

## The Financial Credit Profile of Low-Income Families Seeking Assets

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*Individual Development Account (IDA) participants need strong credit histories to access affordable credit for their IDA asset purchase. Using a convenience sample of IDA participants (n = 188) recruited from the St. Louis, MO area, this study presents credit profile data addressing utilization of alternative and mainstream financial services, amount of debt carried, and elements needed to improve credit. This study presents data on the credit profile of IDA participants (n = 188). Compared to national IDA participants, participants in this study had higher incomes, were more educated, and had a higher rate of being “banked.” The sample was not overburdened with their monthly debt. However, participants also utilize higher-cost alternative financial services, such as payday lenders and pawnshops, at similar rates to other low-income families and are beginning their IDA programs with low credit scores and poor credit history. Participant needs for credit assistance are discussed and practice, policy, and research implications are provided.*

*Keywords: credit; asset development; Individual Development Accounts (IDA)*

Poor financial credit and high debt are common barriers to asset development for low-income families. Asset development programs are actively taking steps to assist clients in improving their credit histories, their ability to save, and their access to affordable credit (Beverly, Sherraden, Cramer, Shanks, Nam, & Zhan, 2008). For example, Individual Development Account (IDA) programs—an asset development program that features matched savings for the poor—provides education about credit and assistance to improve credit scores and credit histories (Mills, Campos, Ciurea, DeMarco, Michlin, & Welch, 2000; Pinder, Yagley, Peck, & Moore, 2006). However, little is formally known about the beginning credit score and histories of clients IDA clients.

This pilot study, part of a larger, longitudinal study, provides aggregate information about the credit histories and scores (or “credit profile”) of low-income families who are seeking to build assets through an IDA program. The larger research study was designed to

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examine the long-term change in credit histories and scores for IDA asset purchasers, as an indicator of their financial well-being. Discussed in this paper are the use of credit by low-income families, asset development programs, and the importance of strong financial credit as a foundation of acquiring affordable assets. Implications for practitioners that address financial health are included. Program, policy, and research implications of the credit profile are also discussed.

### **USE OF CREDIT BY LOW-INCOME FAMILIES**

The supply of financial credit to low-income families has increased dramatically in the past few decades (Fellowes & Mabanta, 2007). This expansion of financial credit to low-income families has been characterized by a substantial increase in high-cost, sometimes exploitive, credit through alternative financial services, leading to dramatically increased debt. Both in the sub-prime mortgage market and from alternative financial providers, such as payday loan and check cashing stores, low-income families are utilizing high-cost credit for their lending needs. For example, a Pew Health Group (2010) report found that half of the families surveyed in the Los Angeles area have used alternative financial service providers. This high usage has led to new levels of debt. Debt held by those in the bottom quartile for income increased by 308% between 1989 and 2004, with 27% of lower-income families spending more than 40% of their income servicing debt (Fellowes & Mabanta, 2007). While credit cards have become more available to low-income families, the credit card debt burdens for low-income families are higher than for middle-income and upper-income families. Low-income families now owe the equivalent of 9.5% of their income on credit cards (Weller, 2006). This amplified expansion of credit has also resulted in increased financial burden for low-income families. For example, if each person whose income is under \$30,000 in the U.S. is paying an equal annual share toward the revenues of the alternative financial services industry, each person is paying \$3,800 (Rivlin, 2010). The end result is that low-income families are struggling with financial stress; over 32% of lower-income borrowers have difficulty paying bills on time (Fellowes & Mabanta).

#### ***Alternative Financial Services***

Much of the increase in credit for low-income families has occurred through the alternative financial services industry. Due to high profitability, the number of non-bank short-term lenders, also known as alternative financial providers who offer such products as check cashing, appliance and furniture rent-to-own, tax refund anticipation loans, payday, car title, and pawn shop loans, increased dramatically to over 30,000 stores nationwide by the late 2000s (Fellowes & Mabanta, 2007; Karger, 2005). An estimated 14 million households visited payday lenders in 2008, and collectively borrowed more than \$40 billion. The profit margin is high. In 2008, payday lending netted \$7 billion, rent-to-own stores generated \$7 billion, pawnbrokers profited by about \$4 billion, and the check cashing industry made \$3 billion, most of which was made from low-income families (Rivlin, 2010). Considered altogether, profits in the alternative finance industry are higher than federal and state spending on those living in poverty (Karger, 2005). Like families in

higher income ranges, low-income families use credit for purchase of consumable goods, to handle emergencies, assist friends and families, cover regular expenses until payday, and purchase assets. Access to non-predatory sources is limited for many low-income families. The consolidation in the banking industry since the 1980s has reduced traditional banking services in low-income communities, and even when present, banks are often as predatory as alternative providers (Karger).

