WELFARE, WORK AND BANKING: THE USE OF CONSUMER CREDIT BY CURRENT AND FORMER TANF RECIPIENTS IN CHARLOTTE, NORTH CAROLINA

MICHAEL A. STEGMAN
University of North Carolina at Chapel Hill

ROBERT FARIS
University of North Carolina at Chapel Hill

ABSTRACT: *Little is known about TANF recipients and leavers use of consumer credit. Using data from a 2001 North Carolina household survey of low-income households, we analyze banking and credit behavior of current and recent welfare recipients in Charlotte, North Carolina. Other things equal, TANF families are 70% less likely than other low-income families to have a bank account and much more likely to have participated in a credit counseling program. Except for more frequent contact with bill collectors and credit counselors, leavers are no different from other low income families struggling to make ends meet. Race also matters when it comes to accessing mainstream banking and credit systems. Targeted programs help TANF families gain greater access to the financial mainstream. When it comes to specialization programs, however, those involved in the welfare system are not very different from other poor families. However, by virtue of their formal involvement with TANF, this population can be more efficiently served than other low-income populations. For this reason and the desire to keep families from recycling back onto welfare rolls, TANF programs should address banking and credit issues.*

Most studies of families transitioning from welfare to work find leavers holding low wage jobs with median earnings between $6.61 and $8.00 per hour, depending on the state studied (Brown & Beeferman, 2002; Loprest, 1999; Polit et al., 2001). One national study estimates that 25% of leavers make less than $5.29 an hour (Loprest, 1999). Among North Carolina's employed welfare recipients, off the rolls for six- and 18-months, respectively, median monthly earnings in 2001 were $1,083 and $1,164 (Richardson, Schoenfeld, & LaFever, 2002). With many leavers facing formidable material hardships including food

Direct Correspondence to: Michael A. Stegman, Professor of Public Policy, Planning, and Business, University of North Carolina at Chapel Hill, Campus Box 3435 Abernethy Hall, Chapel Hill, NC 27599-3435. E-mail: Stegman@email.unc.edu

JOURNAL OF URBAN AFFAIRS, Volume 27, Number 4, pages 379–402.
Copyright © 2005 Urban Affairs Association
All rights of reproduction in any form reserved.
ISSN: 0735-2166.

shortages, utility cutoffs, and involuntary moves or eviction, surprisingly little is known about the financial services behavior of poor families involved with the welfare system and their access and use of mainstream sources of consumer credit (Brauner & Loprest, 1999; Hofferth, 2002; Isaacs & Lyon, 2000; Pear, 2002; Polit et al., 2001; Swift, 2002).

In their pioneering study of how welfare families manage to survive financially, Edin and Lein (1997) indicated that some employment opportunities and other avenues for financial growth were cut off by families' high debt and lack of assets. Their poor credit or lack of credit history forced them into the world of check-cashers and rent-to-own stores where finance charges exceeded the value of the goods purchased.

Nevertheless, welfare families' management of credit remains an overlooked area of policy research, as was recognized by Texas Tech University researchers. Their 1999 meta-analysis of 750 welfare-related research studies found "no person or agency has taken steps to measure, validate, and develop strategies to assess the impact of personal finance knowledge, attitudes, and behaviors on the ability of TANF recipients to effectively move from welfare to work" (Grable and Joo, 1999) Our search of the post-1999 credit and welfare reform literature turned up no large-scale studies that focused primarily on credit and financial management issues. However, enough of them touched upon household debt issues to convince us of the need for more credit-related research.

With almost 2.5 million families having left the welfare rolls since welfare reform became law in 1996 (Nelson, 2005) and as many as one in three TANF families returning to welfare within two years of leaving, (Hofferth, 2002), it is important that policy makers learn more about the role that high-cost credit and financial exclusion play in the welfare cycle. Using a customized dataset from Charlotte, NC, the state's largest metropolitan city, this article explores the extent to which current recipients and recent leavers under the North Carolina Temporary Assistance for Needy Families Program (TANF) face financial services challenges that are unique to welfare recipients.

Our findings suggest that the ongoing debate over the next phase of welfare reform should pay greater attention to the role of banking and credit use in the lives of TANF families, the importance of gaining access to mainstream sources of consumer credit, and the need for local welfare reform programs to include financial education activities. We also find that most of the financial management challenges faced by TANF recipients and leavers are widely shared by other poor families and that more broadly based banking initiatives, financial literacy campaigns, and consumer protections would benefit all low-income families.

Finally, as have many other empirical studies of households' social and economic behavior, we also find that race and ethnicity complicate the picture in important ways: when it comes to using and managing consumer credit, low-income African Americans and Hispanics are more likely than white households to be unbanked and to be heavily reliant on alternative service providers to meet their credit needs.

This article proceeds as follows: First, we discuss the source of our data, the North Carolina Financial Services Survey (Center for Community Capitalism, 2001), including sample selection and survey design. We then summarize how the disciplines of economics and psychology explain and rationalize the role that borrowing and debt repayment play in the poors' household consumption behavior. In the empirical section of this article we analyze the banking and credit behavior of low-income households in Charlotte, North Carolina, including TANF recipients and leavers. We then estimate a series of multivariate models of credit use and management that control for a wide range of household characteristics, which enables us to test for the existence of welfare- and race-effects. Our conclusions and policy recommendations follow.

THE NORTH CAROLINA FINANCIAL SERVICES SURVEY (NCFSS)

To our knowledge, the North Carolina Financial Services Survey is one of few statewide or local representative surveys of low-income households' banking behavior and use of mainstream and fringe financial and credit sources. The survey was sponsored by the North Carolina Department of Social Services (DSS), which administers the state's welfare program, called Work First. Details of the survey design can be found in Stegman and Faris (2001). Using the American Association of Public Opinion Research (AAPOR) methodology, we obtained a cooperation rate of 31%, defined as the number of completed interviews divided by the sum of completed interviews, partially completed interviews, and refusals. Authors' comparisons of the demographic profile of respondents with census of TANF population and recent leavers suggests little non-response bias.

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

Because DSS wanted to know whether there were significant behavioral differences between urban and rural TANF families, NCFSS oversampled North Carolina's largest urban area, Mecklenburg County, which contains most of the city of Charlotte (667 interviews). Again at DSS's request, NCFSS also oversampled households that either were currently receiving TANF benefits or had received benefits within the 24 months prior to the interview. Within the Mecklenburg subsample, the oversample included 223 current recipients and 168 recent welfare recipients. Finally, to obtain a sufficient number of interviews to analyze separately, we also oversampled Hispanic households. The Mecklenburg County oversample included 79 interviews with Hispanic-headed households. Statistical weights are used to adjust for all oversampling. Only households in Mecklenburg County are included in the present analysis.

A THEORETICAL PERSPECTIVE ON SAVINGS AND CREDIT

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

Bae et al. (1993) discuss how, over time, economists have modified the life cycle model to allow for positive real interest rates, borrowing, and a measure of household impatience, which they refer to as the valuation of the additional utility that spending beyond one's savings will produce in a given period. A household's optimal level of consumption will depend upon the relationship between the cost of borrowing and the subjective

valuation of the additional utility gained from increasing consumption. The higher the real interest rate, the more a consumer will favor future consumption over present consumption; the more impatient the consumer, the more he or she will favor present consumption over future consumption, and increase borrowing (Bae et al., 1993).

