fringe financial services.

The NFS Study explores the availability and usage of financial services and products in two neighborhoods: Jamaica, Queens and Melrose, Bronx. The New York City Department of Consumer Affairs' Office of Financial Empowerment (OFE) conducted the study under the leadership of the Center for Economic Opportunity as part of Mayor Bloomberg's broader anti-poverty efforts, and with support from the William J. Clinton Foundation. The purpose of the NFS Study is to better understand banking dynamics in low-income neighborhoods to identify public and private opportunities for long-term, high-impact financial empowerment initiatives.

i. Methodology

The New York City Department of Consumer Affairs' OFE conducted the NFS Study to analyze the relationship between consumer financial needs and current product offerings in neighborhoods with low incomes. A survey was developed in English and Spanish, drawing from relevant regional and national surveys, with the help of an experienced consultant. To engage community expertise and voice in this research, OFE partnered with two community-based organizations, Phipps Community Development Corporation in Melrose and Neighborhood Housing Services of Jamaica, to conduct the surveys in person with 640 randomly selected residents. In addition, OFE convened four focus groups to delve deeper into key findings. To better understand the supply of financial services in the two neighborhoods, researchers from the William J. Clinton Foundation analyzed current products and services offered by both mainstream and fringe financial service providers, and analysts from the Neighborhood Economic Development and Advocacy Project (NEDAP) mapped relevant community and city data.

ii. Findings

Finding: There is a fundamental mismatch between current financial product and service offerings and the needs of low-income households. This mismatch appears to play a more prominent role in these communities than bank branch proximity in determining why residents remain "unbanked" and why fringe financial services are widely used.

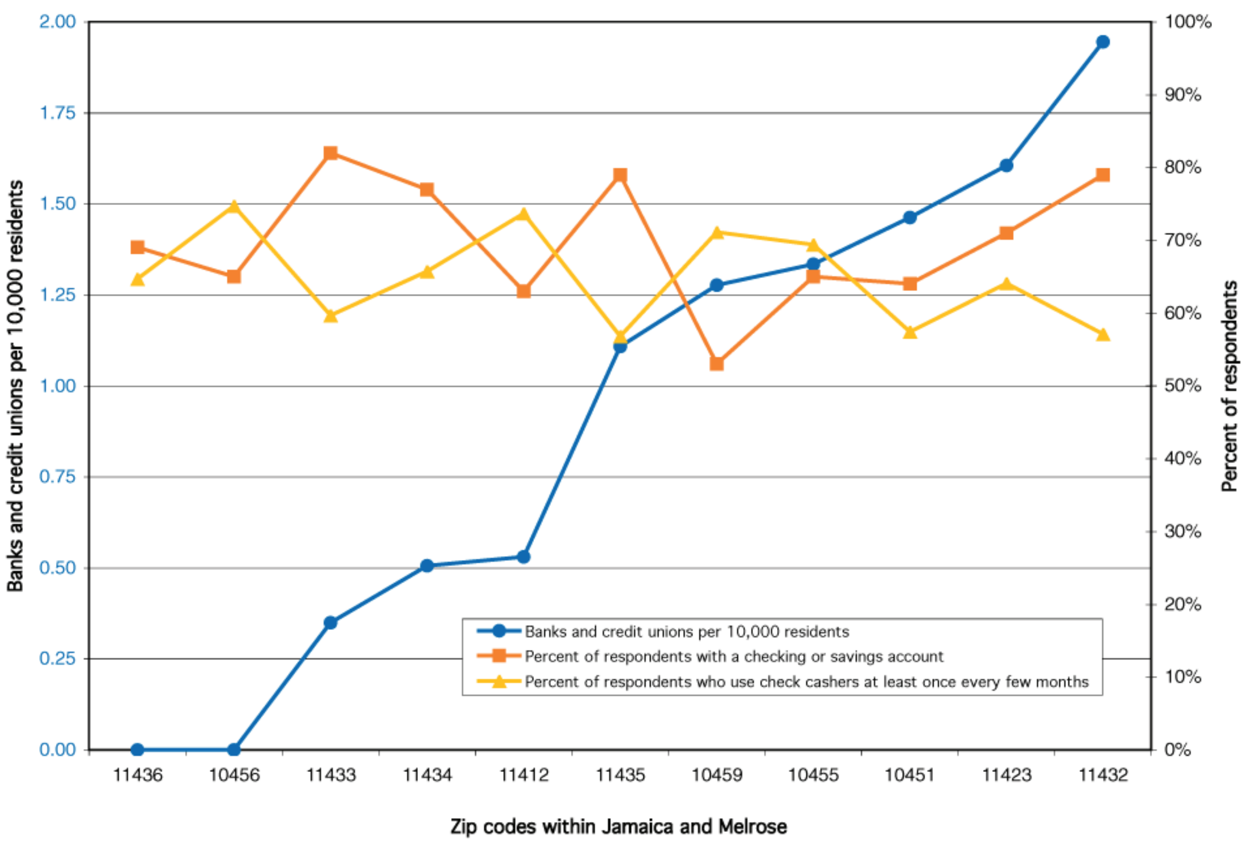
Overall, 31% of Jamaica and Melrose survey participants—translating to approximately 110,000 residents—are "unbanked" (i.e., lacking a checking and savings account). Although residents with the lowest incomes are disproportionately represented among the unbanked, a surprising number of middle-income respondents are also without bank accounts—17% of Melrose and 13% of Jamaica households with annual incomes over $40,000 lack a banking relationship (representing approximately 8,700 households).

Fringe financial services, such as check cashers and pawnshops, are widely used in both communities. However, use of fringe financial services is not limited to the unbanked. In fact, 75% of residents use check cashers at least once every few months. These services come at great cost—*Melrose and Jamaica consumers spend an estimated $19 million per year in check cashing fees alone*.[1]

Why would people rely on expensive fringe services, especially if they are already connected to mainstream financial institutions? This study explores two hypotheses: the lack of physical availability of mainstream financial services and the lack of availability of products that meet the needs of consumers with low incomes.

Although Jamaica and Melrose have less bank branches per capita than the city overall, the NFS Study finds that, within these two communities, *the concentration of bank branches is virtually unrelated to the percentage of residents with bank accounts*. Figure 1 shows that as the density of bank branches increases, the proportion of residents with bank accounts changes very little. Similarly, there is no relationship between the percentage of individuals using check cashers and the concentration of banks and credit unions in their zip code.

Figure 1. Density of bank branches with percent "banked" and percent using check cashers



Rather than physical availability of bank branches, the NFS Study findings suggest that the fundamental mismatch between current financial products offered and consumer transactional needs—getting cash, paying bills, and buying goods—appears to be the major determinate in whether and how individuals with low incomes use mainstream financial institutions. Table 1 illustrates the principal mismatches found by the NFS Study.

Table 1. Comparison of checking account supply and consumer demand

Checking Account Offerings	Consumer Need
Most checking accounts are free only if the consumer has direct deposit.	61% of low-income checking account holders do not have direct deposit.
Checking accounts facilitate bill payment, but only through checks or online payments.	53% of checking account holders cannot pay their rent with a check or online; rather, they must pay in cash.
Overdraft protection plans are common, charging an average of $30 for spending over the account balance.	21% of account holders overdraw their checking account every few months.

The NFS Study finds that unbanked residents recognize these market mismatches and respond by using fringe financial services. Nearly one in four unbanked survey respondents cited excessive fees as the reason they avoid mainstream banking. Fees were the most common response given by NFS Study respondents as to why they avoid mainstream banking. This is especially true among the estimated 54,000 unbanked residents who might be perceived as the most attractive customers to financial institutions because they hold full-time jobs and have incomes over $20,000. Among these residents, 50% cited fees as a deterrent to mainstream banking.

Focus group participants further indicated that unpredictability and complexity of fees are as important to the unbanked as actual cost. Analysis of the checking accounts offered in both communities reveals multiple fees levied on low-balance accounts, including minimum-balance monthly maintenance charges, transaction limits, and insufficient funds fees. Since these fees are the result of consumer actions, rather than fees charged up-front (like check cashing fees), they are perceived as "unpredictable" by consumers, many of whom might not closely monitor their accounts or may not fully understand the terms and conditions associated with checking accounts.

Finding: Households in Jamaica and Melrose have more savings than might be expected, although analysis of savings products offered in these two communities reveals a mismatch between consumer needs and current product offerings.

The NFS Study finds that many low-income households in these two communities save money. Sixty-three percent of community members have formal or informal savings (informal savings refers to mutual savings groups, at-home savings, or saving in a friend or family member's bank account). Respondents with savings reported an average savings of $1,200.[2] Further, 31% of the unbanked reported having some type of savings, averaging $25, whether informal or formal (for the unbanked, formal savings typically refers to savings in a retirement account). In addition, 16% of NFS Study respondents make automated regular contributions to savings, and have an average primary savings balance of $3,000.[3] Contrary to conventional asset-building wisdom, savers in both neighborhoods are less likely to be motivated to save for concrete goals, such as buying a car or house, and more likely to save for emergencies or "the future" in general.

Receiving a refund from the Earned Income Tax Credit (EITC) and participating in financial education are both linked to residents' savings behavior. EITC-filers are twice as likely as non-filers to have savings, even after controlling for income, education, age, race, and other demographic variables. Similarly, holding all else constant, people who have taken a financial education class, seminar, or workshop are twice as likely to have savings compared to those who have not.

This study also finds that few residents accumulate savings without also accumulating debt. Only 21% of individuals with savings hold no debt compared to 36% of individuals who hold no savings and have no debt. Moreover, individuals with debt are more likely to hold savings (68%) than individuals without debt (48%).

Focus group members shared that product features, such as automation and restricted access, help them save. However, analysis of savings products offered at banks in these communities reveals a mismatch between household needs and available products. Supply-side analysis indicates that most savings accounts available to low-balance savers in these neighborhoods have fees greater than their interest. Two-thirds of savings accounts available in these communities earn less than 1% in interest, and the majority have monthly maintenance fees averaging $3. The savings accounts available to residents in these neighborhoods may actually erode savings rather than help accumulate savings.

Finding: Even the lowest-income segments of these communities have access to mainstream credit; however, access to mainstream credit does not replace use of fringe credit sources, despite being costly and a strong predictor of financial instability.

Although historically the chief concern about credit in low-income communities was its lack of availability, credit is now widely used by consumers with low incomes. According to the NFS Study findings, 73% of residents in Melrose and Jamaica hold some form of debt. Most residents with debt accessed credit from a combination of mainstream sources (such as banks, credit unions, and credit card companies) and fringe sources (such as tax preparers who offer refund anticipation loans, rent-to-own stores, pawnshops, and Internet or informal payday lenders). More than one in three respondents have credit card debt; even among unbanked respondents, 20% hold credit cards. The average credit card debt is $2,500, or roughly 10% of card holders' average annual income of $26,000.

Fringe credit is widely available in Jamaica and Melrose, and accessed by residents for short-term, emergency needs. In fact, despite storefront payday lending being illegal in New York State, 9% of respondents reported accessing a formal or informal loan with a term of less than one month. Respondents reported that loans were provided by a friend or family member, moneylender, Internet or telephone-based company, or local business. Nine percent is a notable figure when compared to short-term lending in locations where payday lending is available legally. For example, a study of low- to middle-income Detroit residents conducted by the Brookings Institution and the University of Michigan revealed that 6% of working residents had applied for a formal payday loan.[4]

Also of note, even those with access to mainstream credit use fringe credit products. For example, although 58% of Jamaica and Melrose residents have credit cards, one-quarter of credit card holders have resorted to credit card cash advances at least once every few months. Furthermore, nearly 50% of respondents who use rent-to-own stores and pawnshops and 66% of respondents who have gotten a refund anticipation loan have at least one credit card.

Fringe credit is not only more expensive than mainstream credit, it is a strong predictor of financial instability. For purposes of the NFS Study, financial instability is defined as respondents being unable to pay rent or utility bills in the past 12 months and being "short on cash a few days before being paid." Fully four in 10 fringe credit users could not pay their rent at least once in the last year. Even when controlling for income, employment, family composition, and other factors, those who carry fringe debt have nearly three times the odds of experiencing financial instability as those without it. This is a significant finding, given that 46% of study participants reported using fringe credit.

Finding: Financial education is strongly associated with positive financial behaviors, such as being linked to mainstream financial institutions, having savings, and avoiding use of fringe debt. There is no relationship found in the NFS Study, however, between financial education and indicators of overall financial stability.

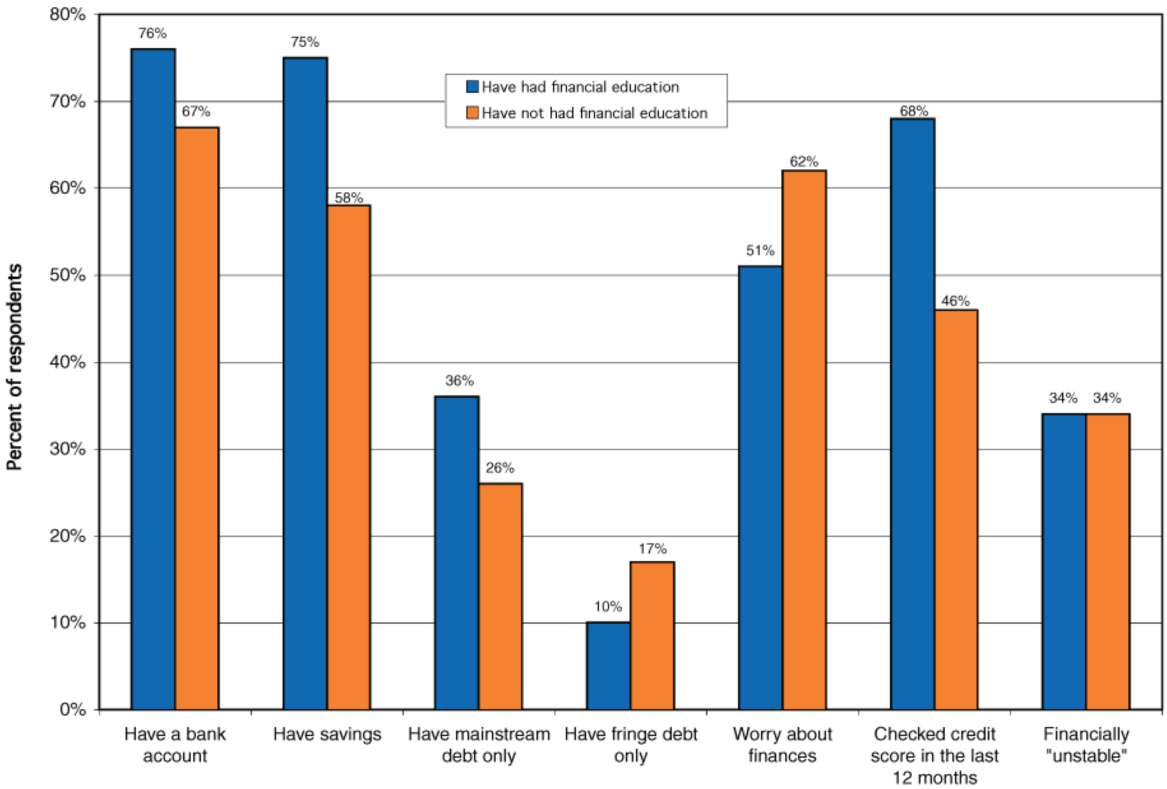
The NFS Study shows notably positive financial behaviors associated with attending a class, seminar, or workshop about money. As illustrated in Figure 2, respondents who have had financial education are more likely to have a bank account, hold savings, check their credit score, and exhibit less worry about their finances. For example, 75% of respondents who have taken financial education reported having savings, compared to 58% of respondents who have had no financial education. Multivariate analysis reveals a strong relationship between financial education and savings behavior even after controlling for income and education. After controlling for demographic factors, people who have attended a financial education class are nearly twice as likely to hold savings.

Nevertheless, the NFS Study finds that attending a financial education class is not associated with a difference in overall debt holding, nor is it relevant to rates of financial stability for residents in these two neighborhoods. These findings indicate either that financial education is most effective for households with consistent, stable incomes or that financial education offerings are more focused on basic banking and savings than on credit issues, which is likely to have a greater impact on financial stability.

Although positive behaviors are associated with financial education, more than one-half of survey respondents reported that they have never gotten financial advice from anyone (53%). The second most prevalent source of information reported is friends and family (40%). Only 5% of survey respondents chose school as "teaching them the most about money." While relatively few study participants have taken a class, seminar, or workshop about money (29%), most focus group participants shared the belief that financial education would be valuable. Said one Melrose focus group member:

> There needs to be a consultant in the neighborhood to help you and it needs to be free because we don't all make that kind of money. A consultant could explain to you "Look at all these bills I have" and you can ask them "How can I use this little check to pay all these bills?"

Figure 2. Financial behaviors of those who have and have not attended a financial education class, seminar, or workshop



iii. Gap-Closing Opportunities

The NFS Study findings identify multiple opportunities for mainstream financial institutions to engage markets they have missed while benefiting residents with low and moderate incomes. The continuum in Figure 3 posits such products as they would intersect with relevant populations. Transactional, savings, and credit products are coordinated to the product and service demands of households as they progress from financial instability to stability, and the legend identifies the size of those market segments in the two communities. At the left, the continuum begins with unbanked households with no formal credit history or savings. Moving to the right, products address families' demand for reducing the costs associated with everyday financial services, managing their debt, and building assets.

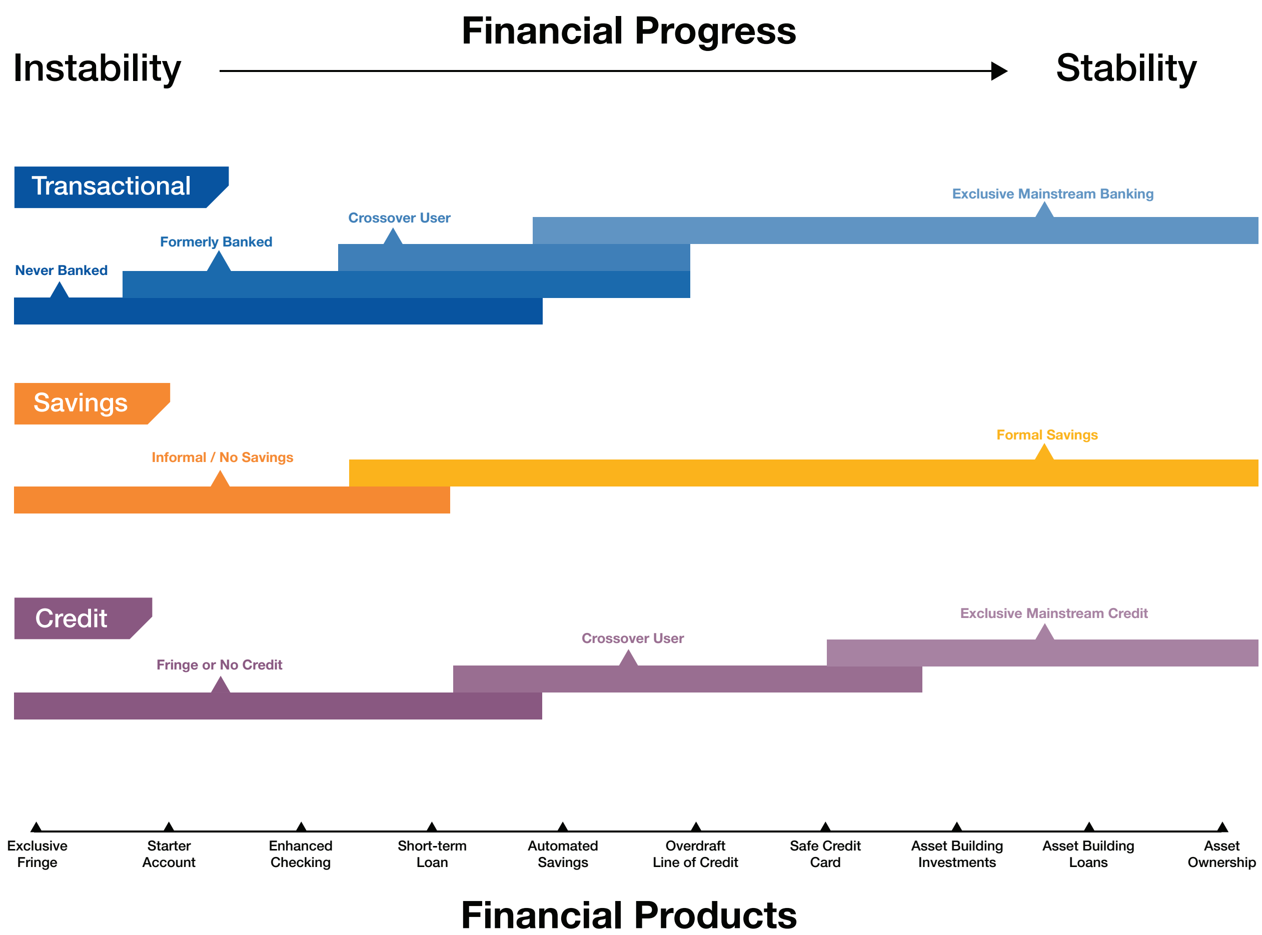
Basic Banking Services

The NFS Study findings demonstrate a fundamental mismatch between the checking products available to low-income households and their basic financial needs. Reconciling this mismatch would prove mutually beneficial to financial institutions and consumers alike. Consumers avoid banking relationships that might protect their earnings, facilitate savings, and build assets, while financial institutions are missing out on a market that is currently spending more than $225 million per year across New York City on check cashing fees alone.[5]

Bank usage patterns revealed by this study indicate that simply increasing branch presence in low-income communities, while still valuable, will not ensure mainstream financial institutions strategically capture this market. Innovative product development, combined with tailored marketing and improved customer service in low- to moderate-income branches, may better connect to customers who have stable incomes, genuine savings, and community longevity.

The continuum outlined in Figure 3 suggests a range of basic banking products that could connect to residents who have never held an account before or those who have closed accounts. In Jamaica and Melrose, approximately 90,000 individuals (25%) have never held a checking account before. An additional 47,000 (13%) lack a checking account currently but have previously held one. A no-fee, limited functionality starter account could allow consumers less expensive access to cash without exposing them to costly overdraft fees.

Figure 3. Continuum of financial products



Target Population	Definition	% of NFS Sample / Population Projection for Jamaica and Melrose
Never Banked	Never had a checking account	25% / 90,000 residents
Formerly Banked	Currently do not hold a checking account but once did	13% / 47,000 residents
Crossover User	Current bank account holders who use fringe providers to remit money or purchase money orders	51% / 184,000 residents
Exclusive Mainstream Banking	Exclusive mainstream banking use	24% / 87,000 residents
Informal/No Savings	Exclusively informal savings or no savings	47% / 166,000 residents
Formal Savers	Formal savings such as a bank account with a balance or retirement account	53% / 195,000 residents
Fringe or No Credit	Exclusive fringe credit or no reported debt	42% / 152,000 residents
Crossover User	Fringe and mainstream credit use	30% / 108,000 residents
Exclusive Mainstream Credit	Exclusive mainstream credit use	28% / 101,000 residents

Beyond starter accounts, banks could explore enhanced checking accounts with features tailored to meet the unique demand of consumers with low incomes. An enhanced checking product could be marketed to two major sectors of low-income communities: the most "bankable" who remain unbanked (54,000 unbanked residents—or 15%—in Jamaica and Melrose with full-time jobs and incomes over $20,000); and the "crossover" population (184,000 residents—or 51%—who currently have checking or savings accounts but rely on check cashers for some or most of their financial transactions). This market has steady income, although 61% of account holders are paid by check or cash. With 53% unable to use personal checks for bill payments, an enhanced checking product with competitively priced money orders, free checking linked to qualifications other than direct deposit, or overdraft lines of credit rather than "bounce protection" could draw many new customers into banking and ensure currently underbanked consumers take full advantage of banking relationships, according to NFS Study findings.