Low-income families choose from a myriad of credit products to select those that are financially viable (Barr & Blank, 2009). However, lower-income families often lack knowledge about credit and lending needed to make informed decisions about implications of loan terms. For many families, increased availability of credit from alternative providers has provided short-term solutions to financial need, but has also resulted in concern about long-term debt (Lusardi, 2008; Willis, 2008).

Many low-income households, including those that have a transaction account (i.e., "bank" account) at a formal financial institution, use an array of credit products provided by both formal and alternative providers. Households without a transaction account use alternative providers because of a lack of an alternative. Low-income households with a transaction account use alternative providers for their credit needs for a variety of reasons, including the potential fees incurred if they overdraw their transaction account or are unable to maintain a required minimum balance, and the relative lack of convenient hours and locations of formal financial institutions, as compared to alternative providers (Barr, 2009).

### **CREDIT BACKGROUND**

Financial credit, or the ability to borrow money, is provided based on a judgment regarding the likelihood of repayment of a debt. Commercially available credit reports are typically used in making a determination about a loan and the terms of a loan. Credit reports provide a summary of personal credit histories. Credit reports also contain credit scores based on the information in the report. Information on a credit report can be utilized to set interest rates and terms on such products as automobile loans and credit card balances. Credit reports can also be used in the decision to offer employment or rental housing. Of particular interest to IDA programs are the fees associated with and the rates set on loans used for IDA purchases, such as home mortgages, mortgage insurance, and personal loans, which may be used for post-secondary education and business purposes (Hendricks, 2005; U.S. GAO, 2004).

In addition to the information provided on a credit report regarding credit history and behavior, credit reports include a credit score. These scores are widely used to assess credit worthiness and influence lenders' decisions to grant credit and the terms of the credit. Credit scores are derived from information provided to the credit bureau about active trade lines, which are revolving (i.e., credit card) and installment (i.e., a fixed loan amount, such as a home mortgage or an auto loan) (Hendricks, 2005). Scores are calculated through a quantitative scoring model by one of three national Credit Reporting Agencies (CRAs): Equifax, Trans Union, and Experian. The three CRAs receive payment and

repayment information from businesses and compile the information into credit reports sold to businesses and consumers. The system is voluntary and not all creditors report credit information to the CRAs or to all three CRAs, so CRAs may process different information on each consumer. CRAs have different mathematical scoring models, which typically result in different scores for the same individual. The general range of scores is 300–850, with those below 620 deemed to be “high risk” (Hendricks, 2005). Each person’s score fluctuates depending on current information and reflects credit worthiness at a given point in time. The exact formula for computing the scores is a trade secret, but general information about scoring is widely known regarding the types of data on which scoring is based (i.e., payment history, amounts owed, length of history of credit, new credit, and types of credit used) (Hendricks, 2005).

### **INDIVIDUAL DEVELOPMENT ACCOUNTS**

Strong credit scores and a positive credit history are important elements of asset development practices for lower-income families. Asset development work involves a wide variety of activities, such as pre- and post-homeownership counseling and assistance, credit counseling and building, assistance for post-secondary education, and micro-enterprise programming. Increasingly, this type of work is occurring within the IDA programs that provide matched savings accounts, general and asset-specific financial education, and support for asset purchases such as homes, home repair, post-secondary education, and micro-enterprise development (Carpender, 2008). Since the late 1990s, IDA programming has grown tremendously, with more than 362 projects operating nationally as of September 2008, and more than 70,000 people across the country with opened IDA accounts (U.S. Department of Health and Human Services, 2010). The majority of IDA participants who purchase an asset utilize financial credit in addition to their savings to purchase a home, complete home repair projects, pursue post-secondary education, or capitalize or expand a small business (U.S. Department of Health and Human Services, 2010). Research has pointed to positive outcomes of the IDA program, including increased (a) savings (Carpender, 2008; Hogan, Solheim, Wolfgram, Nkosi, & Rodrigues, 2004; Schreiner & Sherraden, 2007; Shobe & Christy-McMullin, 2005), (b) incomes, (c) economic security (Lerman & McKernan, 2008; Page-Adams, Scanlon, Beverly, & McDonald, 2001), (d) financial assets (Huang, 2010), and (e) real assets and total assets (Han, Grinstein-Weiss, & Sherraden, 2009). Other studies have found unchanged or mixed financial outcomes associated with IDA programs (McKernan, Ratcliffe, & Nam, 2007; Mills, Lam, DeMarco, Rodger, & Kaul, 2008).