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

Option theory is also used by economists to help explain the conditions under which a consumer will choose to stop payments on a loan or default on a debt that he or she has incurred. This perspective is especially useful in models of residential mortgage default in which a borrower's decision to default depends largely on whether the unpaid loan balance exceeds the market value of the house securing the mortgage (Deng, Quigley, & Van Order, 2000). Sullivan and Worden (1995) applied option theory to credit card defaults by households with blemished credit and identified a strong statistical relationship between credit card default and individual bankruptcy filings. They suggest that less creditworthy households may use credit cards more intensely because they value highly the default option this payment form allows. This theory may also help explain why some credit-constrained individuals prefer pawnshops to other sources of credit—because it is widely known that the borrower's option not to redeem a pawned item (i.e., to default) is neither reported to credit bureaus nor has any impact on his or her credit rating.

Psychological theory has also been used to explore household debt accumulation and payment behaviors because, according to Bachman (2001), "an individual's motivation to eliminate indebtedness flows from financial means as well as emotional desire" (p. 1). Debtors interviewed in a study of borrowing behavior among residents in South West England were more likely than non-debtors to describe themselves as coming from more debt-tolerant surroundings, posit the existence of a "culture of indebtedness" (Lea, Webley, & Walker, 1995, p. 682). "An important factor in predicting debt status was whether respondents knew other people around them who were in debt, and how they thought those around them would react if they knew that the respondent was in debt" (Lea, Webley & Walker, 1995, p. 691). Around the same time, Tokunaga (1993, as cited in Lea, Webley, & Walker, 1995) found that people's reports of their parents' use of and views on credit correlated with their own ability to use credit successfully.

Using a combination of economic and psychological reasoning, Elliehausen and Lawrence (2001) suggest that credit-constrained consumers who believe they lack the discipline to become regular savers choose to save "via debt repayment rather than fritter future income on the numerous goods and services that are available in the market" (p. 16).

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

Finally, there is a growing body of literature that speaks to the contribution of substandard wages, discrimination, market failures, and lack of vigilance among those charged with consumer protections in the spiraling debt problems of the poor. This literature argues that using neoclassical economic theory to describe the problem is akin to blaming the victim.

Among others, this literature points to global work and wage issues as a principal cause of the growing plight of the poor. In 2001, "about 34 million Americans, nearly 24 percent of the labor force earn(ed) less than $8.70 an hour, not enough to keep a family of four off poverty, even working full-time year round" (Appelbaum, Bernhardt, & Murnane, 2005, p. 1).

Others point out the high cost of being poor—that low income families pay higher prices for everyday goods and services, including groceries, car loans, auto insurance, and security deposits (Fellowes & Katz, 2005). According to this line of thinking, the poor don't just have less money to spend on family necessities; they have to spend more to get them (Nelson, 2005; Quercia, Stegman, & Davis, 2004). When it comes to getting ahead, says Nelson, "being poor costs more" (Nelson, 2005, p. 2). According to this line of thinking, consumer advocates attribute some blame to recent changes in bank credit card policies that keep credit flowing to borrowers who are falling further and further behind in their payments. Instead of cutting them off "banks are letting them spend—and then hitting them with larger and larger penalties," which causes desperate people to spiral further into debt (Pacelle, 2004, p. A1).

In the remaining sections of this article we use NCFSS data to explore how TANF recipients and recent leavers in Charlotte, North Carolina engage with mainstream and alternative financial services providers to manage their family finances, and the implications for welfare reform.

MEASURING FINANCIAL MANAGEMENT

In this section, we describe the financial services behavior and use of consumer credit of a representative sample of low-income households in Mecklenburg County, North Carolina, which includes Charlotte, the state's largest metropolitan area. The sample includes TANF recipients, recent leavers, and other households whose total income in the year preceding our survey was less than $30,000. Because our initial descriptive (bivariate) analysis does not control for differences in family and other characteristics of the populations of interest besides their welfare status, we cannot determine whether TANF recipients and leavers actually use and manage credit differently from other low-income households. We address this limitation in the next section, where we model consumer credit behavior using appropriate statistical controls.

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

suggest reduced access to mainstream credit sources, while chronic borrowing from these high-cost suppliers reflects severe credit problems.

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

Banking Experience

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

Having a bank account may also be related to payment habits. In their survey of 2,250 households in Devon, England, Lea, Webley, and Walker (1995) found debtors were less likely to have a bank or building society account, rated themselves as poorer money managers, put money away for regular bills less often, were less likely to pay bills by standing orders or similar arrangement, and preferred to pay bills more frequently (p. 692).

Nearly one of every five (19%) lower-income families in Charlotte, North Carolina does not own a bank account. This suggests that a significant portion of the city's residents lack a safe and secure place to store and save money, use more costly means of transacting their financial business, and lack ready access to a wide range of financial services and products, such as auto loans, home mortgages, and retirement savings (see Table 1).

While the situation of low-income families in Charlotte is about the same as in the United States as a whole, (Federal Reserve Board, 1998), Charlotte fares better than America's two largest cities, New York and Los Angeles, where a survey by the United States Office of the Comptroller of the Currency found more than two thirds of families with incomes of less than $15,000 to be unbanked, as are 40% of families earning between $15,000 and $30,000 (Dunham, 2001). The corresponding unbanked rates in Charlotte are 34% and 11%, respectively.

The need for more local studies of financial services behavior of low-income families is further highlighted by other important differences between the New York/Los Angeles study and the NCFSS. Seventy percent of unbanked Charlotte respondents typically cash their checks at banks, while just 23% of New York/Los Angeles respondents did so. Conversely, while 81% of the latter used check cashers as their principle source, just 2% of all unbanked Charlotte residents revealed this behavior. The key cause of such stark differences is that retail outlets, such as grocery stores, are the check casher of choice for 28% of unbanked Charlotte respondents, while this is the case for just 9% of New York/Los Angeles respondents. These differences are important because they lead to disparities in the cost burdens of financial services for the unbanked and, therefore, have both business and policy implications.

TABLE 1

Financial Services and the Unbanked, New York City/Los Angeles and Charlotte NC, 2001

	New York City/ Los Angeles	Charlotte
Percentage unbanked:		
Income < $15,000	68	34
Income > $15,000	40	11
Where banked respondents cash checks (%):		
Check casher	28	0
Bank	62	97
Store/other	5	3
Where unbanked respondents cash checks (%):		
Check casher	71	2
Bank	23	70
Store/other	9	28
Percentage banked respondents who save regularly:		
Income < $15,000	36	29
Income > $15,000	41	29
Percentage unbanked respondents who save regularly:		
Income < $15,000	9	4
Income > $15,000	13	29

Sources. Center for Community Capitalism, 2001; Dunham, 2001.

More problematic than the overall unbanked rate among lower-income Charlotte residents is that half of all TANF households are unbanked (see Table 2). Leavers (families who left welfare in the 24 months prior to the survey and ostensibly on the path to greater economic security) are much better off, but even among this vulnerable group, 27% do not own a bank account. For them, the already difficult transition from cash assistance to the workforce poses additional challenges: Paying monthly bills is more time-consuming and costly, saving money is made more difficult, and investing in long-term financial security is all but impossible.