Savings

Households in the NFS Study demonstrate considerable propensity to save, although the products available to them make accumulating savings challenging. Few high-yield, restricted accounts with automated contributions are available to people with low initial contributions. In fact, the NFS Study's supply-side analysis indicates that most savings accounts available to low-balance savers in these neighborhoods have fees greater than their potential interest, meaning these accounts may actually erode savings rather than help accumulate savings.

Mainstream financial institutions share with consumers an interest to maximize long-term deposits. Innovative products offered through mainstream financial institutions are already encouraging informal or infrequent savers to transition to formal products by promoting "easy savings" programs. Opportunities in which leftover change from an account holder's purchases is deposited into a savings account or a "sweeper account" to facilitate funds being moved quickly and easily between checking and savings accounts could help facilitate savings for small account holders. Existing programs could be expanded by linking them to higher-yield products, such as low minimum balance certificates of deposit or money market accounts. Additionally, matched savings experiments and targeted outreach to encourage the purchase of treasury bonds or other low-risk investments could facilitate "growing" money through savings while protecting it from everyday use.

Credit

The NFS Study reveals a population of consumers who pay significant amounts of money for high-cost credit products, even at the expense of their financial well-being. An estimated 9% of Jamaica and Melrose residents (totaling 33,000) reported getting short-term, payday-type loans, while 25%, or a total of 90,000 residents, access credit through pawnshops or rent-to-own stores at least a few times per year.

Mainstream financial institutions could capture more of this consumer market by providing safe and sustainable credit alternatives. Credit repair or builder loans could help consumers consolidate high-cost debt into a much lower-cost, regular payment vehicle or help consumers who rely exclusively on fringe credit establish a credit record. Short-term, small-dollar loans could help replace informal or illegal payday-type lending or reliance on credit card cash advances. An affordable credit card, with credit limits linked to a borrower's ability to pay and reasonable interest rates that do not change based on penalties, could help low- and moderate-income families weather income and expense fluctuations without jeopardizing their financial futures.

In reaching this underserved market with credit products and services, the presence of strong consumer protections can have a tremendous impact not only in securing the safety of those with low incomes but on the safety of the industry. As evidenced by the crisis in the sub-prime mortgage industry, a lack of clear and responsible lending guidelines can both undermine a borrower's financial stability and the broader economy simultaneously. Reinforcing clear underwriting guidelines that are fundamentally linked to a borrower's capacity to repay the debt obligation is critical to both family stability and economic well-being. Moreover, there is a demonstrated need for greater clarity in the terms and conditions of credit products, which could be alleviated by stronger and clearer disclosures in the primary language of the borrower.

Financial Education

The complexity of today's financial products, especially credit products, requires a high degree of financial sophistication and knowledge. This study finds strong associations between financial education and positive financial behaviors, such as having a bank account, building formal savings, and accessing mainstream credit. Yet, as the research shows, less than one in three individuals has actually attended financial education classes or received one-on-one counseling. Efforts to maximize the availability and quality of financial education classes and counseling can help New Yorkers with low incomes make informed choices to move them toward positive financial behaviors.

Additional Research

This in-depth examination of two neighborhoods has illuminated a need for more data to better understand basic banking, savings, credit, and financial education behaviors and needs throughout New York City. Citywide research would help further clarify and quantify missed opportunities for financial institutions, policymakers, and financial education providers. The Department of Consumer Affairs' OFE expects to conduct a citywide telephone survey in summer 2008 to gain reliable data on the number of people lacking bank accounts, overall savings accumulated in low-income neighborhoods, and the levels of—and cost of—debt held by low- and moderate-income households. New York City will also work with other municipalities in this research effort, beginning with the Cities for Financial Empowerment (CFE), a coalition of municipal governments dedicated to advancing innovative financial empowerment initiatives, to compare and aggregate findings across the United States.

I. Introduction

Study Objectives

The primary objective of the Neighborhood Financial Services (NFS) Study conducted by the New York City Department of Consumer Affairs' Office of Financial Empowerment (OFE), with support from the William J. Clinton Foundation, is to better understand banking dynamics in low-income neighborhoods and identify public and private opportunities for long-term, high-impact financial empowerment initiatives. This study examines residents' attitudes and behaviors related to basic banking services, savings, credit, and the role of financial education in two low-income New York City neighborhoods: Jamaica, Queens and Melrose, Bronx.

OFE commissioned this study under the leadership of Department of Consumer Affairs' Commissioner Jonathan Mintz, Executive Director and Assistant Commissioner Cathie Mahon, and Deputy Director for Research and Policy Caitlyn Brazill, who served as the principal investigator.

OFE works to educate, empower, and protect New Yorkers with low incomes so they can build assets and make the most of their financial resources. OFE experiments with local government's unique capacity to identify and implement innovative programs to reduce poverty, with an eye toward evaluating their potential for growing to scale. Some current initiatives include a pilot program to increase access to high-quality, low-cost tax preparation services; a program to incentivize savings for EITC-filers; and the creation of a citywide Financial Education Network to strengthen the availability and quality of financial education services.

Key Partners

The NFS Study was conducted as part of Mayor Michael R. Bloomberg's broader anti-poverty efforts, led by the Center for Economic Opportunity (CEO). Established by Mayor Bloomberg under Deputy Mayor Linda Gibbs, and led by Executive Director Veronica White, CEO contributed important insight and involved key partners in the development of the NFS Study. CEO's mission is to reduce the number of New Yorkers living in poverty through implementation of results-driven and innovative initiatives.

OFE's work on the NFS Study was also guided by a Research Advisory Group that helped in the development of the study's objectives and methodologies and provided critical feedback on findings and recommendations. Members of the group include Zubin Taraporevala, McKinsey & Co.; Barbara Berger Opotowsky, New York City Bar Association; William Snipes, Sullivan & Cromwell LLP; William Schroeder, Sullivan & Cromwell LLP; Mark Menting, Sullivan & Cromwell LLP; Trooper Sanders, William J. Clinton Foundation; and Arelis Hernandez, William J. Clinton Foundation.

The William J. Clinton Foundation coordinated the collection and initial analysis of the availability of financial services in the two neighborhoods. The mission of the William J. Clinton Foundation is to strengthen the capacity of people in the United States and throughout the world to meet the challenges of global interdependence. The Clinton Economic Opportunity Initiative gathered information on the products and services offered at each bank, check casher, credit union, money remitter, and pawnbroker in Jamaica and Melrose.

Mapping of supply-side and other contextual data was conducted by the Neighborhood Economic Development and Advocacy Project (NEDAP). NEDAP is a resource and advocacy center for community groups in New York City.

OFE contracted Gwen Robinson for initial research design, to conduct literature reviews, shape survey methodology, and facilitate focus groups in each community. Jack Northrup, President of New England Market Research, developed the survey, created and implemented trainings for surveyors, entered and analyzed data, and provided an initial report to OFE on survey responses. Community-based organizations Neighborhood Housing Services of Jamaica (NHS of Jamaica) and Phipps Community Development Corporation (Phipps CDC) in Melrose recruited surveyors and coordinated focus groups to provide valuable insight on community trends.

Background

Most New Yorkers use financial services every day. For many people, the electronic banking revolution of the last decade has reduced the direct costs and time associated with basic financial transactions. New Yorkers can access cash from widely available ATMs, have their paychecks automatically deposited in free checking accounts, pay bills electronically, and easily access significant lines of credit. As long as New Yorkers pay off their credit cards each month and maintain checking accounts above the minimum balance, this array of financial services is available at little or no cost. For hundreds of thousands of people with low incomes living in underserved communities, however, financial services can be much more costly.

Roughly one in 10 American households lack a checking and savings account.[6] These households are disproportionately clustered in low-income, minority communities. Recent national research in low-income, urban communities finds that roughly 30% of these residents are unbanked.[7]

Unbanked households face greater obstacles accumulating savings, accessing credit, and building assets. Similarly, unbanked households frequently find themselves using costly fringe financial services, such as check cashers and pawnbrokers, and are more vulnerable to theft.[8] A recent Brookings Institution analysis estimates that a worker who relies exclusively on check cashing pays $24,600 more for banking services over the course of a 40-year career than an individual who uses a typical checking account (even when it is occasionally overdrawn and has minimum-balance maintenance fees).[9]

Historically, residents of low-income communities have had limited access to mainstream credit, forcing them to rely on rent-to-own stores, pawnbrokers, or informal lenders for emergency expenses. However, changes in underwriting practices and improvement in the technology associated with credit reporting in the last decade have greatly increased the availability of credit cards, along with auto loans and other lines of credit that were previously unavailable. Credit comes at a price, however; the effective annual percentage rate (APR) of a sub-prime credit card can be 35–40% once fees are assessed.[10]

Recent research, although more limited, suggests that a consumer credit crisis similar to the one in the national housing market is brewing.[11] A 2005 study found that low- to moderate-income American households hold an average of $8,000 in credit card debt, mostly used to pay basic needs, such as medical treatment, transportation, and child care.[12] A recent analysis of the 2004 *Survey of Consumer Finance* found that credit card holders in the lowest-income quartile were holding, on average, debt equal to 10% of their annual income.[13] Moreover, there is evidence that households' finances are crumbling under the weight of their debt; in New York City, 2007 bankruptcy filings increased by 69% from 2006.[14]

The NFS Study builds on existing national research to better understand how residents in Jamaica and Melrose, two low-income New York City neighborhoods, access and use financial products and services. Jamaica and Melrose are both target neighborhoods for Mayor Bloomberg's broader anti-poverty initiatives coordinated and funded by CEO.

Methodology

The NFS Study is a multi-method analysis combining supply-side data collection, analysis and mapping of financial services and products, and consumer-centered surveys and focus groups to better understand demand in these two communities.

Supply-Side Analysis:

Researchers from the William J. Clinton Foundation analyzed products and services offered by mainstream and fringe financial service providers within Jamaica and Melrose. They used three methods: Internet research, a telephone survey, and in-person visits. Data on the location of financial service providers came from a variety of sources, including the Federal Deposit Insurance Corporation (FDIC; for bank branches), the National Credit Union Administration (NCUA; for credit union branches), the New York State Banking Department (for licensed check cashers and wire transfer service providers) and the New York City Department of Consumer Affairs (DCA; for licensed pawnbrokers). For this report, banks and credit unions are often referenced jointly as "financial institutions."

Information about basic product offerings came from financial institution websites, and was used to develop a telephone survey, which appears in Appendix G. Mainstream and fringe service providers were called to request product information based on this survey. In each neighborhood, providers included banks, credit unions, check cashers, pawnbrokers, wire transfer or remittance service providers, and tax preparers. Researchers' affiliations were not revealed unless asked; questions were posed as if from a consumer. In-person visits were made to a sampling of businesses to confirm prices and supplement information provided via telephone. In Melrose, a total of 23 businesses were visited; in Jamaica, 41 businesses were visited.

Mapping of mainstream and fringe financial service providers was conducted by NEDAP. NEDAP provided supplementary and contextual information from the Federal Financial Institutions Examinations Council's (FFIEC) Home Mortgage Disclosure Act (HMDA), *lis pendens* pre-foreclosure filings, and data from the U.S. Census Bureau. NEDAP also provided OFE with the maps that appear in this report.

Demand-Side Analysis:

In-person surveys were conducted with 640 residents in Jamaica and Melrose from August 15 to September 10, 2007. Surveys included questions on financial service usage, perceptions of availability and quality of financial services in these communities, savings and borrowing behavior, levels of financial knowledge and experience with financial education, along with comprehensive demographic information. The survey instrument is available in Appendix A.

The surveys, which lasted 10–20 minutes, were administered in public places, such as bus and subway stations, shopping centers, street fairs, soup kitchens, and community events. Surveyors were paid $15 for each completed survey. Survey participants were given a $10 MetroCard (a card that provides access to the New York City transit system). Five to seven surveyors were used in each neighborhood.

Surveyors were responsible for ensuring that respondents completed all questions, and for assisting individuals with any help needed. A Spanish-language version of the survey was used in Melrose; 24% of the 331 surveys completed in Melrose were Spanish-language versions. Individuals who administered these surveys were fluent in Spanish.

Respondents were screened by their residential zip code; zip code distribution quotas were determined by approximating geographic population distribution. A comparison of NFS Study distribution and 2000 Census population distribution can be found in Appendix C. Overall, zip codes 11412, 11432, and 11435 in Queens and 10456 and 10459 in the Bronx were slightly underrepresented; 11433 and 11436 in Queens and 10455 in the Bronx were slightly overrepresented. This is likely due to the transportation and employment patterns within the district (since surveys were administered in commercial and transportation hubs).

Entry, cleaning, and initial analysis of survey data was conducted by Jack Northrup, President of New England Market Research. In addition to a complete data file, New England Market Research supplied a report examining bivariate relationships, which served as the basis for OFE's initial data analysis.

Throughout this study, statistical tests have been performed to determine relationships between variables; all tables indicate whether variable comparisons are significant at the 95% confidence level. The vast majority of the variables used in this report are nominal; where continuous variables are used, averages presented are five percent trimmed means. This convention eliminates outliers that would increase or decrease averages. Whenever national data samples are analyzed to provide comparisons, five percent trimmed means are also used.

Logistic regression is used for multivariate analyses. Logistic regression is a model used for prediction of the probability of the occurrence of an event; in this case, "events" include being unbanked, holding savings, and experiencing financial instability. Regression tables appear in Appendices I through L and are referenced throughout the text. Logistic regression coefficients are translated into odds ratios, which compare odds of an event occurring in one group to the odds of it occurring in another group. For example, odds ratios are used in this report to predict the odds of people with high school degrees being unbanked compared to those without a high school degree. An odds ratio of one would mean that both groups have equal likelihood of holding a bank account; an odds ratio of 0.5 would indicate that those with a high school degree have one-half the odds of being unbanked as those without a high school degree.

Although a 640-person sample is sufficient to make generalizations about these communities, this data cannot be used to make broader generalizations about the behaviors of the entire low-income population in New York City. The methodology limits extrapolation within these neighborhoods in a few important ways. First, the survey was administered only in English and Spanish; therefore, exclusive speakers of other languages are underrepresented. Second, the "man-on-the-street" survey approach is more likely to reach people who leave their homes regularly and use public transportation; therefore, it was less likely that home-based caretakers, those with physical or mental limitations that reduce public interaction, or those who exclusively use private transportation participated in the survey. In Melrose, NFS Study respondents had less educational attainment, on average, and were more likely to be unemployed than 2000 Census figures for the same community. Although data is not weighted, multivariate regression controls were used to mitigate these biases wherever possible.

Where extrapolations are made to the population level, numbers are based upon 2000 Census figures for each zip code. In 2000, the total population of Melrose was 194,545 residents, including 137,883 persons over the age of 15, and 64,563 households. The total population for Jamaica was 285,461 residents, including 223,600 persons over the age of 15, and 91,514 households. The population over the age of 15 is used to calculate extrapolations of data meant to focus on qualities appropriate to an adult, such as the number of people holding bank accounts. A standard error cannot be calculated for a proportional sampling study, but it should generally be assumed that all extrapolations are estimates and rounded as such.

Focus Groups:

To supplement survey data, two 2-hour focus groups were held in each neighborhood. NHS of Jamaica and Phipps CDC recruited six to 10 focus group participants per session, each of whom received a $25 incentive. A comparison of the demographic characteristics of focus group participants and survey respondents is included in Appendix F. A structured discussion was facilitated by Gwen Robinson based on the survey instrument, included in Appendix E. Sessions were audio recorded and two notetakers recorded major discussion points. Gwen Robinson provided OFE with a summary of key themes and quotations which have been incorporated into this report.

II. Neighborhood Profiles

Table 2. Demographic characteristics of NFS Study respondents

	Jamaica	Melrose
	N=309	N=331
Average years in community	18	17
Average age	42*	37*
Age (as a percent):		
Under 26	14%*	21%*
26–35	25%*	32%*
36–50	36%*	34%*
Over 50	25%*	13%*
Family (as a percent):		
At least one child under 18	60%*	67%*
Married/partnered	33%	38%
Ethnicity (as a percent):		
African-American	62%*	36%*
Hispanic	19%*	57%*
Other	19%*	8%*
Foreign-born (as a percent)	34%	38%
Living arrangement (as a percent):		
Homeowner	27%	12%
Rent	52%	68%
Shelter/Friends or family	20%	21%
*Indicates significant difference between communities at 95% confidence level based on Pearson chi-square test		

Race and Ethnicity

Both neighborhoods have large immigrant communities, with at least one-third of the population born outside of the United States. In Jamaica, residents come from diverse Caribbean and Central American nations, and more recently, from several African countries. In Melrose, residents are mostly Puerto Rican, Dominican, Mexican, or Central American. Jamaica is a neighborhood that is predominantly African-American, while Melrose is predominantly Hispanic.

Household Composition

Roughly two-thirds of sample respondents have at least one child under the age of 18, and about one-third are partnered or married. Further, 22% of Melrose residents and 17% of Jamaica residents live in households with three or more generations. Survey participants reported living in their communities an average of 17 years.

The study's Melrose sample was younger; 21% of Melrose respondents were under 26 compared to 14% of those in Jamaica. Similarly, 25% of Jamaica respondents were over 50, compared to 13% of those in Melrose.

Housing

Twenty percent of respondents are homeowners. Most homeowners reside in Jamaica, where owner-occupied, single-family houses are considerably more common. The majority of residents in both neighborhoods are renters. However, a sizable portion of both neighborhoods (20%) reported that they live in temporary shelters or with friends and family.

Employment and Education

The two neighborhoods differ starkly in regards to employment and education, as illustrated in Table 3. Roughly one-half of the residents in both communities work full-time and another 20% work part-time. In Jamaica, however, two-thirds of non-workers are out of the labor market (retired, full-time students, or disabled) and one-third are unemployed; in Melrose the 30% of non-workers are evenly split between those out of the labor market and those unemployed.

Table 3. Education, income, and employment characteristics of NFS Study respondents

	Jamaica	Melrose
	N=309	N=331
Education (as a percent):		
Less than high school	18%*	28%*
High school degree	36%	38%
Some college/trade school	24%	24%
Bachelor's degree or higher	22%*	10%*
Average annual income	$26,000**	$18,000**
Household income (as a percent):		
Under $20,000	34%*	51%*
$20,000–$40,000	37%*	34%*
Over $40,000	29%*	15%*
Employment status (as a percent):		
Full time	53%	53%
Part time	20%	19%
Unemployed	8%*	14%*
Public benefits (as a percent):		
Cash assistance	10%*	28%*
Medicaid	26%*	43%*
Social Security	18%*	9%*
Earned Income Tax Credit	49%	46%

*Indicates significant difference between communities at 95% confidence level based on Pearson chi-square test
**Indicates significant difference between communities at 95% confidence level based on t-test

In both neighborhoods, the majority of residents have a high school degree or less; however, 28% of Melrose residents lack a General Equivalency Diploma (GED) or high school diploma compared to 18% of Jamaica residents. In Jamaica, more than one in five residents hold a college degree.

Income and Benefits

For the purposes of the NFS Study, income designations are as follows: low income is defined as residents making less than $20,000 per year; moderate income is defined as those earning $20,000–$40,000 per year; and middle income refers to those earning over $40,000 per year. These designations are not intended to be broader definitions across New York City; rather, they are an attempt to meaningfully group the NFS Study sample based on distribution of income. The lowest-income group makes up 43% of the study sample, while the middle-income group is 36%, and 22% of participants have an annual household income over $40,000. Only 3% of the sample reported an annual household income of more than $70,000. A full comparison of the distribution of income by neighborhood is available in Appendix D.

Over one-half of Melrose residents have annual household incomes less than $20,000, compared to roughly one-third of Jamaica residents. Likewise, nearly 30% of Jamaica households are middle-income, compared to only 15% in Melrose. Melrose residents exhibit higher rates of public benefit receipt; more than one-quarter of residents receive cash assistance and more than four in 10 participate in Medicaid or New York State's Family/Child Health Plus program, compared to Jamaica's 10% and 26%, respectively. Nearly one-half of residents in both communities receive the Earned Income Tax Credit (EITC), a refundable federal, state, and city tax credit for working families with low incomes.

Financial Stability

Jamaica and Melrose both exhibit high levels of financial instability. Of all NFS Study respondents in Jamaica and Melrose, 34%—or an estimated 167,000 individuals—are defined in this study as financially unstable i.e. reporting that they were unable to pay rent or utility bills in the past 12 months and that they are "short on cash a few days before being paid."[15] Thirty percent of residents reported they were unable to pay their rent at least once in the last year. One in five respondents reported that they are "maxed out on credit cards," and a similar number agreed with the statement, "debt collectors call constantly." Roughly 6% of residents in both communities have filed for bankruptcy at some point in their lives, and more than 10% have entered into a debt management plan with a credit counselor. Two-thirds of Melrose residents and one-half of Jamaica residents say they worry about their finances.

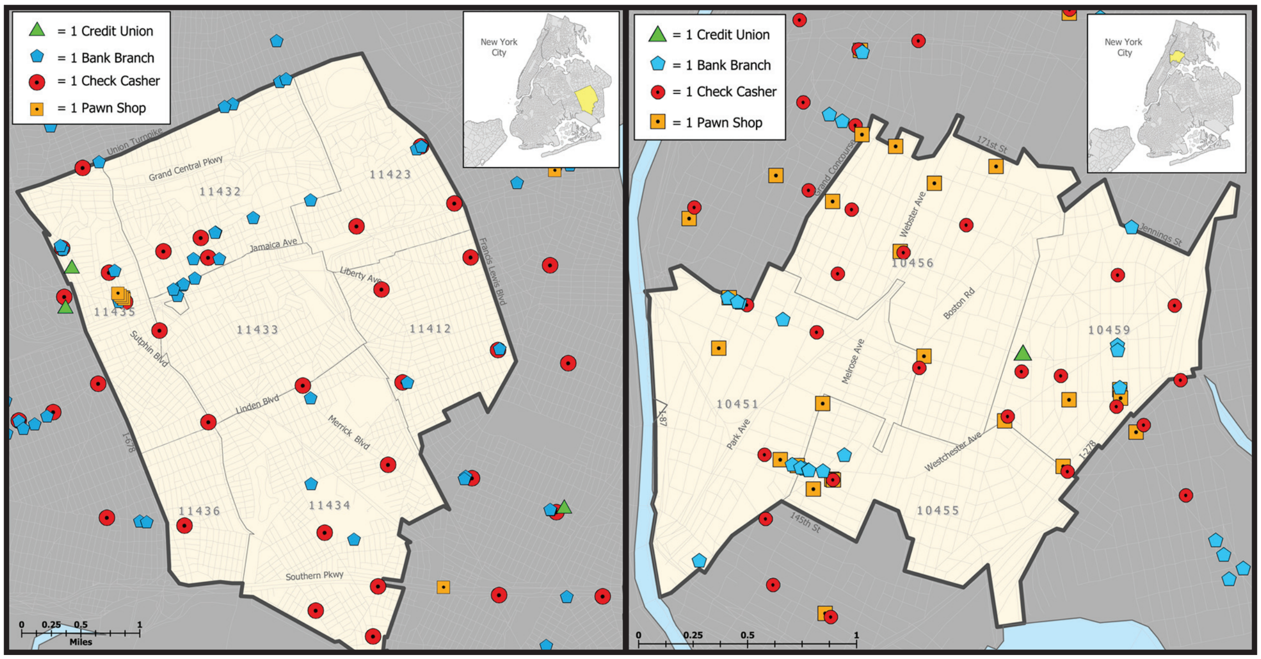
Ten percent of Jamaica residents say they have been 90 days behind on their mortgage while another 7% say they are unsure if they have ever been that far behind. Queens Community District 13, which includes zip codes examined in this study, is among the highest concentrations citywide of high-cost mortgages, high-cost refinance loans, and foreclosures.[16]

III. Financial Services Availability and Access

To better understand the availability of financial services in Melrose and Jamaica, supply-side analysis for the NFS Study examined the locations of banks, credit unions, check cashers, pawnbrokers, and rent-to-own stores in these neighborhoods.