#### ***Financial Credit and IDAs***

Addressing financial credit within IDA programs has become institutionalized because poor credit and high debt are common barriers to participant saving (Carpender, 2008). Participants have little success in saving if burdened by heavy debt. For example, almost half of those who enrolled in Rhode Island’s IDA program the first year had debt burdens of more than \$10,000 (Christner, 2003, as cited in Carpenders, 2008).

IDA programming often includes the assessment and, if needed, the improvement of financial credit as an essential element to prepare participants for IDA participation and to use credit for their future IDA asset purchase (Johnson, 2004; Pinder et al., 2006; Mills et al., 2000). IDA programs have responded to the credit problems clients bring to programming, including poor credit and lack of credit, that prevent successful saving and asset purchases. Programmatic responses include: (a) institutionalizing the review of credit in the IDA program application and screening process (Carpender, 2008; Johnson, 2004); (b) developing partnerships with creditors and credit counselors, such as non-profit credit counseling agencies and volunteer lawyers, to deliver credit counseling (Johnson, 2004; Mills et al., 2000; Pinder et al., 2006); (c) developing a "preliminary" IDA program to help clients improve their credit prior to formal IDA enrollment (Pinder et al., 2006); (d) providing referrals to financial counseling and encouraging clients to return to the program when credit had improved (Christner, 2003, as cited in Carpenders, 2008; DeMarco, Mills, & Ciurea, 2008); (e) providing individual one-on-one credit assessment and assistance, either in-person or via the internet (Pinder et al., 2006); and (f) allowing IDA accounts to be used for paying off debt and increasing credit scores (Mills et al., 2000; Pinder et al., 2006).

IDA programs seek to impact participant credit by including credit as a topic in required financial education (DeMarco et al., 2008). Topics covered within this element of financial education include learning about the advantages and disadvantages credit use, learning about different types of credit and ways to access it, the cost of credit, and comparison of credit terms. Participants also learn about credit reports, credit reporting agencies, ways to protect their credit, and the best uses of credit.

Understanding the credit profile of IDA participants as they begin the program, their uses of credit while in the program, and the terms of credit used to purchase an IDA asset would assist in better understanding long-term impacts of IDA participation related to credit. However, beyond addressing credit in programming structure, national reports about IDAs do not contain aggregate data about IDA participant credit history at the outset or end of IDA involvement, nor is information about the rationale for lack of reporting such data available. However, anecdotal data suggests that agencies are being encouraged by funders to gather credit data on a systematic basis for evaluation purposes. Aggregate credit information would provide helpful information to programs seeking to develop programming to meet credit needs of IDA participants, as well as provide another way to assess financial health of IDA participants and alumni. These data will be helpful in providing context for overall evaluation data of IDA programs, such as the degree to which IDA participants are able to purchase and maintain their assets over time (Christy-McMullin, Shobe, & Wills, 2009) and whether IDA asset purchasers experienced a higher level of financial well-being than prior to purchase. While most IDA participants utilize financial credit to purchase their assets and are vulnerable to predatory, high-cost credit sources in low-income communities, programs do not report their work to facilitate access to mainstream sources of financial credit for IDA asset purchase. Identifying the credit profile of IDA participants as they begin the program, their uses of credit while in the program, and the terms of the credit used to purchase an IDA asset would assist in better understanding the long-term impacts of IDA participation related to credit. The first step in

understanding is reviewing credit histories of IDA participants as they begin their IDA involvement as an indication of credit health.

The current study is a pilot project, part of a longitudinal study on financial credit outcomes of asset development activities, and provides data on credit well-being of beginning IDA program participants as one measure of their overall financial well-being. The following research questions regarding IDA participants as they begin the programs included:

- (a) What is the average credit score for IDA participants?
- (b) To what extent do IDA participants utilize alternative financial services?
- (c) To what extent do IDA participants utilize credit from mainstream financial services?
- (d) To what extent do IDA participants carry debt?
- (e) To what extent do IDA participants have the elements needed for improving their credit?

## **METHOD**

Permission was obtained from the United Way of Greater St. Louis and three IDA programs in St. Louis, Missouri that participate in an IDA facilitated by the United Way of Greater St. Louis to conduct this study. Researchers utilized a convenience sample and recruited low-income people who had been initially screened for the IDA program for eligibility by a community-based agency and were invited to an orientation, at which they were invited to participate in the study. The participants had income that was 200% or below the federal poverty level at the time of the study, similar to most IDA programs around the country.