Credit Card Ownership and Unpaid Balances

In 2001, three quarters of American households held at least some debt. At a rate of roughly 45% each, home mortgages, installment loans, and credit cards are the most common forms of credit in the United States (Azicorbe, Kennickell, & Moore, 2003). The proportion of poor US households with a credit card doubled from 20 to 40% between 1983 and 1995. Those with credit card debt more than twice their monthly income nearly quadrupled (Bird et al., 1997); unmarried poor households more than doubling their debt between 1992 and 1995, from $600 to $1,300. According to Bird et al. (1997), "since this group includes unmarried parents, these figures lead one to suspect some connection between credit card use and the welfare system" (p. 16). In short, with more than 400 million bank cards, 300 million store cards, and 100 million gasoline cards in circulation (Carow & Staten, 2002, p. 216), it made sense to focus the NCFSS on how this increasingly common payment option is associated with debt accumulation among low-income North Carolinians.

TABLE 2

Credit Use and Credit Impairment, by Welfare Status, Charlotte, NC, 2001

	Charlotte Low-Income	Non-Welfare	Current Adult Welfare	All Recent Adult Welfare Leavers
Percentage unbanked:	18.8	15.8	49.8	27.3
Own any credit card (%):	62.3	65.8	38.7	44.5
Owns major credit card (%):	55.8	59.4	30.3	39.1
Owns store credit card (%):	38.4	40.8	28.5	22.3
Average current balance:	$2,384	$2,412	$982*	$1,528*
Percentage who pay off balance:				
Every month	47.7	50.0	38.5	23.3
Almost every month	15.1	15.6	8.4	12.5
Sometimes	13.6	12.8	14.6	23.1
Hardly ever	9.5	9.2	7.0	16.7
Never	14.1	12.4	31.5	24.4
Used a payday loan in past two years (%):	8.5	7.9	10.1	14.6
If yes, frequency:				
One or two times a year	59.9	66.1	25.0	55.4
Three or four times a year	12.1	10.8	0.0	18.9
Monthly	9.6	8.0	22.6	12.0
Biweekly	18.4	15.1	52.4	13.7
Used a pawnshop in past two years (%)	6.9	4.9	18.9	17.9
If yes, frequency:				
One time	47.9	53.1	40.5	30.9
Two times	13.1	9.0	23.4	25.1
Three times	18.9	18.1	15.8	26.7
Four or more times	20.1	19.8	20.3	17.3
Bounced a check in the past five years (%):	40.0	37.7	46.3	66.6
If yes, number of checks:				
1 to 2	48.8	50.5	42.1	41.3
3 to 6	35.6	34.9	33.8	37.7
7 to 10	6.6	5.4	16.4	12.7
11 or more	9.0	9.2	7.7	8.3
Referred to a collection agency (%)	33.5	28.7	55.3	64.3
Visited a credit counselor (%)	10.3	8.3	20.0	24.1
$N = 610$				

*Data are unweighted due to low frequency of debt reporting and extreme weight values.
Source. Center for Community Capitalism, 2001.

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

Consistent with these studies, we found widespread use of credit cards among our low-income study population. Sixty-two percent of all Charlotte families with incomes under $30,000 hold a bank credit card, a retail store card, or both (refer to Table 2). However, there are significant demographic differences in rates of credit card ownership: Lower income white families are roughly 40% more likely than African American and Latino families to own a credit card (see Table 3).

Also consistent with other research, a majority of cardholders carry a balance with about one in four "hardly ever" or never paying off the balance at the end of the month (see Table 2). Current and former TANF recipients are roughly twice as likely as other low-income households to carry credit card debt from one month to the next. However, blacks are somewhat more likely, and Latinos less likely, than whites to do so (see Table 3).

Low-income Charlotte households have larger balances than comparably situated families in North Carolina and the country as a whole. In Charlotte, the average outstanding credit card debt is approximately $2,400. Though lower, current TANF recipients also carry significant unpaid credit card balances, that average just $1,000, while leavers are more burdened with an average balance of more than $1,500. Among all household cohorts, families involved with the welfare system are least likely to pay off

TABLE 3

Credit Use and Credit Impairment, by Race and Ethnicity, Charlotte, NC, 2001

	Charlotte Low-Income	White	Black	Latino
Percentage unbanked:	18.8	11.9	29.4	38.4
Own any credit card (%):	62.3	70.6	50.3	55.3
Owns major credit card (%):	55.8	65.0	42.3	52.3
Owns store credit card (%):	38.4	48.8	26.3	20.1
Average current balance:	$2,384	$2,658	$1,902	$1,751
Percentage who pay off balance:				
Every month	47.7	47.5	38.7	63.4
Almost every month	15.1	17.9	11.0	4.5
Sometimes	13.6	10.9	21.9	16.1
Hardly ever	9.5	10.6	9.6	0.0
Never	14.1	13.1	18.8	16.0
Used a payday loan in past two years (%):	8.5	2.2	17.3	30.7
If yes, frequency:				
One or two times a year	59.9	–	44.3	–
Three or four times a year	12.1	–	25.4	–
Monthly	9.6	–	7.6	–
Biweekly	18.4	–	22.7	–
Used a pawnshop in past two years (%):	6.9	3.5	13.8	7.4
If yes, frequency:				
Once	38.4	58.8	42.4	–
Twice	16.6	3.8	16.6	–
Three times	6.5	8.7	24.1	–
Four or more times	38.5	28.7	16.9	–
Bounced a check in the past five years (%):	39.9	37.1	45.5	58.6
If yes, number:				
1 to 2	48.8	52.1	34.9	25.2
3 to 6	35.6	30.4	49.7	63.3
7 to 10	6.6	6.1	8.9	7.0
11 or more	9.0	11.4	6.5	4.5
Been referred to a collection agency (%):	33.5	26.5	49.6	62.1
Visited a credit counselor (%):	10.3	7.7	15.8	25.8

$N = 610$.

Source. Center for Community Capitalism, 2001.

their credit cards: 38% of current recipients and 41% of leavers hardly ever or never do so compared with 22% of all non-welfare low-income families.

Alternative Financial System: Payday Lenders and Pawnshops

Consistent with a growing body of empirical research on the rapidly growing market for fringe banking services (Caskey, 1997; Stegman & Faris, 2003), a small subset of low-income families in North Carolina are frequent patrons of payday lenders and pawnshops. A payday loan, variously referred to as a "payday advance" or "deferred deposit" loan, is a high-interest, two-to-four-week loan backed by a post-dated personal check that a borrower promises to repay out of his or her next paycheck.

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

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

In Charlotte, 9% of all families with incomes under $30,000 had taken out at least one payday loan in the 24 months preceding the survey (see Table 2). African American households are eight times more likely to borrow from a payday lender as whites (refer to Table 3). About 31% of all Latino respondents and 17% of low-income black families have taken out at least one payday loan in the past two years compared to 2% of all lower-income whites.

More problematic is the fact that once families use this easy-to-obtain high-cost credit, many become chronic borrowers. Almost one-quarter of all African American customers either renew their loan or pay it off and take out a new one at least once every other week– a very high cost source of long-term credit.