Figure 4. Financial service provider distribution in Jamaica and Melrose

Jamaica **Melrose**



Source: NEDAP

As demonstrated in Figure 4, both neighborhoods have considerable access to check cashers and mainstream financial institutions. Check cashers and banks are often found in the same commercial areas, although check cashers have a somewhat broader distribution throughout the communities. Melrose also has a much greater presence of pawnshops than Jamaica.

Table 4 compares the per capita distribution of financial service providers. There are just over two financial institutions[17] and 0.5 check cashers per 10,000 residents citywide. Manhattan has the highest density of financial institution branches (4.52), and the Bronx has the lowest (1.08). Jamaica and Melrose have less than one-half of the banks and credit unions per person than the city average. Each neighborhood has fewer mainstream financial institutions available than their respective borough overall; Jamaica has less than one-half the banks and credit unions per capita than Queens.

A 2008 analysis of national data by the Brookings Institution indicates that the vast majority of New York neighborhoods are underserved by financial institutions compared to the rest of the nation. Nationally, low-income urban neighborhoods have an average of 3.6 bank and credit union branches per 10,000 people, while high-income urban neighborhoods have 4.4 (comparable to Manhattan's 4.5).[18] The difference is likely related to New York City's high residential density compared to other U.S. cities.

Table 4. Bank branches, credit unions, and check cashers per 10,000 residents

Region	Banks and Credit Unions	Check Cashers	Remittance Agents*	Pawnbrokers	Rent-to-Own
New York City	2.00	0.50	5.31	0.20	0.04
Bronx	1.08	0.77	7.47	0.49	0.07
Melrose	0.82	0.93	8.17	1.08	0.15
Brooklyn	1.28	0.49	5.07	0.12	0.04
Manhattan	4.52	0.62	5.45	0.33	0.03
Queens	1.87	0.46	5.62	0.08	0.04
Jamaica	0.78	0.71	4.60	0.12	0.06
Staten Island	2.23	0.11	4.33	0.07	0.07

Population estimates from 2000 Census

*Remittance agents include all licensed money transmitters other than banks, credit unions and check cashers.

Sources: Federal Deposit Insurance Corporation (2006); New York State Banking Department (2007); National Credit Union Administration (2007); U.S. Census (2000); Rent-a-Center (2007)

In Melrose, there are considerably more check cashers and pawnbrokers than bank or credit union branches. Melrose has five times the city average of pawnbrokers and three times the city average of rent-to-own stores. Melrose has more pawnbrokers per person than national norms; the average low-income neighborhood nationwide has 0.8 compared to Melrose's 1.08.[19] The city as a whole has only 0.2 pawnbrokers per 10,000 people. Although there are slightly fewer banks and credit unions per person in Jamaica than in Melrose, there is also a lower concentration of fringe financial service providers. New York City overall has a lower density of check cashers than other U.S. cities. Nationally, there is roughly one check casher per 10,000 people; New York City has one-half that amount.[20] This may be because regulations on the locations of check cashers, fee limits, and a ban on storefront payday lending in New York State minimize the profitability of check cashers.

IV. Findings

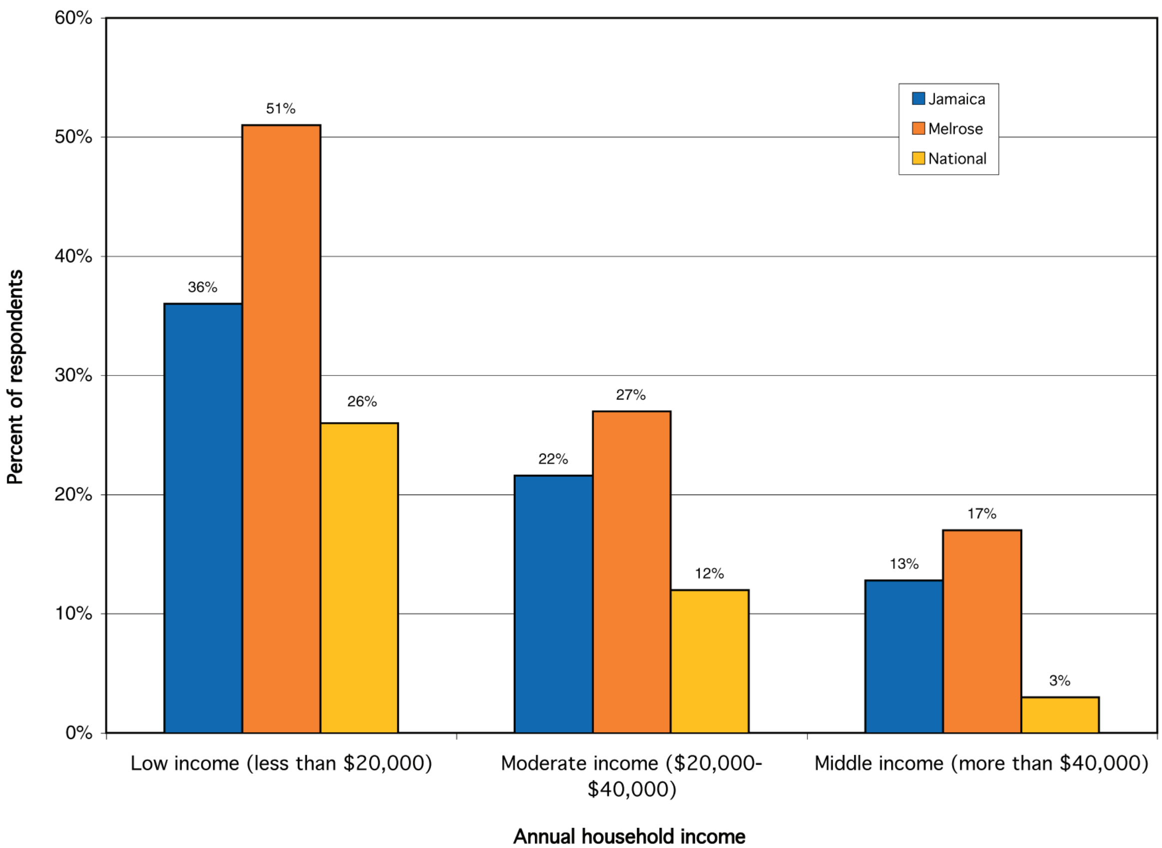
Basic Banking Services

Finding: There is a fundamental mismatch between current financial product and service offerings and the needs of households in these communities. This mismatch appears to play a more prominent role than bank branch proximity in determining why residents remain "unbanked" and why fringe financial services are widely used.

The use of fringe providers for basic financial services in these two communities is widespread and extends beyond the unbanked.

Overall, 31% of Jamaica and Melrose residents—or approximately 110,000 residents over the age of 15—are "unbanked" (lacking a checking and savings account). Melrose residents are far more likely to be unbanked compared to those in Jamaica; 37% of Melrose respondents have neither a checking nor savings account, compared to 24% in Jamaica. Residents with the lowest incomes are disproportionately represented among the unbanked. Among those with annual incomes less than $20,000, 36% of Jamaica residents and 51% of Melrose residents are unbanked. As shown in Figure 5, Melrose residents are less likely to have a bank account at every income level than those in Jamaica. Residents in both neighborhoods, regardless of income, are less likely to have a bank account than national norms.

Figure 5. Percent of NFS Study respondents and national sample who are unbanked by household income



National data from OFE analysis of the *Survey of Consumer Finance* (2004)

Table 5 gives insight into the complex banking patterns of Jamaica and Melrose residents. Although 63% of Melrose residents and 76% of Jamaica residents have some relationship with a financial institution, less than one-third of Melrose residents and less than one-half of Jamaica residents hold both a checking and savings account. Moreover, many of the currently unbanked once held a checking account but do not now; roughly 13% of all respondents and 42% of the unbanked previously held a checking account. Although the NFS Study does not contain data on whether it was the financial institution or the individual that closed the account, a study of low-income neighborhoods in Detroit found that 70% of the formerly banked decided to close their accounts themselves.[21] If the same patterns apply in Melrose and Jamaica, it can be estimated that the 37,000 former checking account holders decided to end their banking relationship at some point, and may have lasting impressions from their banking experience that keep them from opening another account. Individuals whose financial institutions chose to close the account may now have negative information recorded on ChexSystems, a "gate-keeping" reporting system widely used by financial institutions to determine eligibility for accepting new customers.

Table 5. Checking and savings account usage by neighborhood

	Jamaica	Melrose
	N=309	N=331
Percent with checking or savings account	76%*	63%*
Percent with both checking and savings account	48%*	31%*
Percent once had checking account but do not now	13%	12%
*Indicates significant difference between communities at 95% confidence level based on Pearson chi-square test		

Fringe financial services are widely used in both communities. Roughly 75% of survey respondents reported going to a check casher at least once every few months. Twenty percent of those surveyed reported using check cashers at least once a week, and an additional 33% reported using a check casher once or twice per month. Even in New York State, where check cashing fees are some of the lowest in the nation and payday lending is illegal, households with low incomes can easily pay more than $400 per year to cash checks.[22]

Use of check cashing is not only widespread, it is also associated with financial instability.

Looking exclusively at residents who reported visiting check cashers at least weekly or monthly, individuals in these communities spend an estimated $19 million per year on check cashing fees at 42 check cashing establishments.[23] This corresponds with a recent analysis of check cashing volume and fees in New York State, which suggests that New York City residents spend approximately $225 million per year on check cashing fees alone.[24] Moreover, individuals who exclusively use mainstream financial institutions are less likely to have been unable to pay rent in the last year (20%), compared to those who exclusively use check cashers (37%). Among those who rely on both banks and check cashers, 30% were unable to pay rent at some point in the last year.

Notably, fringe financial services are also commonly used by individuals with checking accounts. Sixty-five percent of survey respondents with checking accounts still use check cashers at least once every few months. Further, a full one-half of "crossover" users (residents using both mainstream financial institutions and check cashers) reported visiting check cashers monthly. Individuals may be using check cashers for services beyond cashing checks; 75% of checking account holders reported regularly purchasing money orders and 31% reported remitting money to a foreign country. Focus groups revealed that "banked" residents generally visit check cashers to pay bills, purchase money orders, or cash checks during non-bank hours or in emergency situations. Others mentioned that they opt for check cashers if they are in a hurry. In the words of one Melrose focus group participant:

> Sometimes I use check cashers, sometimes my bank…I just go to the cashiers because it's quicker. The money orders are cheaper and I don't have to stand in a big line.

Overall, 45% of survey respondents reported using both mainstream financial institutions and check cashers; 24% use only banks, 21% exclusively use check cashers, and 10% did not report using banks or check cashers.

While there are differences between those who exclusively use mainstream financial institutions and those who do not, this study finds that there are few demographic distinctions between "crossovers" and those who use banks exclusively. Banking patterns in Jamaica and Melrose are not linked to race, native-born status, or whether or not a household has children.

As illustrated in Table 6, residents who rely exclusively on check cashers have an average annual income of only $13,000, compared to $24,000 for crossovers who use banks and check cashers for basic financial transactions, and $28,000 for residents who exclusively use banks or credit unions. Respondents relying exclusively on banks or credit unions are considerably more likely than their peers to be married or partnered, which may be a result of higher household income. The majority of financial institution and crossover users are employed full-time, compared to only 42% of respondents relying exclusively on check cashers.

Table 6. Demographics of mainstream and fringe financial service users

	Use Banks/ Credit Unions and Check Cashers	Use Check Cashers Only	Use Bank/ Credit Unions Only	No Transactional Services
	N=283	N=128	N=149	N=64
Average household income	$24,000**	$13,000**	$28,000**	$16,000**
Household income (as a percent):				
Under $20,000	36%*	63%*	29%*	60%*
$20,000–$40,000	40%*	29%*	38%*	25%*
Over $40,000	25%*	8%*	33%*	14%*
Employment status (as a percent):				
Full time	61%*	42%*	58%*	32%*
Part time	20%*	21%*	12%*	30%*
Unemployed	6%*	21%*	10%*	20%*
Public benefits (as a percent):				
Cash assistance	13%*	37%*	8%*	27%*
Social Security	12%	11%	17%	6%
Earned Income Tax Credit	54%*	39%*	50%*	21%*
Ethnicity (as a percent):				
African-American	52%	42%	50%	38%
Hispanic	35%	46%	39%	47%
Foreign-born (as a percent)	33%	39%	36%	41%
Education (as a percent):				
Less than high school	17%*	39%*	15%*	36%*
High school degree	36%*	38%*	35%*	41%*
Some college/trade school	29%*	19%*	26%*	15%*
Bachelor's degree or higher	19%*	3%*	24%*	8%*
Checking history (as a percent):				
Never had checking account	7%*	62%*	8%*	75%*
Once had but do not now	5%*	38%*	4%*	25%*
Currently has checking account	88%*	0%*	88%*	0%*
Has at least one credit card	72%*	23%*	73%*	18%*
*Indicates significant difference at 95% confidence level between bank usage categories as indicated by Pearson chi-square test				
**Indicates significant difference between bank usage categories at 95% confidence level as indicated by t-test				

Education is also an important factor in determining banking patterns. Nearly one-quarter of those who exclusively use mainstream financial services have a Bachelor's or graduate degree, compared to only 3% of those exclusively using check cashers. More than three-quarters of those who avoid mainstream banking have a high school degree or less.

The vast majority of respondents who are banked currently have checking accounts; only 12% exclusively have savings accounts. Banked respondents are also dramatically more likely than those without bank accounts to hold at least one credit card.

Also of note are the 10% of respondents who reported using neither financial institutions nor check cashers. These residents appear to be struggling financially, but not as severely as those relying exclusively on check cashers. Roughly one-third reported working full-time, 27% receive cash assistance, and 36% lack a high school degree. Moreover, three-quarters have never held a checking account before.

Banking patterns in these two communities are not simply a function of physical branch proximity.

The NFS Study explores the relationship between the availability of financial services in Jamaica and Melrose and how residents use them. Section III of this report presents the location patterns of mainstream and fringe financial service providers. As noted, fringe financial services are more prevalent in Jamaica and Melrose than the city as a whole, and more common in Melrose than Jamaica. Figure 6 compares residents' perceptions of bank availability, the actual density of bank branches in each zip code, and the percent of residents who hold a bank account.

Figure 6. Bank density, perception of availability, and bank account usage by zip code

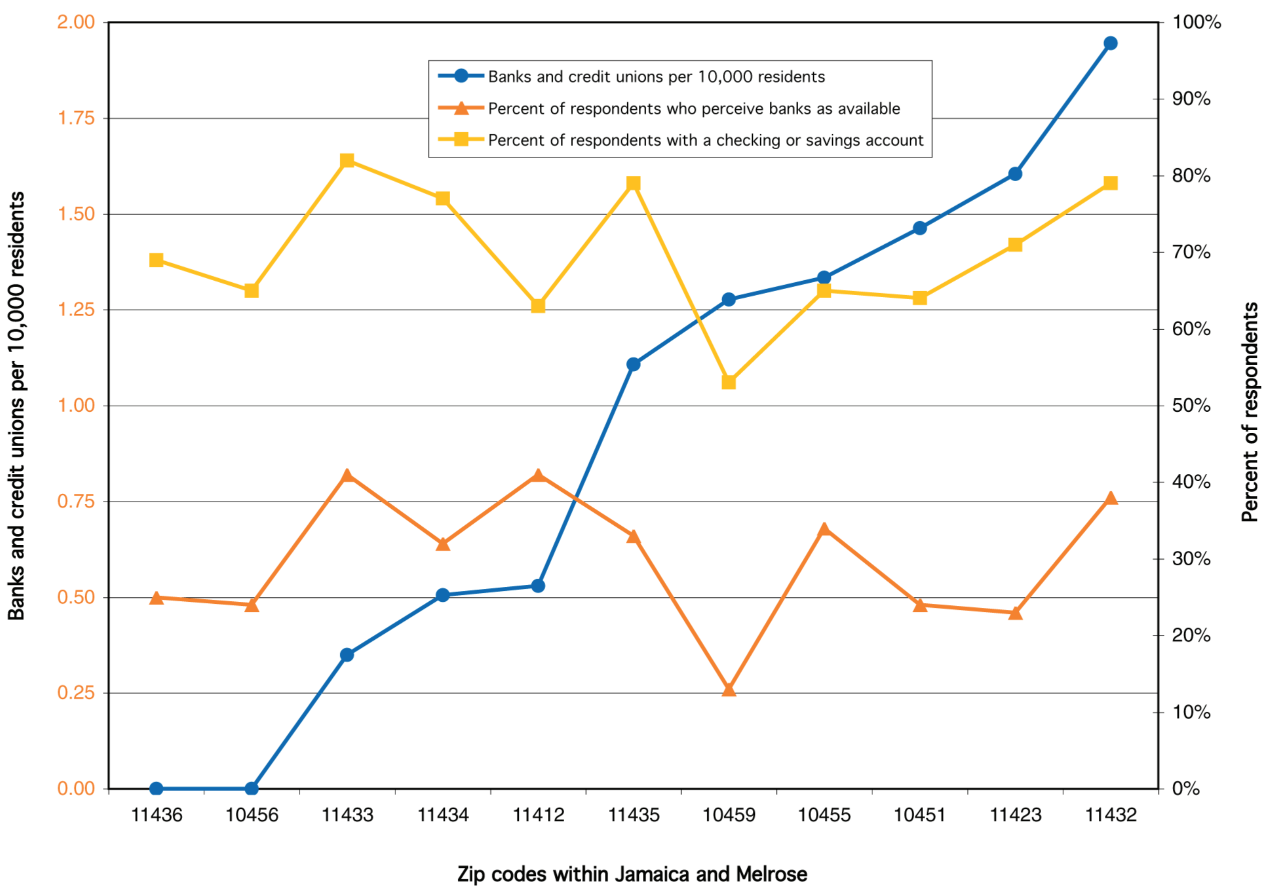


Figure 6 demonstrates a clear relationship between the perception of availability of financial institutions and the likelihood of holding a checking or savings account in each zip code. The percentage of respondents with accounts in a given zip code generally increases with the percentage of respondents who perceive financial institutions as available. More than one-third of respondents who use mainstream financial institutions (either exclusively or along with check cashers) perceive banks as being widely available in their communities, compared to 25% of respondents who exclusively use check cashers.

There is no clear relationship, however, between the actual density of financial institutions and a respondent's likelihood of holding an account, or between the density of branches in a given zip code and respondents' perception of availability. Even when controlling for income and education, a logistic regression analysis finds no significance of financial institution density in predicting whether or not residents have a bank account.[25]

This data calls into question the conventional assumptions surrounding the link between banking patterns and branch locations. Complex individual-level factors may determine an individual's perceptions of availability of services to *them*, regardless of the actual number of banks in their neighborhood. These same factors may be determining whether individuals hold bank accounts.[26]

What determines whether individuals bank?

To determine which individual-level factors are contributing to whether or not individuals are banked, a multivariate logistic regression was conducted to measure the ability to predict whether an individual has a bank account based on different characteristics.[27] The four factors significant in determining whether or not an individual has a bank account are discussed below.

Income and Education

Households with an annual income under $20,000 have one-half the odds of holding a checking or savings account as those with incomes over $20,000. Similarly, those who lack full-time employment or a high school degree are less than one-half as likely as their fully employed or more educated peers to have a bank account.

EITC

Although effects from income, education, and employment could be expected, the NFS Study also finds that individuals who do not receive the EITC have one-half the odds of having a bank account compared to those who have filed for the EITC. This may imply that Volunteer Income Tax Assistance (VITA) sites and other tax preparers are successfully using tax time to connect individuals to mainstream banking, although more research is warranted to explore this relationship.

Public Benefits

Individuals who receive cash assistance have nearly twice the likelihood of being unbanked, compared to those who do not receive assistance. For residents receiving Temporary Assistance for Needy Families (TANF) cash assistance, there is no structural incentive to engage with a financial institution because those benefits are issued via a stored value card. Respondents who receive Social Security benefits, on the other hand, which are available via direct deposit, are more likely than their peers to have a bank account. Seventy-nine percent of Social Security recipients have a bank account, compared to 68% of those who do not receive Social Security benefits.

Rent Payment

Residents whose landlords refuse personal checks have one-half the odds of holding a checking or savings account, compared to those whose landlords will accept checks. This may imply that individuals who purchase money orders regularly are more likely to avoid mainstream banking services entirely in favor of check cashers, who typically sell money orders for lower prices than mainstream financial institutions.

There is a fundamental mismatch between the current financial product and service offerings and the demand of residents in Jamaica and Melrose.

The NFS Study finds that the context in which individuals in Jamaica and Melrose handle financial transactions has a greater impact on their likelihood of banking than their proximity to a bank branch. NFS Study data shows that factors such as the products and services offered in financial institutions; consistency and value of one's income; ability to utilize a checking account to pay bills; and the policies and delivery mechanisms for public benefits are more likely to impact the overall percentage of those who bank in these two communities than an increase in branch concentration.

The most common reason given by respondents for avoiding mainstream banking is fees; 38% of all unbanked respondents cited fees as a reason they avoid banking.[28] This is true especially for those residents who are full-time workers with incomes above $20,000, and might be perceived as the most attractive customers to mainstream financial institutions. Of these residents, 50% cited fees as a deterrent to holding a checking account. Focus group participants frequently criticized banks for having "hidden" fees, and many recounted experiences with overdraft fees or maintenance fees imposed because their account fell below required minimum balances. Residents who have already experienced high overdraft or insufficient funds fees reported being more willing to pay a higher "fee that they know" than to open themselves to the possibility of fees that they could not predict. Similar research in other markets has found that "lower fees" and "less confusing fees" would motivate individuals with low and moderate incomes to open a bank account. Focus group participants described check casher fees as simpler, even if they were sometimes more expensive. In the words of one Melrose resident:

> I use the check cashers, not the banks, because of that one bad experience where they gave me overdraft protection and I wasn't aware of it. I depleted my funds from my account. They paid someone I owed and I had no money. I had to pay the overcharge, and then I didn't pay the overdraft on time and then I had to pay a late fee so I closed the account…If they had let me know that I didn't have the funds they wouldn't have had to step up and pay it for me.

Account features play a major role in determining banking behavior. Table 7 illustrates how costs for financial services vary with market segments and individual-level factors. For example, for a worker with a moderate income who has the ability to receive direct deposit, it is more affordable to use a mainstream financial institution than a check casher. For the average person fitting this description, exclusively using banks or credit unions could save over $450 per year—provided that the individual is able to avoid paying out-of-network ATM fees and ensures that the account remains above a zero balance at all times.

Table 7. Potential costs associated with mainstream and fringe financial services for a resident considered "most bankable" and a resident with less stable income[30]

	"Most Bankable"		Less Stable Income	
Employment	Full time; $25,000 per year		Part time; $10,000 per year	
Direct deposit	Yes		No	
Non-branch ATM usage	Never		4 times per month	
Overdrafts	Never		4 times per year	
Wire transfer usage	Never		2 times per year	
Landlord accepts checks	Yes		No	
Annual Cost	**Mainstream**	**Fringe**	**Mainstream**	**Fringe**
Annual maintenance	$0	$0	$36	$0
Accessing cash	$0	$425	$144	$170
Overdraft fees	$0	$0	$120	$0
Rent payment	$5	$17	$59	$17
Utility payment	$5	$4	$5	$4
Other bills	$15	$40	$15	$40
International wire transfer	$0	$0	$80	$50
Total	**$25**	**$482**	**$459**	**$281**
Savings		$458		-($177)
Note: See Appendix H for fee data and table assumptions				

It is notable, however, that for respondents with less stable income who must pay at least some bills with money orders and transfer money to foreign countries at least a few times per year, fringe financial services appear to be preferable. Fringe financial services also become preferable in the short term, as shown in Table 7, if those same respondents regularly use out-of-network ATMs and/or occasionally overdraw their accounts.

Supply-side analysis found no less than five common fees attached to checking accounts. Low-balance accounts were especially likely to have transaction limits on checks or ATM visits that could incur unexpected fees. These fees contribute to mismatches between checking account offerings and consumer needs as outlined in Table 8.

For the majority of residents in these two communities, "free checking" is not likely to be available. Widely advertised "free checking" accounts require either direct deposit or a minimum balance ranging from $100–$500. Yet, 61% of respondents who are checking account holders reported being paid via cash or check, rather than direct deposit. With an average income of $25,000, a full-time worker can expect a biweekly paycheck of less than $900, making retaining $100–$500 in checking at all times challenging. Respondents avoiding mainstream banking recognize the challenge of maintaining funds to avoid monthly maintenance fees; 28% reported that minimum balances are the reason they avoid banking.

Table 8. Comparison of checking account supply and consumer demand

Checking Account Offerings	Consumer Need
Most checking accounts are free only if the consumer has direct deposit.	61% of low-income checking account holders do not have direct deposit.
Checking accounts facilitate bill payment, but only through checks or online payments.	53% of checking account holders cannot pay their rent with a check or online; rather, they must pay in cash.
Overdraft protection plans are common, charging an average of $30 for spending over the account balance.	21% of account holders overdraw their checking account every few months.

Nearly one-half of checking account holders reported that they cannot pay their rent using a personal check, implying the need for at least one regular money order purchase for basic bill payments. Money order costs at surveyed banks average $4.50, compared to $1.00 at check cashers in these communities. As noted earlier, being unable to pay rent with a personal check is a strong factor predicting whether one has a bank account, even after controlling for income, education, and other demographic factors.[31]

By far, the largest charges experienced by community residents are insufficient funds fees, which range from $30–$40. At some institutions, these fees increase with each overdraft. Fees are levied on accounts with "bounce protection" plans, which are typically the default feature on low-balance accounts. The feature is particularly problematic when checking accounts are linked to debit cards, because transactions are processed even when there are insufficient funds in the accounts. Consumers may be unaware they are overdrawing funds and being assessed a $30–$40 fee per occurrence. In Jamaica, 25% of checking account holders reported overdrawing their account at least once every few months. For those who occasionally overdraw their account, bounce protection fees could easily exceed $150 over the course of a year.

Generally more affordable, but less accessible, are overdraft lines of credit. Overdraft lines of credit allow consumers to automatically receive a loan when checking account funds are insufficient to cover a check. Supply-side analysis of checking accounts in Jamaica and Melrose reveals that overdraft lines of credit typically require direct deposit or a high minimum balance and a credit check.

Also important to whether or not people bank, although less quantifiable in supply-side analysis, is comfort. Lack of comfort was the second most commonly reported factor among unbanked study respondents for why they avoid mainstream banking. Of unbanked respondents, 34% cited lack of comfort as a reason for avoiding banking. Lack of comfort was characterized as a combination of feeling intimidated by banks because of associations with wealth; concerns about personal and information security; feelings of not "belonging"; and basic customer service concerns, such as wait time and the friendliness of staff.

Other factors reported as contributing to whether or not individuals use bank accounts are convenience, avoiding creditors, identification, and language accessibility. Location was mentioned as a deterrent by 16% of unbanked residents in Jamaica and Melrose, while bank hours were mentioned by 13% of unbanked residents. In the two communities, 18% of the banks reported evening operating hours, compared to 55% of check cashers; however, 79% of banks reported Saturday operating hours, compared to only 64% of check cashers. Focus group participants also agreed that evening and weekend hours are appealing, although similar customer service complaints were stated about both mainstream financial institutions and check cashers, particularly long lines and wait times. One in five unbanked residents mentioned avoiding creditors as a reason to avoid banking; another 17% mentioned that they lacked sufficient identification to open an account. Only 8% noted concerns about bank staff speaking their language, but the NFS Study sample may underestimate the severity of language access problems as it was administered only in English and Spanish. Finally, 11% of residents cited check holding policies—or difficulty of accessing funds—as a compelling reason to turn to check cashers.

Savings

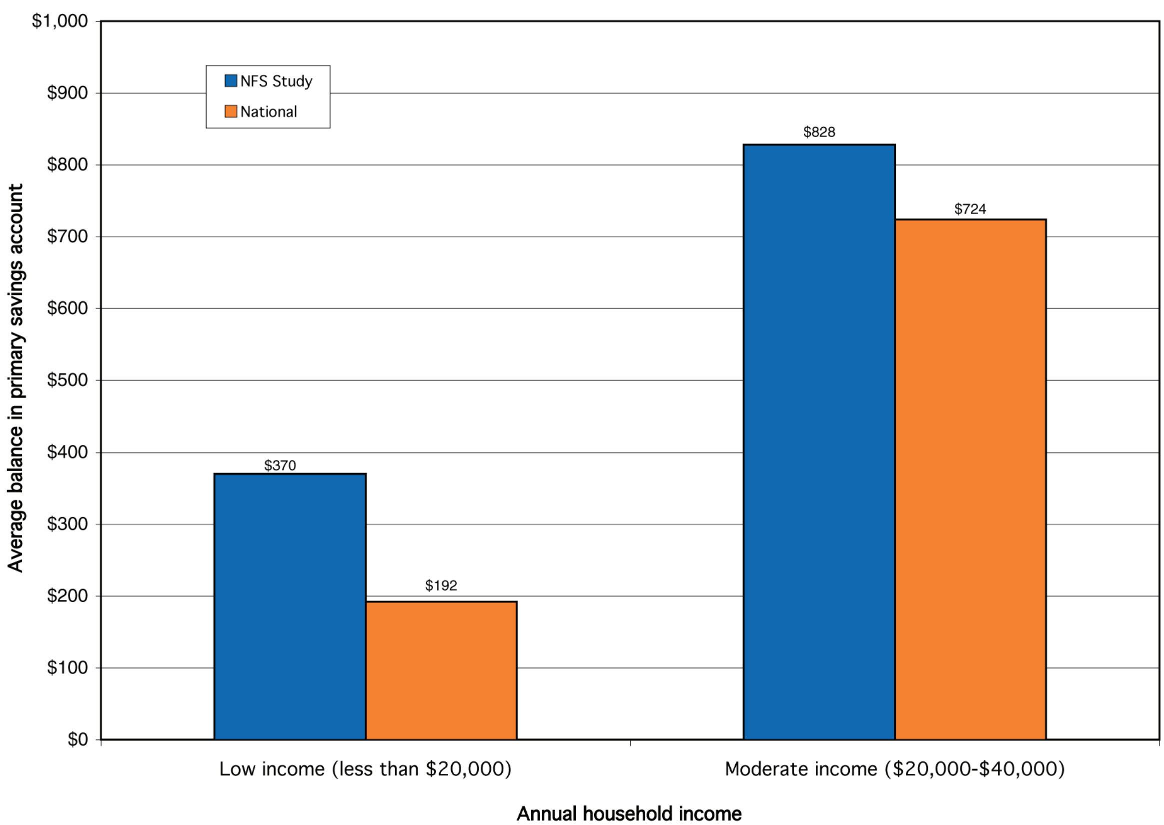
Finding: Households in Jamaica and Melrose have more savings than might be expected, although analysis of savings products offered in these two communities reveals a mismatch between consumer needs and current product offerings.

Households in Jamaica and Melrose have more savings than might be expected.

Residents with low and moderate incomes in Jamaica and Melrose save more than the national average given their income. Overall, 63% of respondents reported some type of savings, and only approximately 10% of those respondents reported exclusively saving informally.[32] Moreover, 31% of *unbanked* survey respondents reported having either formal or informal savings. Overall, 27% of NFS Study respondents reported being "savers," indicating that they have savings and agree with the statement, "I consider myself a saver."

Residents with savings reported an average primary savings balance of $1,200. Looking only at savings account holders with a non-zero balance (69% of savings account holders), the average savings climbs to $2,150. "Savers"[33] report, on average, $2,700 in their primary savings account. Still, most households have relatively small savings; one-half of Jamaica and Melrose residents reported $200 or less in savings, and the average savings for unbanked residents is $25.

Figure 7. Average savings for NFS Study respondents and a national sample with savings accounts by household income



National data from OFE analysis of the *Survey of Consumer Finance* (2004)

It is notable that savers at the lowest level of income in Jamaica and Melrose reported greater savings than that reported by respondents with similar incomes in the national *Survey of Consumer Finance*, despite the high cost of living in New York City.[34] (The cost of living in Manhattan is twice that of the national average; adjusting the median income in Manhattan for cost of living decreases the value from $60,000 to only $29,000.)[35] On average, savers in Jamaica and Melrose with incomes less than $20,000 reported having $370 in their savings accounts, nearly twice that of the national average for their income group. Moderate-income households in Jamaica and Melrose reported having an average of $828 in savings, comparable to their national peers. Households in Jamaica and Melrose with annual incomes above $40,000 reported $4,431 in their primary savings account, which was lower than the national average, although challenging to compare given the differences in income distribution between the NFS Study sample and national norms.

Figure 8. Savings vehicles used by NFS Study respondents

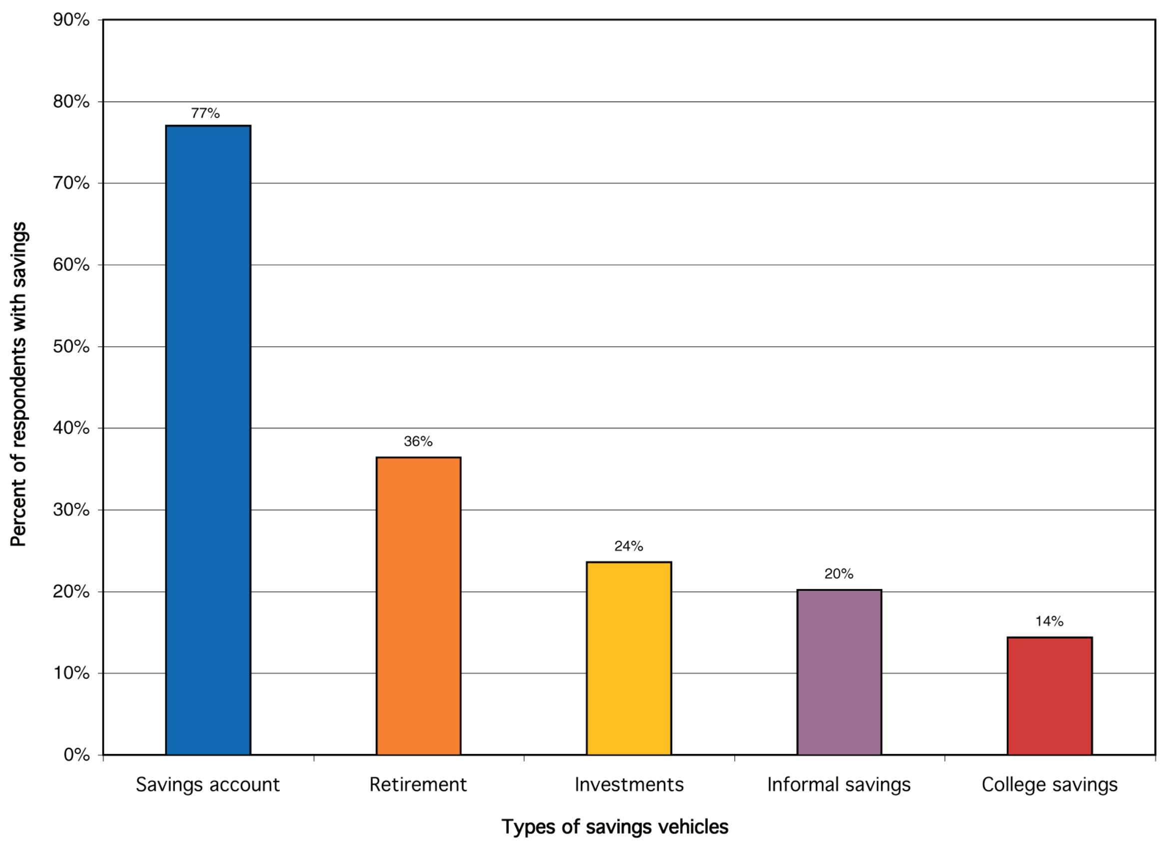


Figure 8 illustrates the types of savings instruments used by residents of Jamaica and Melrose who have savings.[36] As illustrated, savers most commonly reported using basic savings accounts. However, one-third of NFS Study respondents with savings contribute to a retirement savings vehicle and nearly one-quarter have investments such as stocks, bonds, mutual funds, or certificates of deposit. One in five savers reported having informal savings, including mutual savings groups (sometimes referred to as "sou-sous" or "tandas"), at-home savings, and the bank accounts of family or friends. One in eight reported using college savings accounts, such as 529 plans or Coverdell Education Savings Accounts.

Table 9 illustrates the close linkage between holding bank accounts and holding formal savings. Only 4% of those lacking a bank account have any retirement savings; very few have any other formal savings. Among those with bank accounts, however, 31% have a retirement account and 19% have an investment or certificate of deposit.

Table 9. Savings vehicles used by NFS Study respondents with and without bank accounts

	Unbanked	Banked
	N=196	N=444
Retirement	4%	31%
CD/Investment	5%	19%
Individual Development Account	2%	9%
College savings account	3%	12%
Informal savings	15%	12%

Examining savings is important given the link the NFS Study finds to overall financial stability. Individuals who reported being "savers" were considerably less likely than those without savings or those who do not consider themselves "savers" to experience financial instability.[37] Twenty-four percent of "savers" reported being financially unstable, compared to 38% of those who have no savings or do not consider themselves "savers." Moreover, a multivariate logistic regression finds that "saver" households are roughly one-half as likely to experience financial instability, compared to their non-saver counterparts, holding constant income, education, employment, marital status, race, neighborhood of residence, having a bank account, using fringe credit, and having a credit card.[38]

As reflected by the types of savings instruments held by residents with savings, short-term emergencies were more common savings goals than long-term goals. Twenty-eight percent of savers cited emergencies, “a rainy day,” or comfort as the major reasons they save. A home was the next most common savings goal (16%), followed by retirement (13%), children or family members (12%), and “the future” in general (11%).

Income, employment, and education impact residents’ likelihood of having savings, as does receiving cash assistance, filing for the EITC, receiving financial education, and having a mainstream banking relationship.

The NFS Study analyzes savings patterns to better understand who has savings and what factors contribute to their ability to save. Table 10 examines relationships between demographic factors and savings. This analysis reinforces the importance of income: 80% of middle-income households reported having savings, compared to 49% of respondents with incomes less than $20,000. Nevertheless, nearly one-half of those in the lowest-income category have also managed to accumulate formal or informal savings.

Table 10. Percent of the NFS Study sample with savings by demographics

Total respondents with savings	63%
Household income (as a percent):	
Under $20,000	49%*
$20,000–$40,000	68%*
Over $40,000	80%*
Education (as a percent):	
Less than high school	50%*
High school degree	60%*
Some college/trade school	68%*
Bachelor’s degree or higher	83%*
Employment status (as a percent):	
Full time	68%*
Unemployed	45%*
Public benefits (as a percent):	
Cash assistance	41%*
Earned Income Tax Credit	73%*
Financial education (as a percent):	
Had financial education class	75%*
*Indicates significant difference between communities at 95% confidence level based on Pearson chi-square test	

Employment and education are other factors the NFS Study finds associated with savings behavior. Sixty-eight percent of those with full-time jobs reported having savings, compared to 45% of unemployed respondents. Only one-half of those without a high school diploma reported having savings, while 83% of those with a college degree reported savings.

Residents receiving cash assistance were much less likely to report having savings, just as they were less likely to report having a bank account. Limitations on assets, particularly liquid financial assets, might dissuade cash assistance recipients from attempting to accumulate savings.

On the other hand, the study finds a strong positive relationship between receiving the EITC and having savings. Seventy-three percent of EITC-filers reported having savings, compared to 46% of those who do not receive the EITC. Furthermore, regression analysis reveals that financial education and filing for the EITC are statistically significant predictors of having savings, even when controlling for key demographics.[39] Holding constant income, education, work, and other demographic factors, EITC-filers are twice as likely as non-filers to have savings.

Financial education is associated with savings behavior, as well. Seventy-five percent of respondents who reported taking a class, seminar, or workshop about money reported having savings, compared to 55% of those who reported they have never received advice about their finances. Further, the same logistic regression finds that holding all else constant, individuals who have never taken a financial education class, workshop, or seminar are roughly one-half as likely to hold savings, compared to those who have participated in financial education.

Having a banking relationship is also associated with increased savings; 80% of respondents who reported exclusively using banks or credit unions have savings, compared to 32% of respondents who reported exclusively using check cashers. Interestingly, those who have debt are considerably more likely than those without it to have savings; 68% of debt holders have some savings, compared to only 33% of those without debt.

The mismatch in savings products and consumer demand hampers efforts to accumulate savings.

The NFS Study examines the strategies that respondents reported as helping them save. Savings tools identified by focus group members closely mirror the behavioral economics literature and pilot programs that have tested savings incentives in the past.[40]

Pre-Committing to Savings

The NFS Study finds that pre-committing to start saving money, particularly in programs that require opting out, was reported to be a highly effective strategy to help individuals accumulate savings. Focus group participants cited 401(k) plans or automated transfers as appealing savings strategies because funds were deducted before they had a chance to spend the money. Often, focus groups respondents referred to deferred compensation plans as "not counting" as savings because of their ease.

National research supports NFS Study focus group member perceptions that savings automation helps accumulate greater savings. In 2001, Thaler and Benartzi found that pre-committing to automated savings tripled the contribution workers with low incomes made to retirement accounts over three years.[41] In the "Save More Tomorrow" experiment, employees at large companies were invited to increase their contribution to retirement automatically when they received an annual raise. Those who participated increased their contribution from 3.5% of their annual salary to 11.6% without making any additional decisions after joining the program.

Among savings account holders, only one-third of Jamaica residents and less than one-quarter of Melrose residents use electronic automation to make savings easier. Overall, 39% of the sample reported receiving their paycheck via direct deposit and only 16% reported contributing automatically to savings. However, those in Jamaica and Melrose who do take advantage of automation make greater contributions. Respondents with direct deposit reported having $2,120 in their primary savings account, on average, compared to $930 for respondents paid via check or cash. Also notable, respondents who make automatic contributions to their savings accounts have $3,000, on average, compared to $920 in savings for respondents who do not make automatic contributions.[42]

Restricted Access

Focus group members cited restricted access savings vehicles like "holiday clubs" and retirement accounts as examples of effective savings discipline strategies. Two Jamaica focus group members said:

> I've been taking 10% of my check and putting it in a Christmas Club for the first time. It's hard but it's working for me because I'm not able to touch that particular money. The bank said, up front, if you take a dollar out, you have to take it all out…I really wanted to see if I could do it—to pay myself first.

> I have a savings account that I put at the bank, not the credit union, because I had to get to the bank by 4pm to take it out and I couldn't get there. The payroll deduction does help, but only if you can't get at the money.

National research on the American Dream Demonstration Individual Development Account (IDA) program had similar findings. Participants reported that restricted access to their savings accounts helped them save. When asked about the strict withdrawal rules of the IDA program—which involved losing any matching funds received—92% of respondents agreed or strongly agreed that they liked the rules.[43]

Supply-side analysis, however, found few certificate of deposits or club accounts available at local financial institutions with minimum balances below $1,000. Moreover, with only 53% of residents reporting full-time employment, many individuals are unlikely to have deferred compensation packages available at their workplaces.

Increased Financial Incentives

Focus group members agreed that they would be more interested in saving money if they could "grow" their money more effectively. Higher interest rates and matched savings were identified as effective tools for building savings. As one Melrose resident said, "I think you should start getting interest at $300 rather than $500. That would motivate me." A Jamaica resident also noted, "What is it—1 or 2%? That sounds like under my pillow."

Nationally, experiments with matched savings have found that the proportion of individuals willing to save, along with the amount of money diverted to savings, increases dramatically when an increased financial incentive is offered. A 2004 pilot by H&R Block in St. Louis demonstrates the power of a match to increase savings.[44] When given the opportunity to save part of their tax refund in an Express IRA, 3% of filers elected to open accounts with no match, compared to 8% of filers offered a 20% match, and 14% of filers offered a 50% match. Average Express IRA contributions were four times higher with a 20% match and seven times higher with a 50% match.

Supply-side analysis found that the average monthly maintenance fee on a savings account with a $100 balance is $3, if not linked to a checking account. Moreover, 66% of low-balance savings accounts available at financial institutions in Jamaica and Melrose had an interest rate of 1% or less. For those savers with low incomes, bank policies may actually erode savings rather than help accumulate savings.

Credit and Debt

Finding: Even the lowest-income segments of these communities have access to mainstream credit; however, access to mainstream credit does not replace use of fringe credit, despite being costly and a strong predictor of financial instability.

Although historically the chief concern about credit in low-income communities was its lack of availability, credit is now widely used by consumers with low incomes. Seventy-three percent of NFS Study respondents reported accessing some type of credit. The most common types of debt held are non-collaterized: 58% of respondents have credit cards (and 71% of those with credit cards report having a balance); 26% have received a refund anticipation loan; and 24% have student loan debt.