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

Regardless of race, families involved with the welfare system in North Carolina are also more likely than other families to take out a payday loan. While just 9% of all lower-income families with checking accounts have used payday lenders in the past two years, 10 and 15%, respectively of current TANF recipients and leavers (refer to Table 2) have done so. One-quarter of leavers and 75% of current welfare customers have become chronically dependent upon payday loans, having taken out at least one loan a month over the past two years. More than half of TANF families borrow at least biweekly. This kind of chronic indebtedness—the stringing together of one payday loan after another in an effort

to make up the deficit until the next paycheck or benefit payment arrives—makes the transition from welfare to work all the more challenging.

Like payday lenders, pawnbrokers offer another source of readily accessible credit to which low-income consumers and credit-constrained households frequently turn. Caskey (1997) traces the recent increased demand for pawnshop services to an "increase in the number of Americans who do not use mainstream financial institutions because of poverty and the effects of bank deregulation" (p. 7).

Pawning can also be costly. Under North Carolina law, loans for a maximum term of six months can cost up to $500. However, one pawnbroker revealed that the terms for loans can be easily extended beyond the six-month limit simply by writing a new pawn ticket and that "this happens all the time." The pawnbroker suggested that half of his customers pay off the 20% fee at the end of the first month, one quarter roll over the loan for several more months, and another quarter never return to reclaim their property. This pattern is similar to the observed pattern of NCFSS families: 69% of all pawn customers reclaimed the most recent items they pawned, while 25% defaulted. Both default rates are close to the 30% national rate identified by Manning (2000). Manning suggests that despite the high likelihood that they will not recover their property, many lower-income customers use pawnshops because failure to renew (pay monthly interest) or redeem (pay loan and interest) a pawned item is not reported to a credit bureau.

As with payday loans, TANF recipients are much more likely than others to pawn. While 7% of all low-income families have borrowed from a pawnbroker in the past 24 months, this is true for 19% of all TANF recipients and 18% of all leavers (see Table 1). While 44% of leavers pawned assets more than twice in the past two years, 34% of all TANF recipients did so.

Credit Counseling, Collection Agencies, and Bounced Checks

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

Among all lower-income families in Charlotte, 34% have been reported to a collection agency at some point. Current TANF recipients (55%) and leavers (64%) are twice as likely as non-welfare households to have had such an experience (see Table 2). Minority-headed households are also substantially more likely than those headed by whites to be reported to bill collectors (see Table 3).

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

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

Consistent with patterns regarding payday loans and pawning, relatively few (10%) Charlotte respondents have ever used credit-counseling services. TANF recipients are more than twice as likely as nonrecipients to have used such services; leavers use credit counseling at about three times the rate as all other low-income families (refer to Table 2). Blacks are twice as likely as whites to have seen a credit counselor and Latinos' are almost four times as likely (refer to Table 3).

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

According to the Charlotte component of the NCFSS, 40% of all low-income families in Charlotte with a checking account have bounced at least one check in the past five years, with TANF recipients (46%) and leavers (67%) much more likely to have done so (refer to Table 2). Black and Latino families are more likely to bounce checks than whites (refer to Table 3).

MODELING FINANCIAL BEHAVIOR: CONTROLLING FOR HOUSEHOLD DIFFERENCES

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

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

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

While this article is not directly about race, given the extensive body of empirical research on discriminatory credit markets and the withdrawal of banks from minority and low-income neighborhoods, it is necessary to pay careful attention to race and ethnicity in our models. A significant body of research shows strong relationships between race and credit in housing and consumer credit markets (Kantor & Nystuen, 1982; Oliver & Shapiro, 1995; Tootell, 1996). Godwin (1999) reports, for example, that the odds of white households experiencing difficulty repaying consumer debt are about half that of nonwhite households. In their bivariate analysis, Sullivan and Fisher (as cited in Godwin, 1999) found nonwhite or Hispanic households had a higher incidence of debt delinquency than did those headed by whites.

We identify race and ethnicity in four categories: Non-Hispanic White (the reference category), non-Hispanic Black, Hispanic (regardless of race), and Other Minority (predominately Native American and Asian). We also ran models treating Hispanic as a separate ethnicity variable, but results did not differ substantively.

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

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

Control Variables

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

Marital Status

Most of the empirical research on banking and credit use includes some measure of marital status. Canner and Luckett (1990) found that divorced or separated heads of households were more likely than their married counterparts to report debt payment problems. Lea, Webley, and Walker (1995) report that debtors were more likely to "be women, to be employed part-time, to be housewives, to have children in their households" (p. 691). Similarly, Bird et al. (1997) found that among all US households, married householders were much more likely than their unmarried counterparts to own at least one credit card, although there was little difference in the percentage balances carried by each group. The same relationships held true among poor households (Bird et al., 1997). In our analysis, we include four marital status categories: single female, single male, unmarried couples (the reference category), and married couples.

Education

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

Age

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

Number of Children

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

Household Income

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

Employment

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

Savings

Savings can take many forms, from "mattress money" to stocks, bonds, and jewelry, and is measured in NCFSS in three categories: regular saver (contributes to savings monthly), irregular saver (has savings, but does not contribute monthly, the reference category), and without savings of any kind. Savers (regular and other) should exhibit

fewer credit problems than non-savers both because of the option to draw down liquid assets as an alternative to borrowing, and because accumulating savings requires financial discipline that should be reflected in better credit management.

Credit card ownership

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

EMPIRICAL RESULTS

We estimate a series of multiple regression models to test for welfare, leaver, and race effects. First, we estimate a pair of logistic regressions to explore the factors that influence low-income households' decisions to have a banking relationship, and own credit card(s), respectively. Next, we estimate an ordinary least squares model (OLS) of credit card debt and an ordered logistic regression of the likelihood of households to carry over unpaid balances from one month to the next. The next pair of models focuses on the frequency with which households take out payday loans or pawn property in exchange for cash. Finally, we fit three more models to explore the factors that contribute to the likelihood that families (1) will have had contact with bill collection agencies, (2) participated in a formal credit counseling program, or (3) passed bad checks during the previous five years. Detailed results of our analysis are recorded in Tables 4 through 7.

Welfare and Race Effects

Welfare Effects

Except for their banking status (30% as likely as other low-income families to own an account), there are few other ways in which TANF recipients in Charlotte differ in their financial services behavior from other low-income families. TANF recipients are no more likely to have lingering credit card debt, frequent payday lenders or pawnshops, or become chronic borrowers than non-TANF families.

Leaver Effects

The one significant way in which leavers differ from current TANF recipients is in their more frequent involvement with bill collectors and credit counseling. In all other respects, their respective financial services behavior is statistically indistinguishable. Whether due to the financial pressures of preparing for their transition to the workforce and formal referrals associated with their local TANF programs, leavers are more than 2.5 times more likely as current recipients to have been referred to a collection agency and almost four times more likely to have participated in credit counseling.