Exploring credit usage reveals some interesting distinctions between neighborhoods in terms of both credit type and source, as illustrated in Figure 9. Melrose residents are more likely than Jamaica residents to use fringe credit providers, particularly pawnbrokers (27%) and rent-to-own stores (16%). Melrose residents are disproportionately more likely to use fringe credit sources, which is consistent with the fact that the density of pawnbrokers in Melrose is five times the city average and Melrose has three times the city average for rent-to-own stores.

Jamaica residents are more likely than Melrose residents to have asset-related loans, such as mortgages and auto loans (19% of Jamaica residents reported having auto loans or mortgages compared to less than 10% in Melrose). Asset-related loans in general and mortgage loans particularly are often associated with greater financial stability. However, Figure 10 reveals that Jamaica has experienced high levels of sub-prime lending and disproportionately high levels of foreclosure actions compared to New York City as a whole. Thus, the greater asset-holding of Jamaica residents does not necessarily translate to overall financial stability.

Figure 9. Percent of respondents holding debt by type and by neighborhood of residence

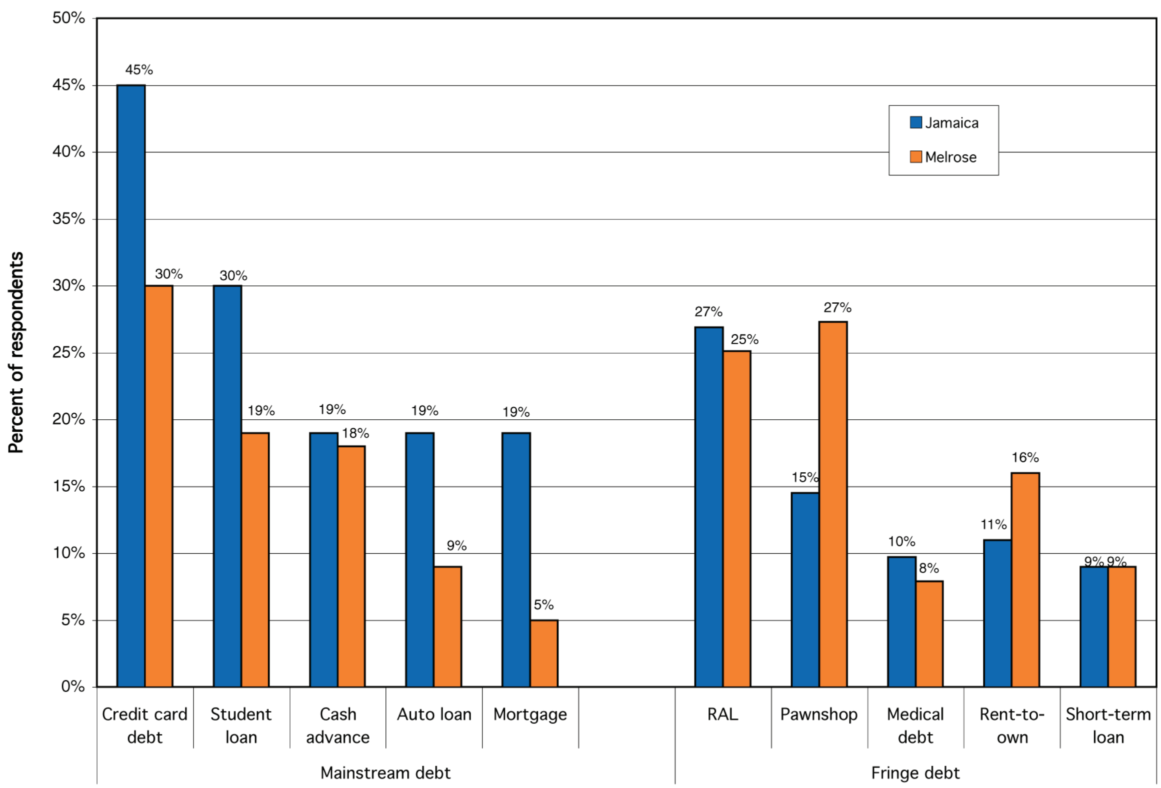
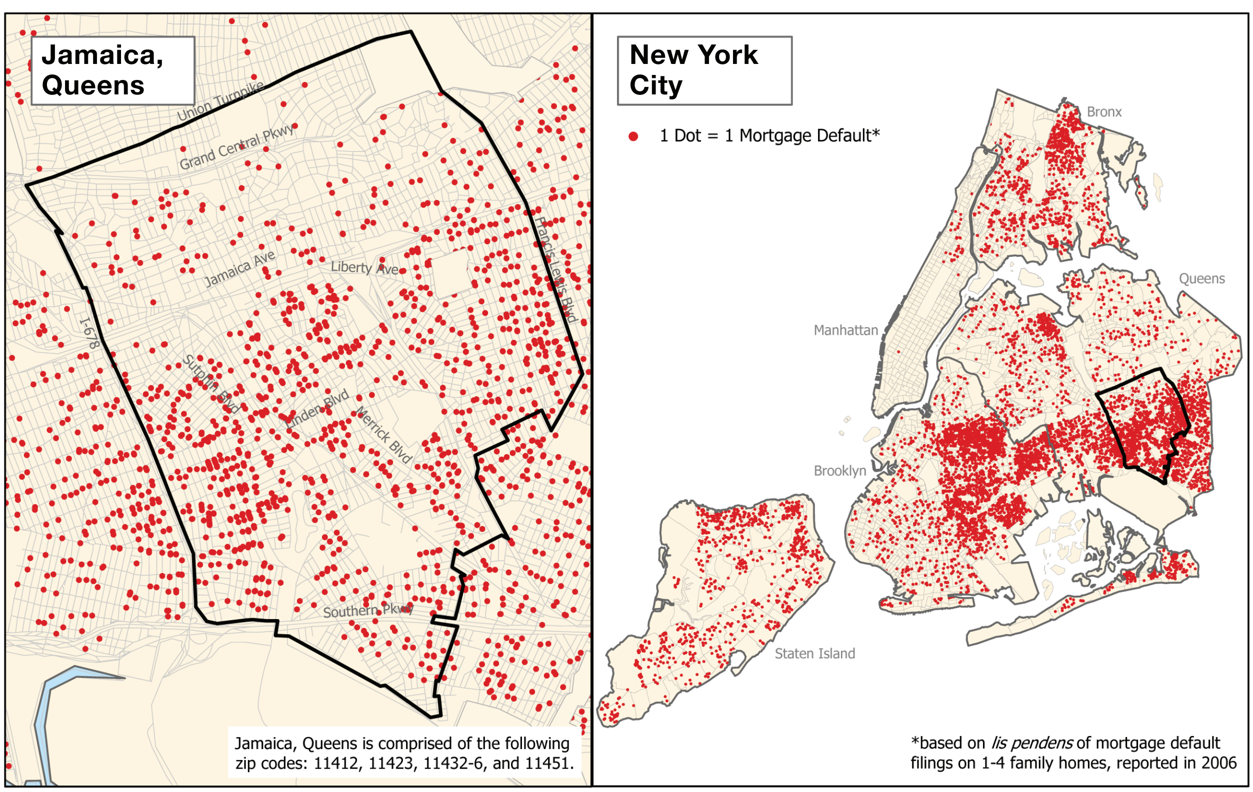


Figure 10. 2006 "pre-foreclosure" *lis pendens* filings of mortgage default in Jamaica and New York City



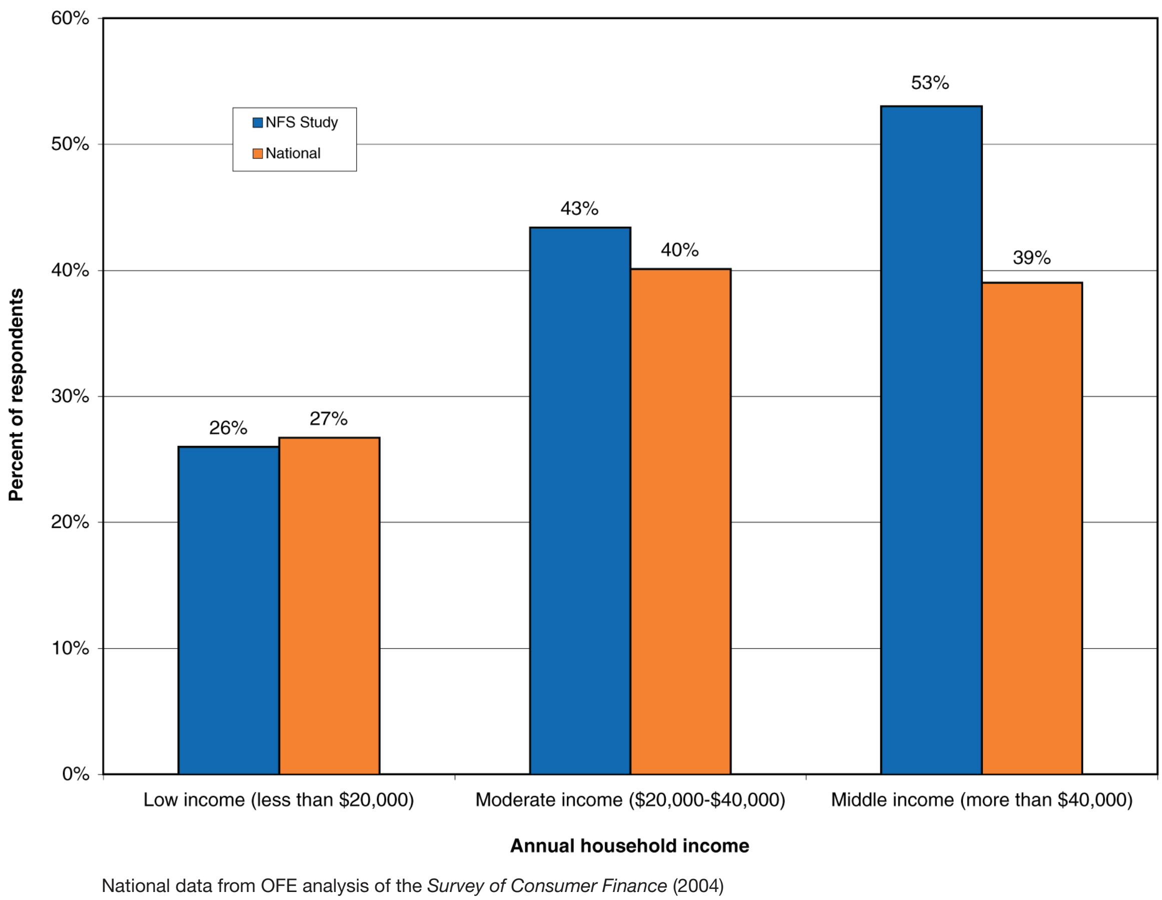
Source: NEDAP

Student loans are common in both neighborhoods, although nearly 50% more common in Jamaica (30%) than in Melrose (19%). Yet, while student loans are typically considered asset-linked debt and associated with higher-earning power, only 22% of Jamaica residents and 10% of Melrose residents hold a Bachelor's Degree, suggesting that many students are accruing debt for Associate's Degrees or trade certifications that typically yield lower-earning power, or not achieving a degree or certificate at all. Given that 36% of residents in these communities were born outside of the United States, many may be ineligible for federally subsidized Stafford Loans which are only available to U.S. citizens. Largely unregulated, private loans have considerably higher rates than federally subsidized loans and offer fewer debt relief options should the borrower encounter financial difficulties.[45]

Consumers demonstrate a high demand for short-term credit; the most common source is credit cards.

Credit cards are the most common source of debt, even among low-income households. Overall, 58% of respondents reported having at least one credit card, and 71% of those respondents reported having a balance. Additionally, 3% of the sample reported no longer having credit cards, but still holding credit card debt. Figure 11 illustrates that the proportion of residents with credit card debt increases with income. For households with an income of less than $40,000 per year, Jamaica and Melrose residents are equally as likely to hold credit card debt as national norms. Those in the higher-income households (above $40,000) are more likely to hold credit card debt than households with incomes of about $40,000 nationally.[46]

Figure 11. Percent of NFS Study respondents and a national sample with credit card debt by income



National data from OFE analysis of the *Survey of Consumer Finance* (2004)

Respondents with household incomes less than $20,000 who reported credit card debt have a balance of approximately $1,500. Respondents with household incomes between $20,000 and $40,000 who hold credit card debt reported an average balance of $1,700 or between 4% and 9% of their annual income. Households with incomes above $40,000 reported an average credit card debt of $2,600. Recent national analysis found credit card debts of 10–20% of annual income among low- to moderate-income households, indicating that respondents in this survey have comparable or even less debt than national counterparts.[47]

Findings suggest that households are using credit cards to cover purchases beyond discretionary consumer items. The 11% of households who have medical debt have an average credit card balance of $5,300, compared to $1,500 for respondents who reported no medical debt.[48] A 2005 national study found similar boosts in credit card debt among those who lack health insurance or had serious medical expenditures in the last year.[49]

Credit card cash advances are a common source of short-term credit; 25% of credit card holders reported using them at least once every few months. The average APR for a credit card cash advance in the United States is 19.44%, which is 62% higher than the standard 12% APR for purchases. Further, cash advances are often structured to be "last paid"—meaning that the credit card debt will have to be paid off in full before interest on the cash advance stops accruing.

Roughly one-quarter of respondents reported receiving a refund anticipation loan (RAL). More striking, 71% of respondents who reported filing for the EITC in the last year obtained a RAL. Marketed as a speedy way to get a tax refund, RALs are loans offered by tax preparers in anticipation of a tax refund. High fees can make the RAL quite costly, minimizing the benefits of a refund; the effective annualized APR for a RAL can range from 40% to 500%.[51] One organization estimates that New Yorkers spent nearly $40 million on RAL fees in 2006.[52]

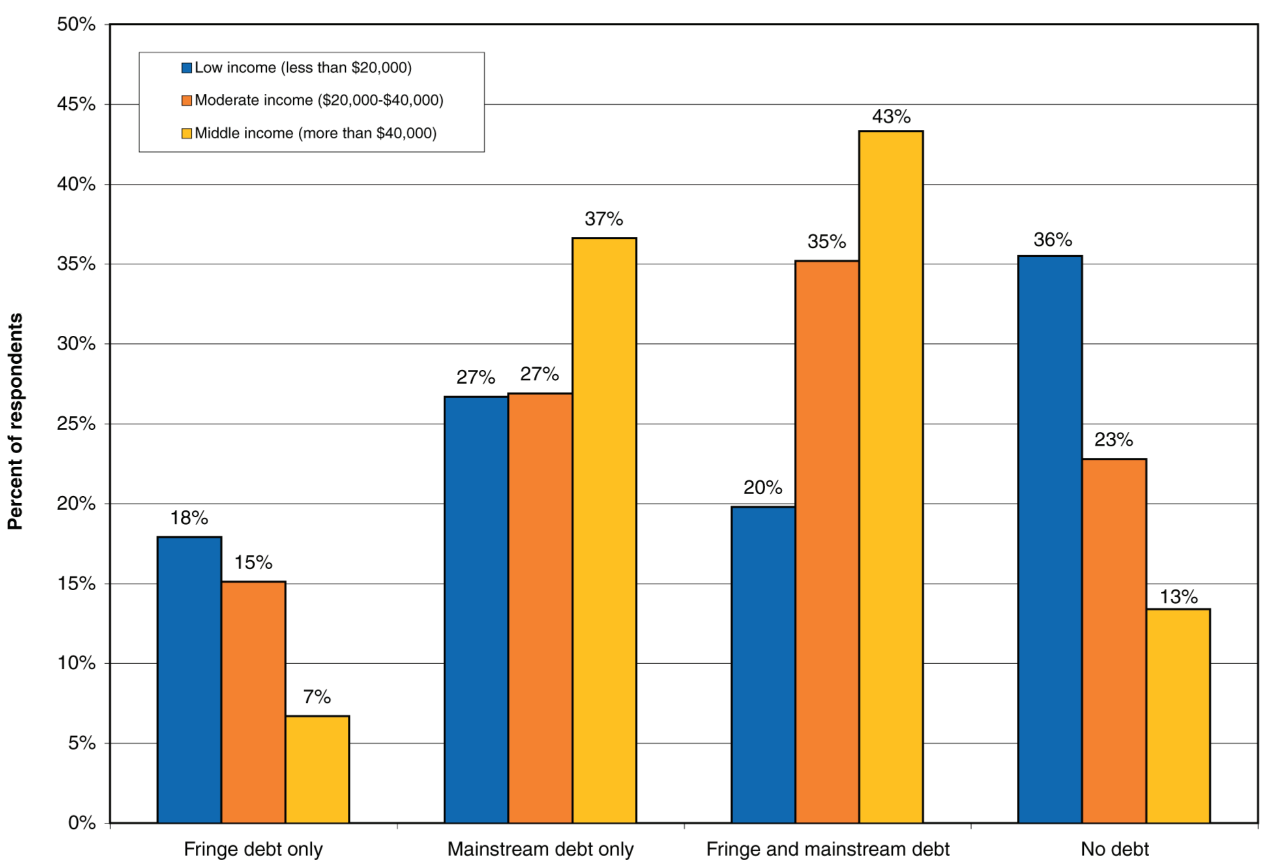
Finally, 9% of NFS Study respondents reported accessing a formal or informal loan with a term of less than one month provided by a friend or family member, Internet or telephone-based business, loan shark, or local business. Although common in other states, "payday" lending—which involves an institution providing a short-term loan based upon paycheck or direct deposit collateral—cannot be offered legally in New York State. Given these restrictions on "payday lending," it is surprising to find similar rates of individuals accessing short-term loans as found in studies of low- and moderate-income communities in states where payday lending is legal.[53] Payday lending is expensive because of the high APRs charged and the ability to roll the loan over repeatedly. Typical payday loans have APRs between 400–1,000% when fees and rollover charges are included.[54]

Despite access to mainstream credit, many residents continue to use fringe credit sources.

Overall, 46% of respondents reported using fringe credit sources, including tax preparers who offer RALs, pawnshops, rent-to-own stores, and short-term "payday" lenders. Similarly, 44% of respondents hold mainstream debt, which includes credit card debt, student loans, auto loans, mortgages, and home equity loans.[55]

As illustrated in Figure 12, most residents use both mainstream and fringe credit. Residents with the lowest incomes are considerably more likely to report exclusive use of fringe credit (18%), or holding no debt (36%), than the higher-income groups. Moderate- and middle-income respondents, however, were more likely to access both types of credit (fringe and mainstream) than mainstream sources alone. In fact, more than four in 10 households in the highest-income category reported using a mix of fringe and mainstream credit sources.

Figure 12. Debt holding by type and household income



Although finance charges at rent-to-own stores can have an effective APR of 130% or more,[56] even individuals with access to mainstream credit reported using rent-to-own stores. Thirteen percent of bank account holders and 12% of residents who have credit cards reported using rent-to-owns. This is notable given the less expensive financing offered by most credit cards; national data indicates that the average APR is 12% for purchases.[57] Even for those who have missed a payment or have paid late, default rates average 27%.[58] Resorting to rent-to-own financing over available mainstream credit sources may indicate either an unmet demand for short- to medium-term credit, a debt-laden subset that must allocate credit to purchases not available through rent-to-own stores, or misconceptions about the costs of rent-to-own store financing.

Few differences exist between those who only use mainstream credit and "crossover" users.

As Table 11 explores, there are important differences in the profiles of those who exclusively use mainstream credit or fringe credit, "crossovers" who use both types of credit, and those who avoid—or lack access to—credit completely. While there are stark differences between people who access mainstream credit and those completely outside of the mainstream, there are few distinguishable demographic differences between exclusively mainstream credit users and those who use both mainstream and fringe credit.

Table 11. Demographic features of credit users by category

	Mainstream and Fringe Debt	Mainstream Debt Only	Fringe Debt Only	No Debt
	N=191	N=182	N=95	N=172
Family (as a percent):				
At least one child under 18	67%	65%	60%	59%
Married/partnered	43%*	34%*	34%*	29%*
Living with 3 or more generations	18%	14%	29%	21%
Age (as a percent):				
Under 26	16%	19%	17%	20%
26–35	33%	25%	33%	25%
36–50	39%	35%	35%	30%
Over 50	12%	20%	16%	26%
Household income (as a percent):				
Under $20,000	28%*	39%*	53%*	58%*
$20,000–$40,000	41%*	33%*	37%*	31%*
Over $40,000	31%*	28%*	10%*	11%*
Employed (as a percent)	80%*	80%*	70%*	53%*
High school degree (as a percent)	87%*	83%*	68%*	65%*
Public benefits (as a percent):				
Cash assistance	17%*	10%*	32%*	28%*
Earned Income Tax Credit	64%*	45%*	41%*	34%*
Ethnicity (as a percent):				
African-American	50%*	52%*	47%*	42%*
Hispanic	36%*	31%*	46%*	45%*
Other	13%*	17%*	7%*	13%*
Foreign-born status (as a percent)	27%	37%	35%	46%
Neighborhood of residence (as a percent):				
Jamaica	53%*	62%*	27%*	40%*
Melrose	47%*	38%*	73%*	60%*

*Indicates significant difference within debt category at 95% confidence level as indicated by Pearson chi-square test

Those using mainstream credit—whether combined with use of fringe credit or not—are more likely to be in the higher income and education groups than those using fringe or no credit; they are also more likely to be employed. Mainstream debt holders are disproportionately more likely to be African-American or "other," while exclusive fringe debt holders are more likely to be Hispanic. All types of debt holders are equally likely to be born in the United States, but those without debt are disproportionately more likely to be born outside of the United States (46%). Fringe debt holders are significantly more likely to receive cash assistance (32%) than other debt holders, but those without debt are also likely to receive cash assistance (28%).

The only clear difference between mainstream credit users who also use fringe credit and those who do not is receipt of the EITC; 45% of "mainstream only" debt holders filed for the EITC, compared to 64% of crossover users. This may be linked to receipt of RALs, which are considered fringe debt and may be targeted to tax filers eligible for the EITC.

Connections to mainstream banking also link individuals to mainstream credit.

Connections to mainstream financial institutions clearly help link people to mainstream credit. As illustrated in Table 12, individuals who currently or formerly held a checking account are significantly more likely to hold mainstream debt exclusively, compared to those who have never had a bank account. Likewise, only 12% of former checking account holders hold fringe debt exclusively, compared to the 27% who have never had a checking account.

Table 12. Types of debt held by checking and savings account holders

	Mainstream and Fringe Debt	Mainstream Debt Only	Fringe Debt Only	No Debt
	N=191	N=182	N=95	N=172
Currently has checking account	34%*	36%*	11%*	19%*
Once had checking account	41%*	20%*	12%*	27%*
Never had checking account	15%*	15%*	27%*	43%*
Has savings account	37%*	31%*	11%*	21%*

*Indicates significant difference between debt categories at 95% confidence level as measured by Pearson chi-square test

While respondents who have some sort of savings are more likely to favor mainstream credit sources or a combination of mainstream and fringe credit rather than relying on fringe credit providers alone, they are also less likely to avoid debt. Among households with savings, only 21% have no debt, while 36% of households with no savings reported no debt. Similarly, among those currently with checking accounts, only 19% have no debt, compared to 43% of individuals who have never had a checking account. This has important implications for asset-building policy: *connecting people to mainstream financial institutions and asset-building opportunities also introduces them to the worlds of credit and debt.*

Use of fringe credit, whether or not it is combined with use of mainstream credit, is strongly associated with financial instability.

Of all NFS Study respondents in Jamaica and Melrose, 34% are financially unstable, defined as being unable to pay rent or utility bills in the past 12 months and reporting they are "short on cash a few days before being paid." The NFS Study data indicates that holding fringe debt is strongly associated with financial instability. Although 42% of residents with exclusively fringe debt and 38% of residents with both fringe and mainstream debt reported being unable to pay rent in the last year, only 28% of those with exclusively mainstream debt and 22% of those with no debt reported facing the same situation.

To better understand the relationship between debt and financial stability, a multivariate logistic regression was conducted controlling for income, education, employment, marital status, race, neighborhood of residence, having a bank account, holding savings, and having a credit card.[59] The findings show that households with fringe debt have roughly three times the odds of being financially unstable, after controlling for all of the aforementioned variables.[60]

Residents recognize the impact debt has on their lives. Nearly 30% of NFS Study respondents reported that they "consider themselves in debt." One in five reported that they are "maxed out on credit cards," and those who say they are "maxed out" have an average credit card debt of $5,600. Nearly one in 10 respondents in the NFS Study reported entering into a debt management plan with a credit counselor, and 6% reported filing for bankruptcy at some point. Moreover, 60% of individuals with debt reported that they worry about their finances, compared to 54% of individuals without debt.

Financial Education

Finding: Financial education is strongly associated with positive financial behaviors, such as being linked to mainstream financial institutions, having savings, and avoiding use of fringe debt. There is no relationship found in the NFS Study, however, between financial education and indicators of overall financial stability.

Community residents have a demonstrated lack of financial knowledge; although it is comparable to national norms.

Jamaica and Melrose residents hold fairly widespread misconceptions about the structure of financial products and services provided by financial institutions, although their overall level of knowledge is similar to that of the United States as a whole. Forty-two percent of NFS respondents believe their bank will call if they have insufficient funds or overdraw their account, and 48% believe a credit repair agency can remove valid, negative information from their credit report.

> **True/False**
>
> 1. Your bank will usually call you if you have insufficient funds or overdraw your account. (42% answer true incorrectly)
>
> 2. A credit repair agency can remove negative information from your credit report. (48% answer true incorrectly)

The NFS Study survey asked two financial knowledge questions taken from a 2004 national study conducted by the Federal Reserve.[61] Jamaica and Melrose residents nearly match the national norms for correct responses to Question 1; 48% of Americans responded incorrectly compared to 42% of Jamaica and Melrose respondents. Interestingly, bank account holders were no more likely to respond correctly than non-account holders, implying that achieving access to mainstream financial products might not in itself increase financial knowledge. On Question 2, Melrose and Jamaica residents were considerably more likely to respond correctly than the average American; only 30% of Americans responded correctly compared to 52% of respondents in the NFS Study.

Overall, however, less than one-quarter (23%) of NFS participants responded correctly to both questions. Notably, those who reported taking a class, seminar, or workshop about money were slightly more likely to answer both questions correctly than those who have never taken a class, seminar, or workshop about money (25% versus 22%), although the difference is not statistically significant.

Few residents in Jamaica and Melrose have accessed financial education, and financial decisions made by residents are often not based on any advice at all.

As shown in Figure 13, 54% of respondents chose friends and family as teaching them the most about money, while 40% reported that "no one" taught them about money. Only 5% of survey respondents chose school. These patterns hold across age groups, gender, race, and income lines.

Focus group members who spoke about positive financial behaviors generally referred to values instilled by their parents. Said one Melrose focus group member:

> One of the main things about growing up in my mother's house is that she always taught us about savings. She would have things budgeted into the next year. She was always serious about savings. If you have savings and you fall down, you have something to fall on…I do the same thing today. We budget out everything.

Family is ranked as the most trusted source of information to help make financial decisions, with 47% of respondents ranking "family" as a 4 or 5 on a scale of 1–5 (5 indicating most trusted). Media outlets are the least-trusted sources; television, radio, newspapers, and the Internet all had roughly one-quarter of respondents labeling them as "trusted." Although many people express distrust for banks in other ways, banks and churches shared second place as trusted sources of financial advice, with 40% of residents labeling each as a 4 or 5.

According to one Melrose focus group member, banks would be better sources of information than friends or family:

> I go to the bank and there are some people you can go and talk to. I would go to them rather than friends or other people. They might not know. I can sit and discuss money in a group but when I really want to know I would sit and talk to a banker.

To determine effective strategies for attracting people to financial education, the NFS Study examines how individuals who have attended financial education heard about the class, seminar, or workshop. A beta weight analysis conducted

Figure 13. How NFS Study respondents learned the most about money

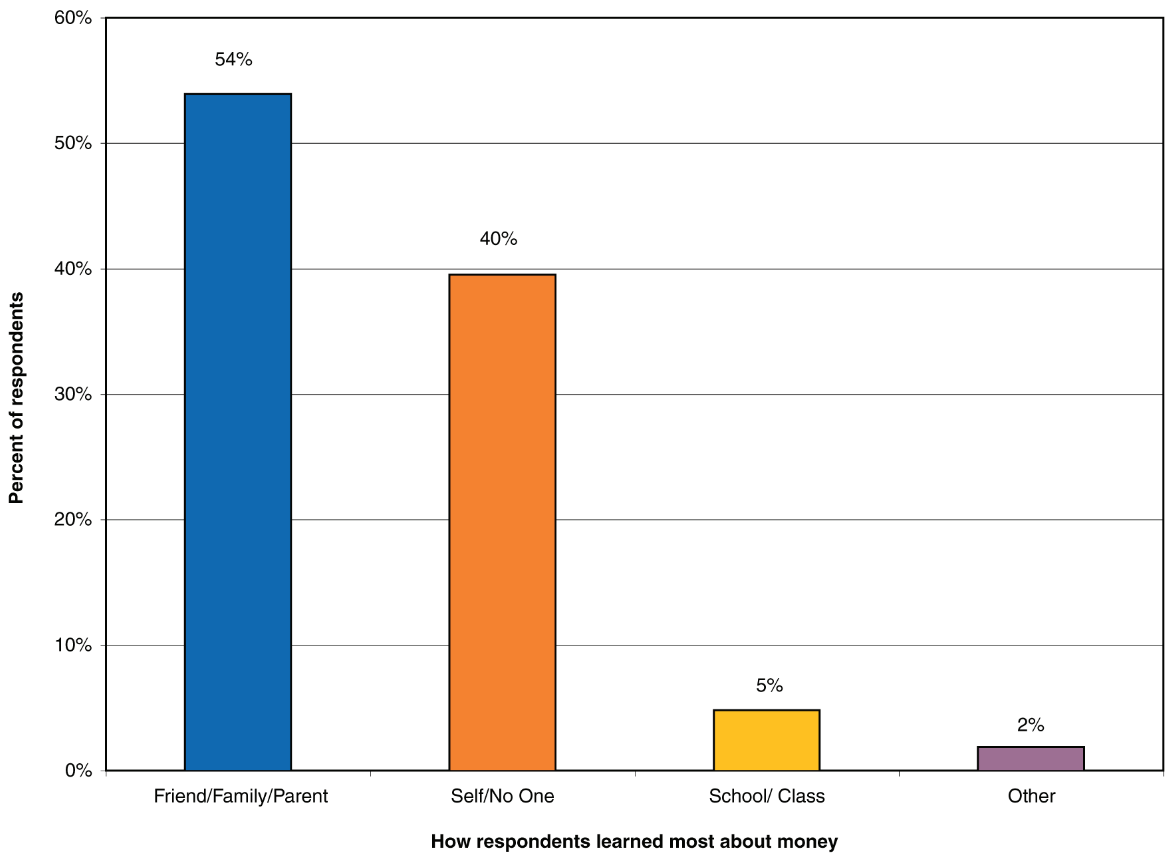


Table 13. Percent who have taken financial education by demographics

	Has Taken Class	Has Not Taken Class
	N=173	N=434
Household income (as a percent):		
Under $20,000	32%*	48%*
$20,000–$40,000	37%*	34%*
Over $40,000	32%*	18%*
Employment status (as a percent):		
Full time	62%*	48%*
Part time	17%*	21%*
Unemployed	8%*	13%*
Marital status (as a percent):		
Married/partnered	40%	34%
Single/divorced/separated	60%	66%
Ethnicity (as a percent):		
Hispanic	29%*	43%*
African-American	57%*	45%*
Other	14%*	13%*
*Indicates a significant difference between demographics of those who have taken a financial education class compared to those who have not		
Percentages have been rounded to the nearest number		

by New England Market Research indicates that friends and family are the best referral source; 35% of respondents who heard about a class from friends or family actually attended. Of individuals who heard about the class from a bank, credit union, or community group, only 20% actually attended. TV, radio, and church were the poorest referral sources, which is surprising given the high level of trust respondents reported having for religious institutions when seeking financial advice.

While they may appreciate its value, few Melrose and Jamaica residents reported receiving formal financial advice from a planner, financial institution, nonprofit, or government agency. Overall, 29% of individuals reported attending a class, seminar, or workshop about money. As illustrated in Table 13, these individuals are more likely to be higher income and work full-time, compared to those who have not taken a financial education class, seminar, or workshop.

Little is known about the duration or quality of financial education classes respondents reported attending, but the most common topics covered are budgeting, buying a home, and starting a business. Only 37% of respondents who have taken a class, seminar, or workshop reported that it covered credit, compared to 50% who reported taking a class about budgeting. Yet the NFS Study finds a strong relationship between debt—particularly from fringe sources—and financial instability. Given the high proportion of households with debt found in the NFS Study, it is unsurprising that focus group respondents expressed concerns with the level of knowledge and comprehension needed to avoid credit pitfalls, and encouraged greater education about credit products. In the words of two Jamaica residents:

> You need not just a dictionary but a legal dictionary to understand what they're talking about. I'm reading seven paragraphs to find out what the first paragraph should have just told me.
>
> The fine print is never that clear cut. It's when you make a mistake and then you have it stamped in your memory. Every time you do something you learn. They never tell you up front, "Well, there's a potential you'll get a charge if you do this." You always have to go through a problem to find a solution.

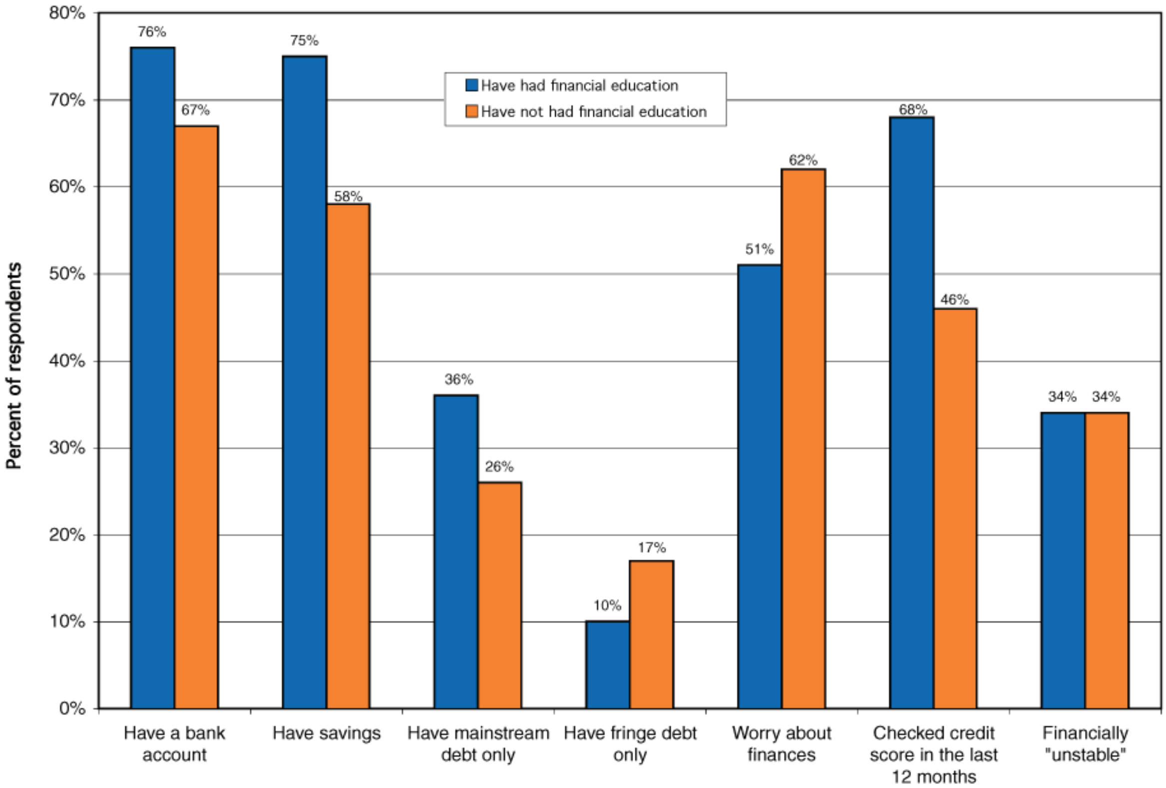
Financial education is associated with positive financial behaviors, such as banking, having savings, and avoiding use of fringe debt, but the NFS Study finds no association with overall financial stability.

Figure 14 shows that respondents who reported taking financial education exhibit greater usage of mainstream financial services and demonstrate positive financial behaviors. Respondents who reported receiving some kind of financial education are more likely than respondents who did not to have a bank account, to hold savings, and to check their credit score. Fully 75% of respondents who have taken financial education have savings, compared to 58% of those who have not; moreover, the average savings account balance is $700 higher for respondents who have taken financial education.[62] Seventy-six percent of those who have taken a class, seminar, or workshop about money currently have a bank account, compared to 67% of those who have not. In addition, respondents who reported taking financial education are less worried about their finances, an indicator of financial stability and control.

Attending a financial education class is also an important determinant of what kind of debt a household holds, as illustrated in Figure 14. Those who reported taking financial education are more likely than those who have not to hold mainstream debt, and less likely to hold fringe debt, although it is less likely to be high-cost fringe debt. Respondents who have taken a financial education class are more likely than those who have not to hold some debt (83% versus 70%).

As Figure 14 illustrates, NFS Study analysis finds no relationship between financial stability—measured by inability to pay rent or utilities in the last 12 months and reporting that one is "short on cash a few days before being paid"—and taking a class, seminar, or workshop about money. These findings may indicate that financial education is most effective for households with consistent, stable incomes or that financial education offerings are more focused on basic banking and savings than credit issues, which may have a greater impact on financial stability. It is important to note, however, that a static survey like this one is not intended to replace rigorous and thoughtful evaluation of financial education programs. The lack of conclusive evidence about the relationship between financial education and financial stability in the NFS Study is evidence of the need for evaluation and data collection to determine the full impact of financial education services.

Figure 14. Financial behaviors of respondents who have and have not attended a financial education class, seminar, or workshop



V. Gap-Closing Opportunities

The NFS Study findings identify multiple opportunities for mainstream financial institutions to engage markets they have missed while, at the same time, benefiting residents with low and moderate incomes. The continuum in Figure 15 posits such products as they would intersect with relevant populations. Transactional, savings, and credit products are coordinated to the product and service demands of households as they progress from financial instability to stability, and the legend identifies the size of those market segments in the two communities. At the left, the continuum begins with unbanked households with no formal credit history or savings. Moving to the right, products address families' demand for reducing the costs associated with everyday financial services, managing their debt, and building assets.

Basic Banking Services

As the NFS Study demonstrates, current checking products do not meet the needs of many consumers with low and moderate incomes. Consumers are avoiding banking relationships that might protect their earnings, facilitate savings, and build assets, while financial institutions are missing out on a market that is currently spending more than $225 million per year across New York City on check cashing fees alone.[63] Additionally, since NFS Study respondents have lived in their communities an average of 17 years, financial institutions may also be missing out on a long-term and loyal customer base.

The continuum outlined in Figure 15 suggests the range of basic banking products that could connect to residents who have never held an account before or those who have closed accounts. In Jamaica and Melrose, approximately 90,000 individuals (25%) have never held a checking account before. An additional 47,000 (13%) lack a checking account currently but have previously held one. A no-fee, limited functionality starter account could allow consumers less expensive access to cash without exposing them to costly overdraft fees. A basic account would be linked only to an ATM card rather than a debit card in order to minimize the account management requirements, and would not pay out overdrafts.

Beyond starter accounts, banks could explore enhanced checking accounts with features tailored to meet the unique demand of consumers with low incomes. An enhanced checking product could be marketed to two major sectors of low-income communities: the most "bankable" who remain unbanked (54,000 unbanked residents—or 15%—in Jamaica and Melrose with full-time jobs and incomes over $20,000); and the "crossover" population (184,000 residents—or 51%—who currently have checking or savings accounts but rely on check cashers for some or most of their financial transactions). This market has steady income, although 61% are receiving paychecks by check or cash, and 53% are unable to use personal checks for bill payments. An enhanced checking product which offers competitively priced money orders, free checking linked to qualifications other than direct deposit, or overdraft lines of credit rather than "bounce protection" could draw tens of thousands of additional people into banking in these two communities and ensure currently underbanked consumers take better advantage of banking relationships.

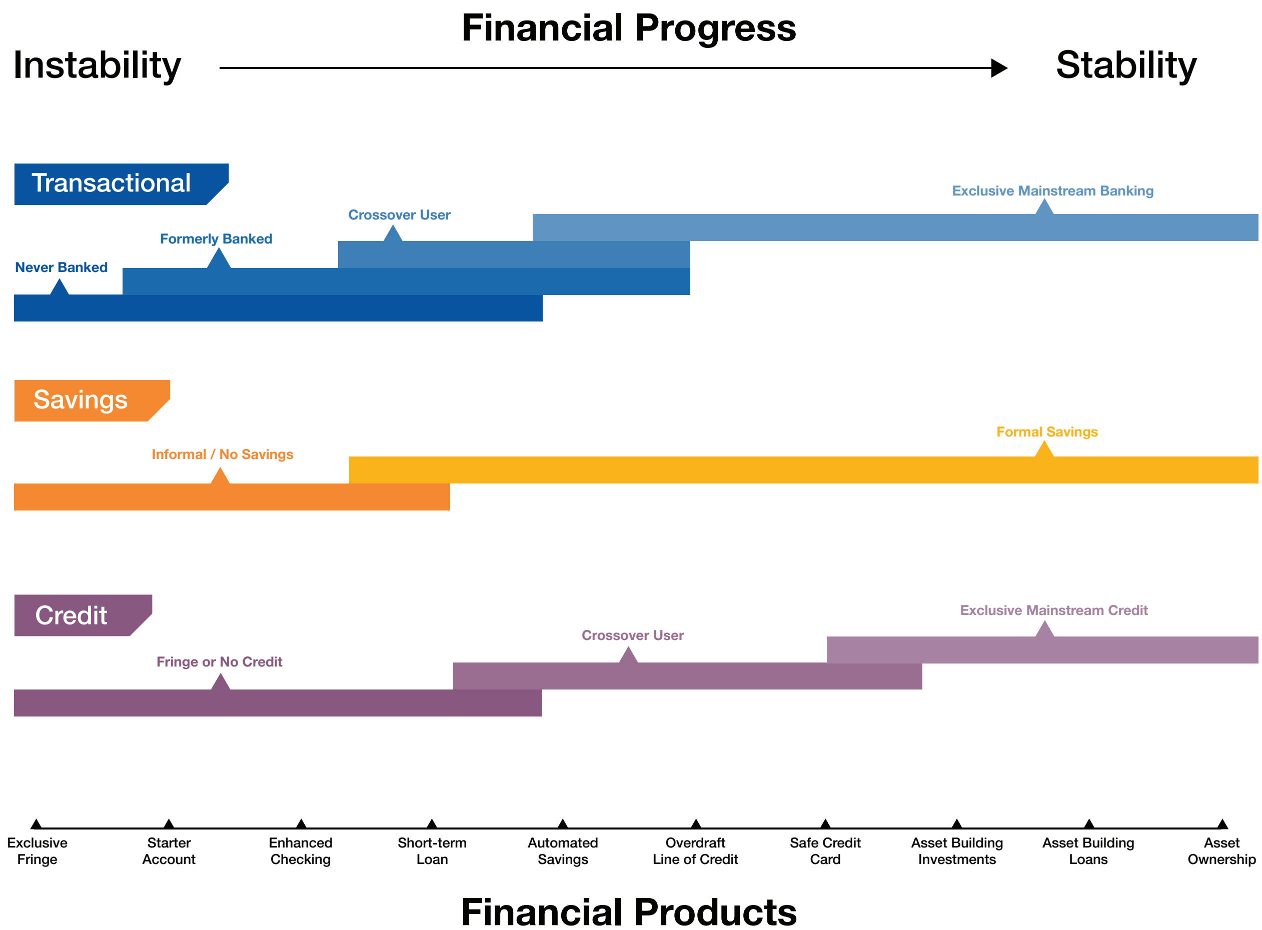
Discomfort with financial institutions and inconvenient hours at financial institution branches were also identified as barriers for those looking to enter the mainstream financial system. Identifying strategic opportunities where information is collected and payments are arranged could facilitate account opening outside of bank branches, removing the initial hurdle of walking in the door. Through the use of innovative technology and partnerships, banks and credit unions could establish a strategic network of community organizations, human resources offices, or public facilities that could host remote enrollment sessions, while still adhering to federal "Know Your Customer" regulations. Clarifying inconsistent and unclear identification requirements at bank branches could also help the 20% of "never banked" NFS Study respondents who cited lack of appropriate identification as a major barrier to banking.

Savings

Although many of the low-income households in the NFS Study demonstrate considerable propensity to save, the products available to them make accumulating savings challenging. Few high-yield, restricted accounts with automated contributions are available to individuals with low initial contributions. In fact, the NFS Study's supply-side analysis indicates that most savings accounts available to low-balance savers in these neighborhoods have fees greater than their generated interest, meaning these accounts may actually erode savings rather than help accumulate savings.

Given this study's finding that EITC-filers are 30% more likely to hold savings than non EITC-filers, there is a strong reason to leverage the moment filers learn they will receive an EITC refund into an opportunity to help them start building savings. Combining the ability to receive a split refund with the right type of high-yield product and automatic or easy enrollment could greatly increase the savings levels of EITC-filers.

Figure 15. Continuum of financial products



Target Population	Definition	% of NFS Sample / Population Projection for Jamaica and Melrose
Never Banked	Never had a checking account	25% / 90,000 residents
Formerly Banked	Currently do not hold a checking account but once did	13% / 47,000 residents
Crossover User	Current bank account holders who use fringe providers to remit money or purchase money orders	51% / 184,000 residents
Exclusive Mainstream Banking	Exclusive mainstream banking use	24% / 87,000 residents
Informal/No Savings	Exclusively informal savings or no savings	47% / 166,000 residents
Formal Savers	Formal savings such as a bank account with a balance or retirement account	53% / 195,000 residents
Fringe or No Credit	Exclusive fringe credit or no reported debt	42% / 152,000 residents
Crossover User	Fringe and mainstream credit use	30% / 108,000 residents
Exclusive Mainstream Credit	Exclusive mainstream credit use	28% / 101,000 residents

Mainstream financial institutions share with consumers an interest to maximize long-term deposits. Innovative products offered through mainstream financial institutions are already encouraging informal or infrequent savers to transition to formal products by promoting "easy savings" programs. Opportunities in which leftover change from an account holder's purchases is deposited into a savings account or a "sweeper account" to facilitate funds being moved quickly and easily between checking and savings accounts could help facilitate savings for small account holders. Yet, few of these high-yield, restricted access accounts are geared toward customers with low balances and small, regular deposits. Higher-yield certificates of deposit with low or no minimum balance, matched savings experiments, and targeted outreach to encourage purchasing treasury bonds could all be low-risk strategies for "growing" money while protecting it from everyday use.