Race Effects

Controlling for family social and economic characteristics and welfare status, we find lingering racial and ethnic differences in the use of financial services and credit. First, holding other things constant, blacks are just 21% as likely as low-income white

TABLE 4

Logistic Regressions of Being Banked and Owning a Credit Card, Lower-Income Families, Charlotte, NC, 2001

Variable	Banked	Odds	S.E.	Credit Card	Odds	S. E.
Current adult welfare	−1.21*	0.30	(0.57)	0.44	1.55	(0.53)
Recent adult leavers	−0.35	0.70	(0.61)	0.15	1.17	(0.50)
Current child-only welfare	0.33	1.39	(0.96)	−0.20	0.82	(0.78)
Recent child-only welfare	1.29	3.62	(1.89)	−0.59	0.55	(1.16)
African American	−1.58***	0.21	(0.45)	−0.29	0.75	(0.33)
Latino	−2.24***	0.11	(0.70)	0.31	1.37	(0.61)
Other minority	0.03	1.04	(1.64)	−1.47	0.23	(1.31)
Single female	−1.64***	0.19	(0.48)	−0.19	0.83	(0.36)
Single male	1.23	3.43	(1.16)	−1.70***	0.18	(0.52)
Married couple	−0.35	0.70	(0.48)	0.36	1.43	(0.38)
High school dropout	0.11	1.11	(0.66)	−1.35*	0.26	(0.56)
High school graduate	−0.05	0.95	(0.58)	−1.60**	0.20	(0.47)
Some college	−0.36	0.70	(0.56)	−2.41***	0.09	(0.48)
Age of household head	−0.01	0.99	(0.01)	0.04***	1.04	(0.01)
Number of children	−0.16	0.85	(0.15)	−0.48***	0.62	(0.14)
Income $10,000 to $15,000	0.63	1.87	(0.48)	−0.34	0.71	(0.44)
Income $15,000 to $20,000	0.97****	2.62	(0.52)	0.60	1.82	(0.47)
Income $20,000 to $25,000	1.67**	5.33	(0.62)	1.43**	4.17	(0.55)
Income $25,000 to $30,000	1.31**	3.70	(0.56)	−0.47	0.62	(0.44)
No employed adult	−0.39	0.68	(0.69)	0.02	1.02	(0.51)
One part-time worker	0.77	2.16	(0.90)	1.21	3.35	(0.70)
One full-time worker	−0.63	0.53	(0.59)	0.12	1.13	(0.42)
Owns bank account	–	–	–	2.78***	16.15	(0.60)
Owned a bank account in the past	–	–	–	2.06**	7.83	(0.70)
Parents were banked	1.83***	6.21	(0.42)	0.85*	2.33	(0.36)
Has no savings	−0.71****	0.49	(0.42)	−0.39	0.67	(0.34)
Saves regularly	1.29*	3.6	(0.51)	0.55	1.74	(0.34)
Attended financial education	−0.02	0.98	(0.60)	1.40**	4.04	(0.51)
Constant	2.94*		(1.29)	−2.62*		(1.12)
Log Likelihood	−517.2			−640.3		
$N = 505$						

*p < .05. **p < .01. ***p < .001. ****p < .005.
Source. Center for Community Capitalism, 2001.

households in Charlotte to own a bank account, while Latinos are even worse off—just 11% as likely to be banked. As suggested earlier, minorities are also more likely to use alternative (fringe) financial services than whites. Blacks are five times more likely than whites to take out multiple payday loans, while Latinos are eight times more likely than whites to pawn regularly. While there are no racial or ethnic differences in the rate of credit card ownership, Latinos have lower credit card debt.

There are two other interesting results of our models. The first is that having a bank account is positively associated with accumulating savings. While more than three quarters (77%) of banked households have some savings, this is true of just one third (32%) of all unbanked respondents. Conversely, families who do not save are just half as likely to own a bank account as families who save irregularly, and they are less than one-sixth as likely to own an account as families who save regularly. Saving behavior is also related to timely bill payment and to lower frequencies of checking account overdrafts.

TABLE 5

Ordinary Least Squares of Log Credit Card Debt and Ordered Logit of Postponing Repayment, Lower-Income Families, North Carolina, 2001

	Log Credit Card Debt			Postpone Repayment		
Variable	Coefficient	Std Beta	S.E.	Coefficient	Odds	S.E.
Current adult welfare	0.30	0.02	(1.02)	0.50	1.64	(0.90)
Recent adult leavers	0.36	0.02	(0.92)	−0.15	0.86	(0.70)
Current child-only welfare	0.24	0.01	(1.58)	1.04	2.83	(1.41)
Recent child-only welfare	−2.40	−0.05	(2.32)	−0.45	0.64	(1.80)
African American	−0.89	−0.11	(0.60)	0.28	1.33	(0.51)
Latino	−2.35*	−0.13	(1.15)	−1.21	0.30	(0.93)
Other minority	−0.70	−0.01	(3.60)	−0.58	0.56	(4.20)
Single female	−1.74**	−0.24	(0.58)	−0.40	0.67	(0.44)
Single male	−0.67	−0.04	(1.00)	−0.47	0.62	(0.77)
Married couple	−1.18****	−0.15	(0.65)	−0.80	0.45	(0.52)
High school dropout	−1.92*	−0.17	(0.84)	−1.78*	0.17	(0.73)
High school graduate	−2.02***	−0.27	(0.59)	0.57	1.76	(0.45)
Some college	0.58	0.07	(0.64)	1.28**	3.60	(0.49)
Age of household head	−0.04*	−0.21	(0.02)	−0.02	0.98	(0.01)
Number of children	0.15	0.04	(0.25)	0.12	1.12	(0.23)
Income $10,000 to $15,000	0.09	0.01	(0.86)	0.77	2.16	(0.70)
Income $15,000 to $20,000	−0.43	−0.05	(0.73)	1.22*	3.40	(0.56)
Income $20,000 to $25,000	2.72***	0.28	(0.83)	1.17****	3.22	(0.69)
Income $25,000 to $30,000	−1.68*	−0.21	(0.75)	−0.60	0.55	(0.63)
No employed adult	0.17	0.02	(0.90)	0.21	1.24	(0.78)
One part-time worker	2.18*	0.18	(0.98)	0.40	1.49	(0.88)
One full-time worker	−0.45	−0.06	(0.80)	−0.05	0.95	(0.67)
Owns bank account	2.66	0.19	(1.79)	0.34	1.40	(1.17)
Owned a bank account in the past	3.03	0.20	(2.03)	0.26	1.29	(1.53)
Parents were banked	1.58**	0.19	(0.61)	0.73	2.08	(0.54)
Has no savings	1.83*	0.17	(0.72)	2.28***	9.81	(0.64)
Saves regularly	0.99****	0.13	(0.54)	0.31	1.36	(0.42)
Attended financial education class	2.72***	0.25	(0.68)	1.78***	5.92	(0.53)
Owns store and major credit cards	1.08	0.15	(0.80)	0.44	1.55	(0.66)
Owns major credit card only	0.85	0.11	(0.82)	0.52	1.68	(0.70)
Constant 1	1.56	−0.15	(2.16)	1.01	–	(1.59)
Constant 2	–	–	–	2.11	–	(1.59)
Constant 3	–	–	–	3.01	–	(1.60)
Constant 4	–	–	–	4.12	–	(1.61)
Adjusted R-squared:	0.43			–		
Log likelihood:	–			−772.3		
N = 224.						

Note. Reference categories: current adult welfare, white, unmarried couple, college graduate, income less than $10,000, more than one full time worker, never been banked, owns store cards only, and saves irregularly.
*p < .05.**p < .01.***p < .001. ****p < .005.
Source. Center for Community Capitalism, 2001.