Credit

Consumers demonstrate a demand for short-term credit, although few inexpensive options exist for them. An estimated 9% of Jamaica and Melrose residents (totaling 33,000) reported getting short-term, payday-type loans, while 25%, or a total of 90,000 residents, access credit through pawnshops or rent-to-owns at least a few times per year. Short-term loans, such as credit repair or builder loans, could help consumers consolidate high-cost debt into a much lower-cost, regular payment vehicle or help consumers who rely exclusively on fringe credit establish a credit record. Small-dollar loans could replace informal or illegal payday-type lending or reliance on credit card cash advances. And, a safe credit card, with credit limits linked to a borrower's ability to pay and reasonable interest rates that do not change based on penalties, could help low- and moderate-income families weather income and expense fluctuations without jeopardizing their financial future.

In reaching this underserved market with credit products and services, the presence of strong consumer protections can have a tremendous impact not only in securing the safety of those with low incomes but on the safety of the industry. As evidenced by the crisis in the sub-prime mortgage industry, a lack of clear and responsible lending guidelines can both undermine a borrower's financial stability and the broader economy simultaneously. Reinforcing clear underwriting guidelines that are fundamentally linked to a borrower's capacity to repay the debt obligation is critical to both family stability and economic well-being. Moreover, there is a demonstrated need for greater clarity in the terms and conditions of credit products, which could be alleviated by stronger and clearer disclosures in the primary language of the borrower. Preventing unilateral changes in the terms of credit agreements in ways not previously disclosed to borrowers could also provide greater control to borrowers over their repayment and budget.

Financial Education

The complexity of today's financial products, especially credit products, requires a high degree of financial sophistication and knowledge. This study finds strong associations between financial education and positive financial behaviors, such as having a bank account, building formal savings, and accessing mainstream credit. Yet, as the research shows, less than one in three individuals have actually attended financial education classes or received one-on-one counseling. Efforts to maximize the availability and quality of financial education classes and counseling will help New Yorkers with low incomes make informed choices to move them toward positive financial behaviors, such as creating or bolstering relationships to mainstream financial institutions and starting to save.

Separate research conducted by OFE on the delivery of financial education in New York City has shown that there are serious limitations on the capacity of services offered. While New York City boasts numerous community organizations and government programs providing some financial education, the consistency of delivery is inconsistent. Many providers report that they are operating at or beyond their capacity levels and that funds are limited and uncertain. Given that financial education has a demonstrable impact on savings behaviors, but the general population is relatively unaware of these services, there seems a clear opportunity for resources to be targeted more strategically to enhance public access to financial education and to build the field of providers.

Additional Research

This in-depth examination of two neighborhoods illuminates a need to gather this type of information on basic banking, savings, credit, and financial education behaviors and needs at the city level. Citywide research would enable financial institutions, policymakers, and financial education providers to estimate the size of missed market opportunities and better understand the scope of the problems the Department of Consumer Affairs' Office of Financial Empowerment (OFE) is intended to address. OFE expects to conduct a citywide survey in summer 2008 to gain reliable data on the number of people lacking bank accounts, overall savings accumulated in low-income neighborhoods, and the levels of—and cost of—debt held by low- and moderate-income households. New York City will also engage other municipalities in this research effort, beginning with the Cities for Financial Empowerment (CFE), a coalition of municipal governments dedicated to advancing innovative financial empowerment initiatives, to compare and aggregate findings across the United States.

Endnotes

[1] Total check cashing fees are estimated using the percent of respondents reporting check cashing usage by income for each neighborhood, and applied to the household population for that income group from the 2000 Census, adjusting for the proportion of the population that receives public assistance, which is distributed via a stored value card. We assume that those who visit check cashers weekly incur fees of 1.7% (New York State maximum as of March 1, 2007) on 100% of their gross income; those who visit monthly incur fees on 50% of their income. We do not include any costs for those that visit check cashers once every few months.
[2] Average savings reported is 5% trimmed means. Trimmed means are used throughout the NFS Study to eliminate outliers.
[3] The 16% of respondents who make automated contributions to savings also have higher incomes. On average, the household income for a respondent making automatic contributions is $37,000, compared to $19,000 for those who do not.
[4] Barr, M. (2007). Financial services for low- and moderate-income households. National Poverty Center Conference on Access, Assets, and Poverty.
[5] OFE analysis of data provided by the New York State Banking Department, February 7, 2008. Summary statistics can be found in Neiman, R. (2007). Report and recommendation to the governor pursuant to banking department study regarding geographic and fee restrictions imposed on locations used primarily for the cashing of checks, New York State Banking Department.
[6] Bucks, B., Kennickell A., & Moore, K. (2006). Recent changes in U.S. family finances: evidence from the 2001 and 2004 Survey of Consumer Finance. Federal Reserve Bulletin, 92, A1-A38.
[7] See Seidman, E. et al. (2005). A financial services survey of low- and moderate-income households. Center for Financial Services Innovation at ShoreBank (30% of low-income households in Washington DC, Los Angeles, and Chicago are unbanked); Barr, M. (2007). Financial services for low- and moderate-income households. National Poverty Center Conference on Access, Assets, and Poverty (29% of residents in the Detroit area low-, moderate-, and middle-income neighborhoods lack a bank account); Dunham, C. R. (2001/April). The role of banks and non-banks in serving low- and moderate-income communities. A Federal Reserve System Community Affairs Research Conference. Changing Financial Markets and Community Development (42% of households in low- to moderate-income communities in New York and 35% in Los Angeles were unbanked in 1998).
[8] Barr, M. (2004). Banking the poor: policies to bring low-income Americans into the financial mainstream. The Brookings Institution.
[9] Fellowes, M. (2006). The high cost of being poor: reducing the cost of living for working families. National Community Tax Coalition Annual Conference. Brookings Institution Press.
[10] Mann, R. (2007). Credit cards for the poor. National Poverty Center Conference on Access, Assets, and Poverty.
[11] Nationwide foreclosure rate nearly doubled between October 2006 and October 2007, according to a November 2007 article, found at: www.realtytrac.com. In New York City, pre-foreclosure filings more than doubled between 2005 and 2007. Data can be found in (2007). New York City Council Hearing of the Committees on Housing and Buildings and Consumer Affairs.
[12] (2005). The reality behind debt in America: The Plastic Safety Net. Demos and Center for Responsible Lending.
[13] Mann, R. (2007). Credit cards for the poor. National Poverty Center Conference on Access, Assets, and Poverty.
[14] Consumer bankruptcy filings. (2008). Wall Street Journal, A4
[15] Inability to pay rent in the last 12 months and inability to pay utilities in the last 12 months are highly correlated (coefficient of .634). A total of 154 individuals reported being unable to pay utilities in the last 12 months; 166 were unable to pay rent and 208 were unable to pay either utilities or rent in the last 12 months and reported they were short on cash a few days before being paid. (39 respondents did not answer at least one of those questions; thus, the dominator for this combined variable is 601)
[16] Testimony of the Department of Housing Preservation and Development. (2007). City Council Hearing of the Committees on Housing and Buildings and Consumer Affairs.
[17] This calculation includes banks and credit unions.
[18] Fellowes, M. & Mabanta, M. (2008/January). Banking on wealth: America's new retail banking infrastructure and its wealth-building potential. A Research Brief for the Metropolitan Policy Program at Brookings.
[19] Ibid
[20] Ibid
[21] Barr M. (2007). Financial services for low- and moderate-income households. National Poverty Center Conference on Access, Assets, and Poverty.
[22] The maximum check cashing fee in New York State as of March 2, 2007 is 1.7%. A household with a household income of $25,000 after taxes would pay approximately $425 per year to cash all paychecks.
[23] Total check cashing fees are estimated using the percent of respondents reporting check cashing usage by income for each neighborhood, and applied to the household population for that income group from the 2000 Census, adjusting for the proportion of the population that receives public assistance, which is distributed via a stored value card. We assume that those who visit check cashers weekly incur fees of 1.7% (New York State maximum as of March 1, 2007) on 100% of their gross income; those who visit monthly incur fees on 50% of their income. We do not include any costs for those that visit check cashers once every few months.
[24] OFE analysis of data provided by the New York State Banking Department, February 7, 2008. Summary statistics can be found in Neiman, R. (2007). Report and recommendation to the governor pursuant to banking department study regarding geographic and fee restrictions imposed on locations used primarily for the cashing of checks, New York State Banking Department.
[25] See Appendix F for regression table.
[26] This analysis examines differences within underserved neighborhoods; every zip code in the NFS Study has less than the national average of 3.2 banks per 10,000. The value of branch access as a predictor of mainstream financial use may be more important at greater levels of branch density. Another explanation is that residents may bank at work or outside of their own zip code, especially in a city like New York, where public transportation makes it easy to travel between neighborhoods.
[27] See regression table in Appendix J.
[28] Reasons cited by the unbanked for avoiding a banking relationship are: Fees (38%), Comfort (34%); Not having sufficient money for opening or minimum balance (28%); Avoiding creditors (21%); Lack of identification (17%); Location (16%); Other (14%); Hours (13%); Difficult to access money (11%); Staff doesn't speak primary language (8%). Respondents were allowed to choose more than one answer; in total, 173 unbanked respondents gave 322 responses.
[29] Barr M. (2007). Financial services for low- and moderate-income households. National Poverty Center Conference on Access, Assets, and Poverty.
[30] See Appendix H for regression table.
[31] See Appendix J for regression table.
[32] Informal savings refers to mutual savings groups, at-home savings, or saving in a friend or family's bank account. Formal savings includes savings accounts, retirement accounts, investments, certificates of deposit, college savings accounts, and Individual Development Accounts (IDA). A household is considered to have savings if they report a non-zero balance in primary savings (including informal savings) or report holding any retirement, investment, college savings, or IDAs.
[33] "Saver" is defined as an individual with some savings that reported "I consider myself a saver." Countable savings includes a non-zero savings account balance, reported informal savings, or holding a formal financial asset, such as a certificate of deposit, mutual fund, retirement account, etc. "Savers" account for 27% of the total sample.

[34] OFE analysis of the Survey of Consumer Finance, 2004.
[35] (2008) "Cost of living index," Council for Community and Economic Research from www.coli.org as of May 27, 2008.
[36] Savings instrument use does not total 100% because individual residents with savings can report multiple types of savings. The number of individuals with savings is 401.
[37] Financially unstable is defined an individual who reported being unable to pay rent or utilities in the last 12 months and agrees with the statement "I am short on cash a few days before being paid."
[38] See Appendix L for regression table.
[39] See Appendix K for regression table.
[40] Thaler, R. & Benartzi, S. (2004). Save more tomorrow: using behavioral economics to increase employee savings. Journal of Political Economy, 112(1), S164-S187.
[41] Ibid.
[42] Respondents with direct deposit or automatic savings also have higher incomes. The average income for the 16% of respondents who make automated contributions to savings is $37,000, compared to $19,000 for those who do not. Average incomes for the 28% of respondents who are paid via direct deposit is $27,000, compared to $20,000 for those who are not.
[43] A. Moore et al. (2001/ January). Saving, IDA programs, and effects of IDAs: a survey of participants. Center for Social Development, Washington University in St. Louis. Research Report.
[44] Duflo et al. (2005/ October). Saving incentives for low- and middle-income families: evidence from a field experiment with H&R Block. NBER Working Paper, W11680.
[45] Loonin, Deanne and Cohen, Alys, "Paying the price: the high cost of student loans and dangers for student borrowers." (2008) National Consumer Law Center.
[46] Several researchers have found consistent under-reporting of "unsavory" behaviors in the Survey of Consumer Finance; this may imply that national numbers reported for those with credit card debt are somewhat lower than reality. For more information see Mann, R. J. (2006). Charging ahead: the growth and regulation of payment markets around the world, Cambridge University Press and Zinmann, J. (2007) Where is the missing credit card debt? Clues and implications. Working Paper.
[47] Mann, R. (2007). Credit cards for the poor. National Poverty Center Conference on Access, Assets, and Poverty.
[48] Average debt is 5% trimmed means and includes only the 33 individuals with medical debt who also reported their credit card balance.
[49] Demos and Center for Responsible Lending. (2005). The reality behind debt in America. The Plastic Safety Net.
[50] Data provided by U.S. Citizens for Fair Credit Card Terms, Inc. Retrieved February 27, 2008 from www.cardratings.com
[51] One step forward, one step back: progress seen in efforts against high priced loans, but even more abusive products introduced. (2007) National Consumer Law Center.
[52] Children's Defense Fund. Halting the loss of billions of dollars in Earned Income Tax Credit benefits. Policy Report, March 2008.
[53] See Barr, M. (2007). Financial services for low- and moderate-income households. National Poverty Center Conference on Access, Assets, and Poverty. (6% of low- and moderate-income workers reported applying for a formal payday loan in the last 12 months); North Carolina consumers after payday lending: attitudes and experiences with credit options. (2007/November). Center for Community Capital, University of North Carolina. Prepared for the North Carolina Commissioner of Banks (8% of residents with low incomes surveyed in three metropolitan areas had taken out a payday loan in the last three years).
[54] Stegman, M. (2007). Payday lending, Journal of Economic Perspectives, 21, 169-190.
[55] "Mainstream" debt does not imply prime loan pricing. This study does not address loan costs and cannot differentiate between prime and sub-prime pricing within mainstream credit products.
[56] Analysis of rent-to-own prices in New York City based on "Kick-Off to a Rip-Off: Loose Laws Lead to Inflated Prices for Rent-to-Own Consumers," City Council Media Release, City of New York, January 27, 2007.
[57] Credit card interest rate data from www.cardratings.com as of 2/27/08.
[58] Credit card interest rate data from www.cardratings.com as of 2/27/08.
[59] See Appendix L for regression table.
[60] Other significant variables predicting "financial instability" are: lacking a high school education, household income below $40,000, children in the households
[61] Hogarth, J. (2004). Are families who use e-banking better financial managers? The Journal of the Association for Financial Counseling and Planning Education, 15(2).
[62] 5% trimmed means; $2,000 for non-financial education, $2,700 for financial education
[63] Neiman, R. (2007). Report and recommendation to the governor pursuant to banking department study regarding geographic and fee restrictions imposed on locations used primarily for the cashing of checks, New York State Banking Department.

Appendix A: NYC Department of Consumer Affairs' Office of Financial Empowerment Financial Needs Survey

NYC Department of Consumer Affairs' Office of Financial Empowerment
Financial Needs Survey

Date ________ **Time**_________ **Surveyor#** __________ **Zip** ___________

Gender ❒ male ❒ female

How many years have you lived in this community? _____________

How many people live in your household? ______________

How many generations of your family or spouse's family live in your household? ____

How many people in your household are under 18 years of age? ______

Please circle a number in each row below.
How available to you are the following services in your neighborhood?

	not available at all				***too many***
bank/credit union	1	2	3	4	5
ATMs	1	2	3	4	5
check cashing	1	2	3	4	5
money order	1	2	3	4	5
wire transfer, remittance	1	2	3	4	5

How are you paid for work most of the time? **Check one box only**

❒ cash
❒ check
❒ direct deposit/electronic funds
❒ payroll card
❒ other (*please list*) ______

Have you filed for an Earned Income Tax Credit in the last three years?
❒ yes ❒ no ❒ unsure

NYC Department of Consumer Affairs' Office of Financial Empowerment
Financial Needs Survey

Date ________ **Time**_________ **Surveyor#** __________ **Zip** ___________

Gender ❒ male ❒ female

How many years have you lived in this community? _____________

How many people live in your household? ______________

How many generations of your family or spouse's family live in your household? ____

How many people in your household are under 18 years of age? ______

Please circle a number in each row below.
How available to you are the following services in your neighborhood?

	not available at all				***too many***
bank/credit union	1	2	3	4	5
ATMs	1	2	3	4	5
check cashing	1	2	3	4	5
money order	1	2	3	4	5
wire transfer, remittance	1	2	3	4	5

How are you paid for work most of the time? **Check one box only**

- ❒ cash
- ❒ check
- ❒ direct deposit/electronic funds
- ❒ payroll card
- ❒ other (*please list*) ______

Have you filed for an Earned Income Tax Credit in the last three years?

❒ yes ❒ no ❒ unsure

Please check a box in each row below

How often do you:	*never*	*every week*	*once or twice a month*	*once every few months*
use a check cashing service	❒	❒	❒	❒
buy a money order	❒	❒	❒	❒
use a wire transfer	❒	❒	❒	❒
go to a pawn shop	❒	❒	❒	❒
use a rent-to-own	❒	❒	❒	❒
use an installment or lay-away plan	❒	❒	❒	❒
get a credit card cash advance	❒	❒	❒	❒
bounce a check or overdraw funds	❒	❒	❒	❒

Have you ever gotten a short term loan (less than 1 month) (sometimes called fast cash) or an advance against your paycheck?

❒ yes ❒ no ❒ unsure

If ***YES***, where did you get the loan? **Check all that apply**

- ❒ money lender (*prestamista*)
- ❒ employer
- ❒ a local business that charged to borrow
- ❒ friend/family
- ❒ the Internet
- ❒ I went to another state
- ❒ consumer finance stores
- ❒ other (*please list*) __________

Have you ever declared bankruptcy?

❒ yes ❒ no ❒ unsure

Have you ever entered a debt management plan or worked with a debt settlement agency?

❒ yes ❒ no ❒ unsure

When was the last time you checked your credit report?

- ❒ never
- ❒ within the last year
- ❒ don't know
- ❒ more than a year ago

Do you: **Please check only one box**

- ❒ own your house/ apartment
- ❒ rent your house/apartment
- ❒ live in a shelter/temporary housing
- ❒ live with friends/ family

If you own a home, for how long have you owned your current home? ________

Have you ever been 90 days or more behind on your mortgage?

❒ yes ❒ no ❒ unsure

Does your landlord accept a personal check for your rent payment?

❒ yes ❒ no ❒ unsure

If you had an unexpected emergency, where would you go for money? **Please check only one box**

- ❒ borrow from family
- ❒ borrow from friends
- ❒ sell something
- ❒ pawn something
- ❒ get a short term/payday loan
- ❒ borrow from a bank/credit union
- ❒ borrow from a peer group (*su su, tanda, sociedad, etc.*)
- ❒ use savings
- ❒ use a credit card
- ❒ would not pay
- ❒ other (*please list*)______________

During the last 12 months, was there a time when you and your family were not able to pay your:

rent	❒ yes	❒ no
utilities	❒ yes	❒ no
other bills	❒ yes	❒ no

Do you play the lottery? ❒ yes ❒ no

Do you have:

auto loan	❐ yes	❐ no	❐ unsure
home loan (mortgage)	❐ yes	❐ no	❐ unsure
home equity loan	❐ yes	❐ no	❐ unsure
education/student loan	❐ yes	❐ no	❐ unsure
other debt (not credit cards)	❐ yes	❐ no	❐ unsure
savings account	❐ yes	❐ no	❐ unsure
retirement savings	❐ yes	❐ no	❐ unsure
Individual Development Account	❐ yes	❐ no	❐ unsure
college savings	❐ yes	❐ no	❐ unsure
investments (bonds, stocks, CDs, etc.)	❐ yes	❐ no	❐ unsure

Do you make automatic deductions to a savings or investment account?

❐ yes ❐ no ❐ unsure

What is the current balance in your primary savings account? $__________

Besides a savings account, do you have any other way that you save?

❐ yes ❐ no ❐ unsure

If ***YES***, what are the other ways that you save? ____________________

What are you saving for? __________________________________

Who taught you the most about money? **Please check only one**

- ❒ parents
- ❒ friends
- ❒ relatives
- ❒ school
- ❒ myself
- ❒ other (*please list*) ______
- ❒ no one

Have you ever had someone give you financial advice or help you manage your money? **Please check all that apply**

- ❒ no
- ❒ yes, friends or family
- ❒ yes, church/religious group member
- ❒ yes, a nonprofit program/financial education class
- ❒ yes, I called 311 or the city government
- ❒ other (*please list*) ______________________

Please answer true or false.

If you have negative information on your credit report, a credit repair agency can help you remove the information.

❒ true ❒ false

Your bank will usually call you to warn you if you write a check that would overdraw your account.

❒ true ❒ false

Please circle a number in each row
How much do you trust the following sources for information to help you make financial decisions?

	great trust				*great distrust*
faith institution (church, mosque)	1	2	3	4	5
Radio	1	2	3	4	5
city government	1	2	3	4	5
bank or credit union	1	2	3	4	5
family/friends	1	2	3	4	5
311	1	2	3	4	5
community group	1	2	3	4	5
credit counseling agency	1	2	3	4	5
TV	1	2	3	4	5
Newspapers	1	2	3	4	5
Internet/ on-line	1	2	3	4	5
Employer	1	2	3	4	5

Have you ever gone to a class, seminar or workshop to learn about money?

❒ yes ❒ no ❒ unsure

If ***YES,*** what topics were covered? **Check all that apply**

- ❒ budgeting
- ❒ buying a house or apartment
- ❒ credit
- ❒ savings
- ❒ starting a business
- ❒ other _______ (*please list*)

If ***YES***, how did you learn about the class? **Check all that apply**

- ❒ friends
- ❒ family
- ❒ newspaper
- ❒ church
- ❒ TV or radio
- ❒ neighborhood flier
- ❒ community group
- ❒ bank/ credit union
- ❒ tax prep site
- ❒ other_______ (*please list*)

Please circle a number in each row.
In the statements below, we are asking your reaction to a series of questions.

	strongly disagree				***strongly agree***
I worry about my finances.	1	2	3	4	5
I expect to be better off financially in 5 years.	1	2	3	4	5
Our household has a budget.	1	2	3	4	5
I am better off financially than I was last year.	1	2	3	4	5
I am maxed out on my credit cards.	1	2	3	4	5
Debt collectors are constantly contacting me.	1	2	3	4	5
I balance my checkbook weekly or monthly.	1	2	3	4	5
I consider myself in debt.	1	2	3	4	5
I consider myself a saver	1	2	3	4	5
Credit cards have gotten me in trouble.	1	2	3	4	5
I'm usually short on cash a few days before I get paid.	1	2	3	4	5
I am a risk taker.	1	2	3	4	5
I am a goal directed person.	1	2	3	4	5

Please circle a number in each row

What are the obstacles in the way of your financial success?

	in the way				***not in the way***
family (live-in and extended)	1	2	3	4	5
high cost of housing	1	2	3	4	5
friends	1	2	3	4	5
dead-end job	1	2	3	4	5
debt collection	1	2	3	4	5
job skill levels	1	2	3	4	5
debt	1	2	3	4	5
education	1	2	3	4	5
court ordered child support payments	1	2	3	4	5
other (*please list*) _____	1	2	3	4	5

What country were you born in? _____________

What language are you most comfortable speaking? ______________________

What is your age? _____________

What is your marital status?

- ❒ married
- ❒ single
- ❒ partner, unmarried
- ❒ separated
- ❒ divorced
- ❒ widowed

What is your ethnicity?

- ❒ Asian/Pacific Islander
- ❒ Hispanic/Latino
- ❒ African American
- ❒ Caucasian (White)
- ❒ Native American
- ❒ other (*please list*)________

What is your employment status? **Please check one**

- ❒ full-time
- ❒ part-time
- ❒ unemployed
- ❒ retired
- ❒ other
- ❒ volunteer
- ❒ self-employed full time
- ❒ self employed part time
- ❒ full-time parent/caregiver
- ❒ student

What is the highest level of education you have completed?

- ❒ elementary school
- ❒ some high school
- ❒ high school degree/GED
- ❒ trade school
- ❒ associate’s degree
- ❒ bachelor's degree
- ❒ master’s degree/J.D.
- ❒ doctorate

What is your household annual income?

- ❒ $0-$10,000
- ❒ $10,001-$20,000
- ❒ $20,001-$30,000
- ❒ $30,001-$40,000
- ❒ $40,001-$50,000
- ❒ $50,001-$60,000
- ❒ $60,001 - $70,000
- ❒ $70,001 or above

Do you receive **Check all that apply**

Public Assistance	❒ yes	❒ no	❒ unsure
WIC	❒ yes	❒ no	❒ unsure
Food Stamps	❒ yes	❒ no	❒ unsure
Medicaid/Child or Family Health Plus	❒ yes	❒ no	❒ unsure
Medicare	❒ yes	❒ no	❒ unsure
Disability benefits (SSI/SSD)	❒ yes	❒ no	❒ unsure
Social Security	❒ yes	❒ no	❒ unsure
Transitional benefits (child care, transportation)	❒ yes	❒ no	❒ unsure

What is your legal status?

- ❒ born in the US
- ❒ temporary legal resident
- ❒ permanent legal resident
- ❒ unauthorized resident

Appendix B: Zip Code Distribution of NFS Survey Participants and Total Population per 2000 Census

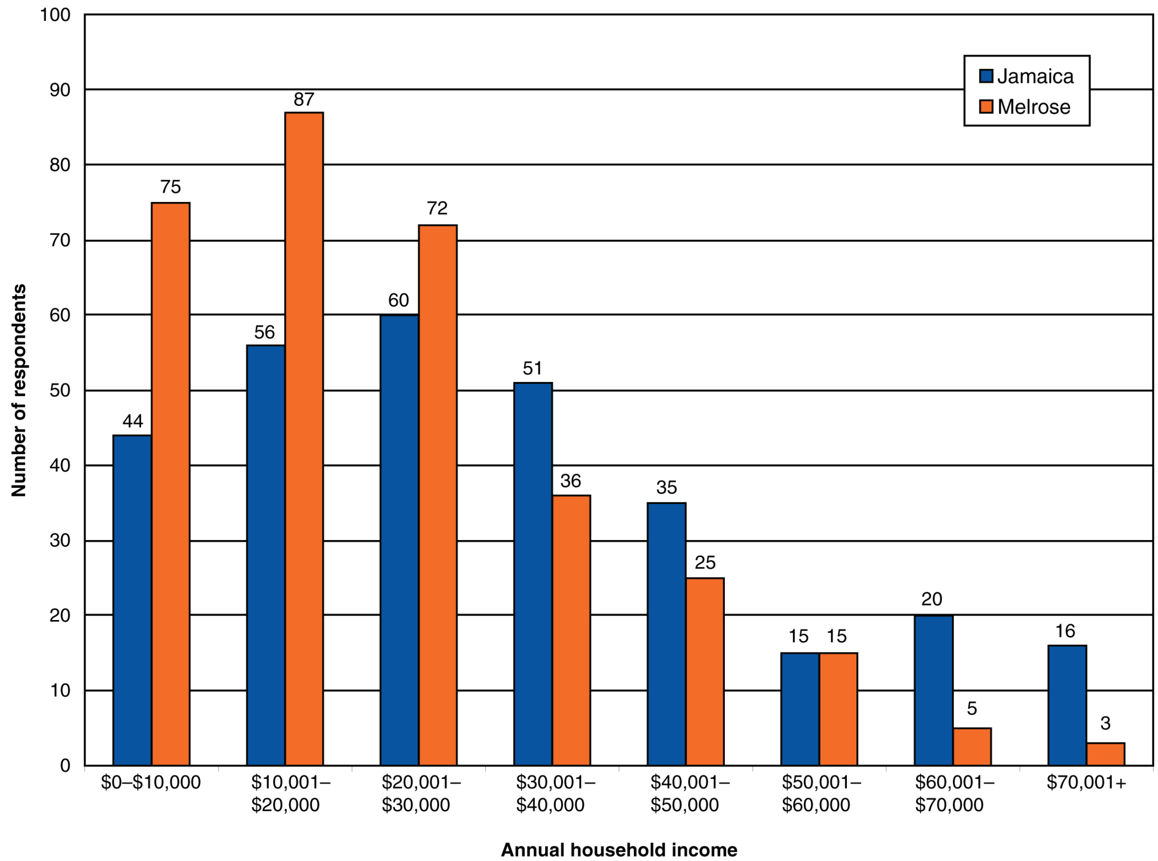
Jamaica			Melrose		
Zip Code	Percent of Total Survey Respondents	Percent of Total Area Population*	Zip Code	Percent of Total Survey Respondents	Percent of Total Area Population*
11412	6%	13%	10451	16%	22%
11423	14%	11%	10455	49%	19%
11432	8%	21%	10456	23%	39%
11433	25%	9%	10459	12%	20%
11434	23%	20%			
11435	12%	19%			
11436	12%	6%			

*For residents aged 18 and over per 2000 Census data

Appendix C: Demographic Distribution of Jamaica and Melrose Residents by NFS Survey Respondents and 2000 Census

	Jamaica Census (285,461)	Jamaica NFS Respondents N=309	Melrose Census (194,545)	Melrose NFS Respondents N=331
Foreign-born status				
Foreign-born	40%	34%	40%	38%
Ethnicity				
African-American	59%	62%	36%	36%
Hispanic	15%	19%	60%	57%
Education				
Less than high school	18%	18%	42%	28%
Some college/ trade school	62%	60%	51%	62%
Bachelor's degree or higher	20%	22%	7%	10%
Household income				
Under $20,000	23%	34%	53%	51%
$20,000–$40,000	25%	37%	25%	34%
Over $40,000	53%	29%	22%	15%
Employment status				
Full time	47%	53%	33%	53%
Unemployed	6%	8%	8%	14%
Public benefits				
Cash assistance	6%	10%	22%	28%
Earned Income Tax Credit	32%	48%	56%	46%

Appendix D: Distribution of Household Income of NFS Respondents



Appendix E: Focus Group Guide

Financial Services Study
Focus Group Guide
Jamaica
Sept 11, 2007

5:00pm Welcome

Welcome and thank you for coming. My name is ____________. We are here tonight to talk about financial matters and financial services in your neighborhood. We will spend the next hour talking about these topics. The information we collect talking to you and in other groups like this in Melrose/Jamaica will be used to help Phipps Houses/Neighborhood Housing Services and the Office of Financial Empowerment in the Department of Consumer Affairs develop programs and policies in New York City.

1. **Focus group procedures.** We have a series of questions around the availability of financial services, your decision making around money, savings and financial challenges. We want you to share your opinions and feelings here so we can understand how better to encourage family financial stability.

2. **Ground Rules:**
   a. This focus group will be audio taped. The tape will only be used in OFE's financial services study.
   b. Several people are here to observe/assist with note taking.
   c. Participation—we value everyone's opinion and want to encourage everyone to participate. There are NO wrong answers; so don't be afraid to contribute even if your ideas are different from everyone else's.
   d. Financial questions—We will be discussing finances which can be a sensitive topic. If you don't want to discuss a particular topic, you don't have to. I may ask individual participants to add to their answers or speak at different times to encourage participation. But if you don't feel comfortable, just let me know that you don't have anything to add.
   e. Speak up—please speak loudly enough for everyone to hear.
   f. Take turns—please take turns speaking and let people finish their statements. Raise your hand if necessary.
   g. Confidentiality—again, all responses will be confidential. Please respect everyone's confidentiality by not talking about what we discuss tonight.

3. **Administer Consent and Information Forms.** We have some information forms to help us understand a little about you. These forms are confidential and mirror a survey NHS/Phipps is conducting in the neighborhood. Please take a minute and fill them out. We also have consent forms that outline the confidentiality agreement. If you would like a copy, I have extra forms.

4. **Introductions.** Participants introduce themselves by first name and how long they have lived in the neighborhood, their main occupation and one thing they like to do in their free time.

5:10pm Financial Service Availability

Everyone here was invited to participate because you live in the Melrose/Jamaica neighborhood.

1. **First, we want to talk about how available financial services are in your community.** Are there enough banks/too many? Enough check cashers/too many? Other places to save or borrow money? What are they and how available?

2. **What financial services do you use regularly?** How many people use a bank or a credit union account as their main way to pay bills, get paid, etc? (Raise hands). How many use check cashers mainly? Both?

3. **What kinds of transactions do you compete in the bank branch?** Does anyone bank online? Pay bills online? Why or why not? How often do you check you balance?

4. **Do you know about credit unions?** (how you can join; why would you might want to) Do other people in Jamaica use credit unions? How do they rate in terms of convenience, service, comfort and physical environment?

5:25pm Banks vs. Fringe Services

1. **Why do you use banks/credit unions vs. check cashers?** Is it cheaper? More convenient? When did you open your first bank account? Have you had to close your account?

2. **What costs more in your opinion—using a bank or a check casher?** (For people who use check cashers) How much do you think you paid to the check cashers in the last year? (For banking people) How much do you think you paid to the bank in the last year?

3. If it's cheaper to use banks, why don't people use them? Cash flow, risk of bouncing checks, not welcoming, don't know what you'll be charged?

4. **Are banks open when you need them?** Are they convenient?

5. **What the most important factors keeping people from using banks?** (ignore if answered above) PROBE off the books income, court ordered payments, other financial/legal/tax issues; don't like banks or other issues above

6. **What do you like about your bank/credit union?** Dislike? Like/dislike about check cashers? **What is the main factor that encouraged you to open a bank account?**

7. **When was the last time you bounced a check or were charged an NSF fee?**

8. **Do you wire money to other countries?** Where do you go? Where do you send money? Does anyone use card-based remittances? How much do you think you spent on remittances in the last year?

9. **What kinds of financial services could help make you better off?** What do you wish you could get access to? PROBE for low fees, basic banking, low cost mortgage programs, alternative loan programs, financial planning, small business loans, etc; Should services be available physically in the community or would people rather go to banks where they work or other places in the city?

5:50 Loans/ Credit

1. Where would you go to if you needed to borrow money? PROBE for family, friends, financial institutions, business leaders in the community, loan sharks, retail stores, and internet transactions. Do people go to different places if they need emergency money versus less immediate loans?

2. **How many people in room have major credit cards (Visa, Mastercard, Amex, etc.)?** What do people use credit cards for? Are credit cards good or bad for you?

5. **Do you feel that you know enough about how to use credit wisely and credit scores?** How they work, what makes up a credit score?

6:05 Savings

1. If you won $1,000, what would you do with it? PROBE for paying bills, saving, buying something.

2. **What are some goals that you would want to save for?** PROBE a house, car, children's education, vacation, special event like a wedding or sweet sixteen, holiday presents, emergency/ rainy day

3. **What would help you save?** What getting in the way of savings?

4. **What kinds of things that a community group or your employer or the city do could make saving easier?** PROBE savings match, make it automatic, making a monthly budget, spending less on lotto.

5. **(Optional) Do you think people's lives are different if they have savings?** PROBE for reduced levels of stress, helping friends and family, think about the future, give children a better life

6:15Taxes

1. Do most people you know file taxes each year? Why or why not?

2. **Have you ever heard of the Earned Income Tax Credit (EITC)? Filed for it?** Where did you learn about it? (Probe tax preparer, friend, CBO, posters) Have you ever seen ads for the EITC on the street? (bring ad to show) Is it clear what this message is? Would you do anything if you saw this on the subway?

3. **Have you ever used a RAL/rapid refund loan?**

4. **What would help you save some of this year's tax refund?** Probe match, reward, putting in an account where I couldn't touch it

6:30 Financial Challenges

1. **What would you do if you couldn't pay your bills/debts?** PROBE for ignoring them, borrowing to pay, moving debt from credit card to credit card, taking second jobs, pawning things.

2. If you know people who have gotten into financial trouble, what kind of trouble did they get into and what led to their troubles? PROBE for predatory lending practices, credit card spending, short term loans.

3. **What do you think are some of the biggest obstacles to financial success?** PROBE for friends, family, dead end jobs, court ordered payments, education, debt, income limit on government programs.

6:45 Financial Decision Making

1. Where would you go for information to help you make decisions about money? PROBE for family, friends, organizations (religious, nonprofits), banks/credit unions, financial planners, 311, OFE.

2. **Who are trustworthy or reliable sources for information on finance?** Why? Government, community organizations, friends, family members, TV shows, etc. should probe Department of Consumer Affairs, Office of Financial Empowerment

3. **Who has taken a financial education class?** Where, on what topics? Did you find it to be helpful, why? What were the lessons you took away from the class? What could the organization have done to improve the class? Is there another way to learn the information/skills that would work better for you? If no, why not? (not available, don't have time, etc.)

6:55pm Closing & Thank You

Closing Comments. We talked about a number of things that might be helpful to your financial situation. Is there anything that would be helpful that we didn't discuss?

7:00pm Incentives—NHS

Appendix F: Demographic Comparison between NFS Survey Respondents and Focus Group Samples

	Focus Group Participants (N=33)	Survey Participants N=640)
Average age	35	39
Average number of years living in neighborhood	11	17
Average number of people in household	3	3.5
Percent foreign-born	18%	36%
Percent with a primary language other than English	15%	26%
Percent employed full-time	48%	53%
Percent employed part-time	27%	19%
Percent with at least a high school degree	70%	77%

Appendix G: Financial Services Telephone Survey for Mainstream and Alternative Providers (Developed by the William J. Clinton Foundation)

Bank and Credit Union Questionnaire

1) What are your branch hours?

2) What type of checking accounts do you offer customers? What are the specifics of each account?

- Opening costs
- Maintenance fee
- Direct deposit (any fees waived for opting-in to this plan)
- Minimum balance
- APR or Interest rate
- Overdraft fee (what type of overdraft plans do they offer)
- Other requirements (ID and which types, etc.)
- ATM card fees
- Transaction limits

3) How long does it take for personal and payroll checks to clear? When is direct deposit posted?

4) Do you offer second chance checking accounts for people with a negative ChexSystem history? How do you determine eligibility? What are the features of a second chance checking account? (Note: If this question is covered in Question 3, proceed to next question)

5) What type of savings account do you offer customers?
- Opening costs
- Maintenance fee / minimum balance
- APR or Interest rate
- Other requirements (ID, etc.)
- ATM card fees
- Transaction limits

6) Do you offer any of the following services? If so, how much do they cost? Do I have to be an account holder to access any of these services?
- Cashier's check
- Wire transfer
- Bill payment
- Check cashing (Do I need a payroll card to cash a payroll check here?)

7) Do you offer any of the following services?
- Investment services
- Mortgages
- Personal loans (& terms offered)

8) Do you have bilingual staff (tellers, financial advisors) that opens accounts? Which languages do you support?

9) Do you offer any type of financial education and/or literacy information or classes? In-branch or in the community?

Pawnbroker Questionnaire

1) What are your hours?

2) I heard that you lend money? Is that true? What do I have to bring in (ID, collateral, etc.) and what is the cost of the loan?

3) Do you offer any other services? What do they cost?
- Check cashing?
- Bill payment?
- Wire transfer?
- Money order?

4) Do you have bilingual staff? Which languages do you support?

Check Casher Questionnaire

1) What are your hours?

2) What do you charge for a cashed check?

3) What do I need to bring in (ID, etc.)?

4) Do you offer any other services? What do they cost?
- Bill payment?
- Wire transfer?
- Prepaid cards?
- Money order?

5) Do you have bilingual staff? Which languages do you support?

Remittance Service Provider Questionnaire

1) What are your hours?

2) Do you provide domestic and foreign transfers? Is there an additional fee for sending and receiving the wire in US dollars?

3) What do you charge for a money transfer? Does the fee include exchange rate markups?

4) What do I need to bring in (ID, etc.)?

5) Do you offer any other services? What do they cost?
- Bill payment?
- Money order?
- Check Cashing

6) Do you have bilingual staff? Which languages do you support?

Tax Preparer Questionnaire

1) Do you offer all-year tax services? (Note: If they say no, skip question 2)

2) What are your hours?

3) What types of tax preparation services do you provide? What is the charge?

4) Do you offer any other services?
- Pre-paid cards?
- Personal loans (e.g. refund anticipation loans, holiday loans, etc.)?
- Savings or investments?
- Mortgages?

5) Do you offer EITC or general financial education/literacy?

6) Do you partner with any community groups in delivering financial education?

7) Do you have bilingual staff? Which languages do you support?

Appendix H: Background Data and Assumptions for Table 7

Table 9. Costs Associated with Mainstream and Alternative Financial Services

	"Most Bankable"		Less Stable Income	
Employment	Full time; $25,000 per year		Part time; $10,000 per year	
Direct deposit	Yes		No	
Non-branch ATM usage	Never		4 times per month	
Overdrafts	Never		4 times per year	
Wire transfer usage	Never		2 times per year	
Landlord accepts checks	Yes		No	
Annual cost	**Mainstream**	**Fringe**	**Mainstream**	**Fringe**
Annual maintenance	$0	$0	$36	$0
Accessing cash	$0	$425	$144	$170
Overdraft fees	$0	$0	$120	$0
Rent payment	$5	$17	$59	$17
Utility payment	$5	$4	$5	$4
Other bills	$15	$40	$15	$40
International wire transfer	$0	$0	$80	$50
Total	**$25**	**$482**	**$459**	**$281**
Savings		$458		-($177)
Note: See Appendix H for fee data and table assumptions				

Scenario background data:

1. Employment: 53% of sample employed full time; 19% employed part time; 11% unemployed; 9% retired; 6% student; and 2% other.
2. Direct deposit: 28% of sample has direct deposit. Of the full-time workers with bank accounts, 50% have direct deposit. Of the full sample of checking account holders, 39% have direct deposit.
3. Non-branch ATM usage: 21% of sample reported that ATMs are not available to them in their community (1 or 2 on a scale of 1–5, with 5 being "very available"); no data available on out-of-network ATM use.
4. Overdrafts: 21% of NFS checking account holders overdraw at least a few times per year.
5. Wire transfer usage: 29% of respondents use wire transfers at least a few times per year.
6. Landlord accepts checks: 38% of respondents say their landlords accept personal checks for rent payments.

Cost background data:

1. Annual maintenance: Median monthly maintenance fee of $3 for checking accounts with less than $100 minimum balance. Assumes fee is waived with direct deposit.
2. Accessing cash: Mainstream cash access assumes median bank fee of $1.50, plus $1.50 terminal charge for visiting non-branch ATM; free at own bank. Alternative cash access assumes 1.7% bi-weekly fee on after tax income of $25,000 and $10,000, respectively.
3. Overdraft fees: Median overdraft fee for checking accounts analyzed is $30.
4. Rent payment: If landlord does not accept personal check, assumes one money order per month. Median bank cost is $4.50; median check casher cost is $1.00. If landlord accepts personal check, bank cost is postage, alternative cost is money order plus postage.
5. Utility payment: Assumes only postage cost ($0.41) with bank account; in-person bill pay, or money order with check casher at $1 per month
6. Other bills: Assumes 3 additional bills per month, postage cost with checking account; $1 bill pay cost at check casher. 67.9% and 77.9% of respondents purchase money orders in Jamaica and Melrose, respectively.
7. International wire transfers: The median cost for a $300 wire transfer to Mexico was $40 at the banks and $25 at non-bank remitters, which include check cashers and other licensed businesses like grocery stores, travel agents, or employment agencies.

Appendix I: Logistic Regression Table: Predictors of Being "Unbanked" in Jamaica and Melrose, Testing Predictive Value of Bank Density by Zip Code

	Odds Ratio	Significance
Household income:		
Under $20,000	0.33*	0.00
$20,000–$40,000	0.63	0.14
Education:		
Less than high school	0.16*	.00
High school degree	0.27*	0.00
Some college or trade school	0.45	0.06
Density of banks in a given zip code:		
Less than one per 10,000 residents	1.04	0.82
*Indicates significant difference at 95% confidence level based on Pearson chi-square test		

Appendix J: Logistic Regression Table: Predictors of Being "Unbanked" in Jamaica and Melrose

	Odds Ratio	Significance
Public benefits:		
Earned Income Tax Credit	0.44*	0.00
Cash assistance	2.99*	0.00
Household income:		
Under $20,000	2.34*	0.02
$20,000–$40,000	1.36	0.39
Constraint on using checks:		
Landlord does not accept checks	2.48*	0.00
Education:		
High school degree	0.53*	0.02
Employment status:		
No full-time work	1.68*	0.05
Bank access:		
Does not perceive banks as available	1.41	0.19
Less than one bank per 10,000 in zip code	1.00	0.83
Race/ethnicity:		
African-American	1.00	0.82
Hispanic	1.20	1.20
Age:		
25 or under	0.65	0.13
*Indicates significant difference at 95% confidence level based on Pearson chi-square test		

Appendix K: Logistic Regression Table: Predictors of Having Savings in Jamaica and Melrose

	Odds Ratio	Significance
Earned Income Tax Credit	2.04*	0.00
Never attended financial education	0.63*	0.05
Household income:		
Under $20,000	0.37*	0.00
$20,000–$40,000	0.58*	0.07
Race/ethnicity:		
African-American	1.09	0.78
Hispanic	1.00	0.95
Education:		
Less than high school	0.36*	0.01
High school degree	0.38*	0.01
Some college or trade school	0.54*	0.10
Unemployed	1.02	0.91

*Indicates significant difference at 95% confidence level based on Pearson chi-square test

Appendix L: Logistic Regression Table: Predictors of Financial Instability in Melrose

Independent Variable	Odds Ratio	Significance
Race:		
African-American	1.52	0.45
Hispanic	1.38	0.61
Marital status:		
Single	1.18	0.21
Children:		
No children	1.48*	0.05
Employment status:		
Not employed	1.00	0.81
Neighborhood of residence:		
Melrose	1.41	0.12
Education:		
No high school degree	1.81*	0.03
Household income:		
Under $20,000	1.84*	0.00
$20,000–$40,000	1.57*	0.03
Banking:		
No checking or savings account	0.83	0.11
Debt:		
Fringe debt	2.93*	0.00
Savings:		
No savings	1.79*	0.01
Credit card holding:		
No credit card	1.22	0.64

*Indicates significant difference at 95% confidence level based on Pearson chi-square test

Department of Consumer Affairs
Office of Financial Empowerment

Center for
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