Our banking model also confirms the importance of parental influence in childrens' financial services behavior. Respondents who grew up in families who were banked are more than six times more likely than other low-income families to be banked as adult householders. These respondents are more than twice as likely to own a credit card and are 60% less likely to frequently bounce checks. Growing up in a banked household is also positively related to credit card debt, contact with a collection agency, and participation in

TABLE 6

Ordered Logit of Payday Loans and Negative Binomial Regression of Pawnshop Borrowing, Charlotte, NC, 2001

	Payday Lending			Pawnbroking		
Variable	Coefficient	Odds	S.E.	Coefficient	Odds	S.E.
Current adult welfare	0.46	1.59	(0.60)	0.22	1.25	(0.53)
Recent adult leavers	0.16	1.17	(0.55)	0.83	2.29	(0.56)
Current child-only welfare	0.42	1.52	(0.70)	0.76	2.14	(0.63)
Recent child-only welfare	−0.33	0.72	(0.92)	0.66	1.94	(0.93)
African American	1.65*	5.20	(0.68)	−0.06	0.94	(0.45)
Latino	0.29	1.34	(1.04)	2.10**	8.17	(0.69)
Other minority	1.75	5.75	(1.37)	−18.19	0.00	(28.4)
Single female	−0.23	0.79	(0.40)	−0.94*	0.39	(0.39)
Single male	−1.21	0.30	(1.19)	−0.76	0.47	(1.04)
Married couple	−0.75	0.47	(0.53)	0.39	1.47	(0.47)
High school dropout	−1.65*	0.19	(0.73)	0.01	1.01	(0.69)
High school graduate	−1.70***	0.18	(0.52)	−0.30	0.74	(0.58)
Some college	−0.87****	0.42	(0.47)	−0.08	0.92	(0.59)
Age of household head	−0.02	0.98	(0.02)	−0.02	0.98	(0.01)
Number of children	−0.21	0.81	(0.14)	0.01	1.01	(0.12)
Income $10,000 to $15,000	−0.10	0.90	(0.61)	−1.00*	0.37	(0.44)
Income $15,000 to $20,000	0.88	2.41	(0.58)	−0.90*	0.41	(0.48)
Income $20,000 to $25,000	0.64	1.89	(0.68)	−0.28	0.76	(0.54)
Income $25,000 to $30,000	0.60	1.83	(0.65)	−2.00***	0.14	(0.61)
No employed adult	−0.64	0.53	(0.66)	0.22	1.25	(0.63)
One part-time worker	−3.04**	0.05	(1.17)	−0.24	0.79	(0.70)
One full-time worker	−0.91****	0.40	(0.52)	−0.43	0.65	(0.53)
Owns a bank account	−0.10	0.91	(0.48)	0.98	2.68	(0.65)
Owned a bank account in the past	–	–	–	2.04**	7.71	(0.70)
Parents were banked	0.26	1.04	(0.48)	0.04	1.04	(0.41)
Has no savings	0.04	0.57	(0.43)	−0.37	0.69	(0.42)
Saves regularly	−0.56****	2.09	(0.40)	−0.49	0.61	(0.43)
Attended financial education class	0.74*	0.26	(0.41)	1.16*	3.18	(0.46)
Owns store and major credit cards	−1.34	0.51	(0.55)	−0.99*	0.37	(0.48)
Owns major credit card only	−0.68	1.25	(0.43)	−0.76****	0.47	(0.42)
Constant 1	0.22	–	(1.39)	−0.39	–	(1.19)
Constant 2	1.14	–	(1.39)	–	–	–
Constant 3	1.54	–	(1.39)	–	–	–
Constant 4	2.06	–	(1.41)	–	–	–
Ln Alpha	–	–	–	1.71	–	(0.17)
Alpha	–	–	–	5.54	–	(0.95)
Log likelihood:	−417.3					
$N = 400$ for payday lending						
$N = 505$ for pawn.						

Note. Reference categories: current adult welfare, white, unmarried couple, college graduate, income less than $10,000, more than one full time worker, never been banked, and saves irregularly. We first tested the frequency of pawnshop borrowing using the actual number of times the respondent borrowed from a pawnshop over the previous 18 months, and found strong evidence of over-dispersion, and therefore estimated a negative binomial regression rather than a Poisson regression. *Source*. Center for Community Capitalism, 2001.
*$p < .05$.**$p < .01$.***$p < .001$.****$p < .005$.

TABLE 7

Logistic Regression of Collections and Credit Counseling, and Ordered Logit of Bad Checks, Charlotte, NC, 2001

	Collection Agency			Credit Counseling			Bounced Checks		
Variable	Coefficient	Odds	S.E.	Coefficient	Odds	S.E.	Coefficient	Odds	S.E.
Current Adult Welfare	0.17	1.19	(0.50)	1.52*	4.55	(0.76)	0.46	1.59	(0.74)
Recent Adult Leavers	0.93*	2.53	(0.47)	1.35*	3.86	(0.69)	0.72	2.05	(0.59)
Current Child-Only Welfare	1.14	3.11	(0.78)	1.34	3.80	(1.13)	−0.02	0.98	(0.93)
Recent Child-Only Welfare	0.40	1.49	(1.16)	0.98	2.65	(1.60)	0.22	1.25	(1.45)
African-American	0.67*	1.96	(0.30)	1.54*	4.64	(0.62)	−0.15	0.86	(0.37)
Latino	−0.75	0.47	(0.59)	−0.38	0.68	(1.01)	−0.56	0.57	(0.69)
Other minority	2.00	7.42	(1.50)	5.56***	259.81	(1.58)	1.02	2.77	(1.21)
Single female	−0.46	0.63	(0.30)	−0.11	0.90	(0.54)	−0.24	0.78	(0.34)
Single male	−0.86****	0.42	(0.48)	−3.48	0.03	(2.50)	0.66	1.93	(0.51)
Married couple	−0.65****	0.52	(0.36)	0.50	1.65	(0.73)	−1.32**	0.27	(0.45)
High school dropout	0.41	1.51	(0.47)	1.28****	3.58	(0.73)	−2.96***	0.05	(0.67)
High school graduate	−0.75*	0.47	(0.35)	−1.06	0.35	(0.69)	−0.90*	0.41	(0.39)
Some college	0.03	1.03	(0.36)	0.42	1.52	(0.61)	−1.20**	0.30	(0.40)
Age of household head	0.02****	1.02	(0.01)	0.02	1.02	(0.02)	0.00	1.00	(0.01)
Number of children	0.28*	1.33	(0.12)	0.32	1.38	(0.21)	0.21	1.24	(0.15)
Income $10,000 to $15,000	−0.88*	0.42	(0.43)	−0.63	0.53	(0.80)	0.16	1.18	(0.55)
Income $15,000 to $20,000	−0.43	0.65	(0.43)	−0.61	0.55	(0.76)	0.17	1.19	(0.53)
Income $20,000 to $25,000	0.32	1.38	(0.48)	0.62	1.86	(0.74)	−0.36	0.70	(0.62)
Income $25,000 to $30,000	−0.38	0.68	(0.41)	−1.10	0.33	(0.85)	0.11	1.12	(0.51)
No employed adult	−0.18	0.83	(0.47)	1.12	3.06	(1.05)	0.84	2.32	(0.61)

TABLE 7 (Continued)

	Collection Agency			Credit Counseling			Bounced Checks		
Variable	Coefficient	Odds	S.E.	Coefficient	Odds	S.E.	Coefficient	Odds	S.E.
One part-time worker	0.05	1.05	(0.60)	0.88	2.41	(1.30)	1.07	2.91	(0.74)
One full-time worker	1.13**	3.11	(0.42)	3.28***	26.61	(0.92)	1.59**	4.88	(0.53)
Owns a bank account	2.26***	9.55	(0.65)	0.33	1.40	(1.12)	–	–	–
Used to own a bank account	2.69***	14.66	(0.74)	−0.10	0.91	(1.21)	–	–	–
Parents were banked	0.55****	1.73	(0.34)	1.29*	3.65	(0.66)	−0.87*	0.42	(0.42)
Has no savings	−0.18	0.84	(0.32)	0.82	2.26	(0.57)	0.92*	2.50	(0.42)
Saves regularly	−0.29	0.75	(0.29)	−0.51	0.60	(0.58)	−0.28	0.75	(0.33)
Attended financial education	0.43	1.53	(0.41)	1.67**	5.29	(0.57)	−0.43	0.65	(0.48)
Owns store and major cards	−0.51****	0.60	(0.31)	1.15	0.21	(0.76)	−1.50***	0.21	(0.36)
Owns major credit card only	−1.34***	0.26	(0.34)	2.69***	0.12	(0.64)	−1.48***	0.12	(0.40)
Constant 1	−3.60***		(1.08)	−9.84***		(2.01)	−1.67		(1.07)
Constant 2							−0.44		(1.06)
Constant 3							1.74		(1.09)
Constant 4							2.79		(1.14)
Log likelihood:	−663.9			−399.9			−807.0		
$N = 502$ for collections and credit counseling									
$N = 305$ for bounced checks.									

Note. Reference categories: current adult welfare, white, unmarried couple, college graduate, income less than $10,000, more than one full time worker, never been banked, and saves irregularly.
Source. Center for Community Capitalism, 2001.
$^{*}p < .05$. $^{**}p < .01$. $^{***}p < .001$. $^{****}p < .005$.

credit counseling. This suggests that while cultural factors may be associated with people's attitudes and experiences with mainstream financial institutions, they do not prevent credit problems.

CONCLUSIONS AND RECOMMENDATIONS

The NCFSS was sponsored by the North Carolina Department of Health and Human Services because enlightened welfare reform officials believed that access to financial services and affordable sources of credit should be more widely available to families who come into contact with the welfare system. They also believed, and our work has confirmed, that families who leave TANF do so with significant debt burdens, which continue to grow even as they seek and secure work. The unfortunate conclusion is that because many leavers continue to function at this economic margin after transitioning to the workforce, their reliance on high-cost credit products and lack of savings may contribute to their recycling back onto welfare when they suffer even modest reversals. This is especially true in a sluggish economic recovery where job growth slows, intermittent spells of unemployment and reduction of work hours occur, and fewer opportunities for upward job mobility exist.

It is probably foolish to suggest that financial education campaigns are more important than state efforts to increase job stability, career advancement, or improve work supports such as health and child care, or mount statewide initiatives to increase outreach efforts to enroll low-income workers in the federal Earned Income Tax program (Miller, Molina, Grossman, & Golonka, 2004; National Governors Association, 2002). Nonetheless, one way to keep in touch with leavers, even though they are no longer receiving benefits, is for local TANF agencies to contract with community-based organizations and local community action agencies to provide financial education and counseling support. With respect to national policy, our work suggests that issues regarding banking, financial education, credit access, and savings should play a more significant role in congressional deliberations around reauthorization and the next generation of welfare reform.

While NCFSS was never about race, our findings are nevertheless striking. Controlling for a wide range of household characteristics among our low-income respondents, we found racial minorities to be significantly more isolated from the financial mainstream—much less likely to have a bank account and much more likely to meet their financial services needs through high-cost payday lenders and pawn brokers than non-minorities. We also found Latino families to be less likely than non-Hispanic whites and blacks to accumulate more credit card debt and no less likely to pay off their monthly balances on time or bounce checks. There has been enormous growth of the Latino population in North Carolina and the nation. Mainstream financial institutions should take note of the fact that Latinos are 70% as likely as non-Hispanic whites to own a banking account. These findings suggest that there is a significant, untapped market for retail banking products, home mortgage loans, and other financial services among this growing population.

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

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

We have also confirmed that a significant number of families would benefit enormously from second chance loan programs (partnerships between local TANF agencies, foundations, and mainstream banks) to help people with bad credit get out of the clutches of high-cost fringe bankers. One such program is the Ways to Work Detroit Loan Project, a joint effort of Catholic Social Services of Wayne County and two local banks that provides money to purchase or repair cars to help welfare mothers get to work or find a job (Info Expo, City of Detroit Employment and Training Department, 2003).

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

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

REFERENCES

Appelbaum, E., Bernhardt, A., & Murnane, R. (Eds.). (2005). *Low wage America: How employers are reshaping opportunity in the workplace*. New York: Russell Sage Foundation.

Azicorbe, A. M., Kennickell, A. B., & Moore, K. B. (2003). Recent changes in US family finances: Evidence from the 1998 and 2001 surveys of consumer finances. *Federal Reserve Bulletin*, *89*, 1–32.

Bachman, J. (2001). The psychology of debt. *Credit and Collections World*. White Papers. Available: http://www.collectionsworld.com/04papr01.htm [January 26, 2005].

Bae, M., Hanna, S., & Lindamood, S. (1993). Patterns of overspending in U.S. households. *Financial Counseling and Planning*, *4*(3), 11–30.

Bird, E. J., Hagstrom, P. A., & Wild, R. (1997). *Credit cards and the poor*. Paper no. 1148–97. Madison, WI: University of Wisconsin Institute for Research on Poverty.

Brauner, S., & Loprest, P. (1999). *Where are they now? What states' studies of people who left welfare tell us*. Washington, DC: The Urban Institute.

Brown, J. L., & Beeferman, L. W. (2002). What comes after welfare reform? How we can ensure economic security, for all Americans. *Boston Review*, December 2001/January 2002. Available: http://www.bostonreview.net/BR26.6/brown.html [April 20, 2005].

Canner, G. B., & Luckett, C. (1990). Consumer debt repayment woes: Insights from a household survey. *Journal of Retail Banking*, *12*, 55–62.

Carow, K. A., & Staten, M. E. (2002). Plastic choices: Consumer usage of bank cards versus proprietary credit cards. *Journal of Economics and Finance*, *26*(2), 216–232.

Caskey, J. P. (1997). *Lower income Americans, higher cost financial services*. Madison, WI: Filene Research Institute.

Center for Community Capitalism. (2001). *North Carolina financial services survey*. Chapel Hill, NC: Author.

City of Detroit Employment and Training Department. (2003). *Info expo*. Available: http://www.ci.detroit.mi.us/employtrain/pdfs/InfoExpo%20Directory%202003.pdf [April 20, 2005].

Deng, Y., Quigley, J. M., & Van Order, R. (2000). Mortgage terminations, heterogeneity and the exercise of mortgage options. *Econometrica*, *68*(2), 275–307.

Dunham, C. R. (2001). The role of banks and nonbanks in serving low- and moderate-income communities. In J. L. Blanton, S. L. Rhine, & A. Williams (Eds.), *Changing financial markets and community development: A federal reserve system research conference* (pp. 31–58). Richmond: Federal Reserve Bank of Richmond.

Edin, K., & Lein, L. (1997). *Making ends meet: How single mothers survive welfare and low-wage work*. New York: Russell Sage Foundation.

Elliehausen, G., & Lawrence, E. C. (2001). *Payday advance credit in America: An analysis of customer demand*. Washington, DC: Credit Research Center, McDonough School of Business, Georgetown University.

Federal Reserve Board. (1998). *Survey of consumer finances*. Available: http://www.federalreserve.gov/pubs/oss/oss2/98/scf98home.html [April 20, 2005]. Washington, DC: Author.

Fellowes, M., & Katz, B. (2005). *The price is wrong: Getting the market right for working families in Philadelphia*. Washington, DC: The Brookings Institution Metropolitan Studies Program.

Godwin, D. D. (1999). Predictors of households' debt repayment difficulties. *Financial Counseling and Planning*, *10*(1), 67–78.

Grable, J. and So-Hyun Joo, Center for Financial Responsibility. (1999). Lubbock, TX: Texas Tech University. Available: http://www.hs.ttu.edu/cfr/cfr%20research.htm [April 20, 2005].

Hawke, J. D., Jr. (2000). *Focus on retail financial services to underserved communities*. Washington, DC: Comptroller of the Currency.

Hofferth, S. (2002). Did welfare reform work? Implications for 2002 and beyond. *Contexts*, *1*(1), 45–51.

Hogarth, J. M., & O'Donnel, K. (1999, July). Banking relationships of lower-income families and the governmental trend toward electronic payment. *Federal Reserve Bulletin*, 459–473.

Hubbard, G., Skinner, J. S., & Zeldes, S. P. (1994). Why do people save? Expanding the life-cycle model: Precautionary saving and public policy. *The American Economic Review*, *84*(2), 174–192.

Hungerford, T. L. (2000). Who doesn't have a bank account? Implications for social security privatization. *Challenge*, *43*(6), 65–75.

Illinois Department of Financial Institutions. (n.d.). *Short term lending final report*. Chicago: Consumer Credit Division.

Isaacs, J. B., & Lyon, M. R. (2000, August). *A cross-state examination of families leaving welfare: Findings from the ASPE-funded leavers studies*. Paper presented at the National Association for Welfare Research and Statistics (NAWRS) 40th annual workshop.

Kantor, A., & Nystuen, J. (1982). Defacto redlining: A geographic view. *Economic Geography*, *58*(4), 309–328.

Kennickell, A. B., Starr-McCluer, M., & Surette, B. J. (2000, January). Recent changes in U.S. family finances: Results from the 1998 survey of consumer finances. *Federal Reserve Bulletin*, *86*, 1–29.

Kim, A. (2001). *Taking the poor into account: What banks can do to better serve low-income markets*. Washington, DC: Progressive Policy Institute.

Lea, S. E. G., Webley, P., & Walker, C. M. (1995). Psychological factors in consumer debt: Money management, economic socialization, and credit use. *Journal of Economic Psychology*, *16*(4), 681–701.

Loprest, P. (1999). *Families who left welfare: Who are they and how are they doing?* No. Report #310290. Washington, DC: Urban Institute Press.

Manning, R. D. (2000). *Credit card nation: The consequences of America's addiction to credit*. New York: Basic Books.

Miller, J., Molina, F., Grossman, L., & Golonka, L. (2004). *Building bridges to self-sufficiency: Improving services for low-income working families*. New York: National Governors Association and MDRC.

National Governors Association. (2002). *Delaware Task Force recommends personal asset building* (September). Available: http://www.nga.org/center/frontAndCenter/1,1188, C_FRONT_CENTERˆD_4384,00.html [April 2005].

Nelson, D. W. (2005) Safeguarding the American dream: Why we must lower the high cost of being poor. *Advocasey*, *1*, 2–3.

Ngina, S. C., & Stafford, F. P. (1999). Portfolio choices of parents and their children as young adults: Asset accumulation by African American families. *AEA Papers and Proceedings*, *89*(2), 377–380.

Oliver, M. L., & Shapiro, T. M. (1995). *Black wealth/white wealth: A new perspective on racial inequality*. New York: Routledge.

Pacelle, M. (2004, July 6). Growing profit source for banks: Fees from riskiest card holders. *Wall Street Journal*, p. A1.

Pear, R. (2002, January 24). House democrats propose making the '96 welfare law and antipoverty weapon. *New York Times*, p. A24.

Polit, D. F., Widom, R., Edin, K., Bowie, S., London, A. S., & Scott, E. K. (2001). *Is work enough? The experience of current and former welfare mothers who work*. New York: The Manpower Demonstration Research Corporation for The Project on Devolution and Urban Change.

Quercia, R., Stegman, M., & Davis, W. (2004). Assessing the impact of North Carolina's predatory lending law. *Housing Policy Debate*, *15*(3), 573–601.

Richardson, P., Schoenfeld, G., & LaFever, S. (2002). *Evaluation of the North Carolina Work First Program, statewide study of families leaving work first, final report*. Reston, Virginia: Maximus, Inc.

Sherraden, M. (2000, March/April). Building assets to fight poverty. *Shelterforce Online*, *110*. Available: http://www.nhi.org/online/issues/110/sherraden.html [April 20, 2005].

Staten, M. E., & Baron, J. M. (2002). *College student credit card usage*. Working Paper, No. 65. Washington, DC: Credit Research Center, Georgetown University.

Staten, M. E., Elliehausen, G., & Lundquist, E. C. (2002). *The impact of credit counseling on subsequent borrower credit usage and payment behavior* Monograph #6. Washington, DC: Credit Research Center, Georgetown University.

Stegman, M. A., & Faris, R. (2001). *Welfare, work, and banking: The North Carolina financial services survey*. Prepared for the North Carolina Division of Social Services. Chapel Hill, NC: Center for Community Capitalism.

Stegman, M. A., & Faris, R. (2003). Payday lending: A business model that encourages chronic borrowing. *Economic Development Quarterly*, *17*(1), 8–32.

Sullivan, A., & Worden, D. (1995). Credit cards and the option to default. *Financial Services Review*, *4*(2), 123–136.

Swift, M. (2002, February 19). Poverty outlasts welfare reform; recipients landing jobs, staying poor, study finds. *The Hartford Courant*.

Tokunaga, H. (1993). The use and abuse of consumer credit: Application of psychological theory and research. *Journal of Economic Psychology*, *14*(2), 285–316.

Tootell, G. (1996). Redlining in Boston: Do mortgage lenders discriminate against neighborhoods? *The Quarterly Journal of Economics*, *111*(4), 1049–1079.

Wisconsin Department of Financial Institutions. (2001). *Review of payday lending in Wisconsin 2001*. Madison, WI: Author.

Yahoo! Finance Education Center. (2000). *Credit reports demystified*. Available: http://biz.yahoo.com/edu/md/ir_md4.ir.html [April 13, 2005].