Prior to beginning any other program elements (i.e., receiving general or asset-specific financial education, reviewing credit, enrolling in the program, opening an account, saving, purchasing, or receiving any staff support), participants were recruited for the study. The three community-based agencies through which the sample was obtained (n = 188), also offered other programs besides IDAs. These agencies included: (a) a housing counseling agency that provides pre- and post-purchase housing counseling, which recruited 88% of the participants (n = 165); (b) a domestic violence agency that provides family literacy, economic education, and other related programs, which recruited 10% of the participants (n = 18); and (c) a homeless service provider that provides referrals to area shelters, assistance with rent, and other related services, which recruited three percent of the participants (n = 5). The participants were recruited after initial screening by the agency for eligibility during a group or individual orientation to the IDA program, but prior to any IDA programming. The three recruitment sites collected identical demographic data in one web-based administrative database (i.e., VistaShare Outcome Tracker). The three sites also offered financial education that addresses identical core financial education competencies (see Table 1), allowing similar allowable expenses with

IDA funds (i.e., home purchase, home improvement, micro-enterprise, post-secondary education, and vehicle).

**Table 1**  
**General Financial Education Core Competencies**

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#### **Financial Plan**

Participants will:

- Become aware that attitudes and values affect how they view and use their money
- Learn how to set realistic and measurable financial goals
- Understand how to calculate monthly income and expenses
- Learn how to develop a spending plan that includes savings and goals and emergencies
- Learn how to manage regular monthly payments and savings
- Become aware of strategies for bringing income and expenses into balance

#### **Keeping Records, Taxes and Contracts**

Participants will:

- Understand how planning their finances and keeping good records can reduce their taxes
- Identify what records to keep and where to keep them
- Understand what creates a legal contract
- Learn about types of contracts that exist, types of contract terms and how to evaluate whether or not to sign a contract
- Become aware of consumer rights and lender rights under repossession, foreclosure and the collections process

#### **Credit**

Participants will:

- Learn about the advantage and disadvantages of using credit
- Learn about different types of credit and how to get credit
- Become aware of the cost of credit
- Learn how to compare credit terms and evaluate their own credit situation
- Become aware of wise ways to use credit
- Learn about credit reports, credit reporting agencies, and how to protect their credit

#### **Financial services**

Participants will:

- Become aware of the benefits of using a financial institution
- Learn about the different types of financial institutions and services offered
- Learn ways to evaluate and compare institutions and services to choose those that best fit their needs
- Learn how to write checks and manage their checking and savings accounts
- Become aware of procedures used to address and resolve problems related to their accounts

#### **Insurance**

Participants will:

- Learn ways to evaluate insurance policies and companies
- Learn basic insurance terms

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Participants completed the standard IDA intake form and an additional brief survey developed by the researchers to collect data about use of alternative financial services and debt (see Table 2). Participants provided written consent for IDA programs to share intake data and the survey data with researchers.

**Table 2**  
**Alternative Financial Services and Debt**

**Financial Behaviors Measured:**

Have a savings account  
Have a checking account  
Owe money to family/friends  
Have past due bills  
Have credit card balance  
Have other loans  
Have been an EITC recipient  
Have life insurance  
Own a debit card  
Used a payday lender  
Used a rent-to-own store  
Used a pawnshop

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Participants gave written permission for researchers to access their credit report and use the information for the study. Credit reports included credit information from at least two national credit bureaus, when available. Data presented here are baseline data for the larger study (n = 188).

***Analysis***

Descriptive statistics were computed on participant demographics and data obtained from the credit reports, including various financial behaviors in which participants engaged and the mean values of debts, income, and assets. As a measure of comparison, a chi-square analysis was completed on several variables (i.e., demographics, account ownership, home ownership, and means tested benefits) within the study sample against two national samples to determine the statistical similarity between the study participants and the participants in the national samples. Degrees of freedom and p-values were calculated as part of the chi-square calculations.

**RESULTS**

***Descriptive Data***

Participants were predominately African-American (75%), female (81%), and single heads of households (60%). The majority of participants had never been married (59%). Approximately one-third (34%) of participants had some college education but had not earned a degree, whereas 16% had earned a bachelor's degree or more, 19% held an associate's degree or vocational degree and almost 70% had at least some higher

education. Regarding age, 33% were 30 years old or younger, 35% were age 31-40, while 32% were age 41 or older.

### ***Financial Behaviors and Debt***

As seen in Table 3, the majority of the sample had used alternative financial services. For example, about half of the sample had used a payday lender (despite 91% having a checking or savings account, or being “banked”), with 21 participants (11%) having outstanding loans ( $M = \$519.32$ ). Additionally, 69% had used a pawnshop at some point, with two participants having outstanding loans ( $M = \$94$ ). However, the majority had not used a rent-to-own store (80%).

**Table 3**  
**Financial Behaviors and Debt**

Behavior/Debt	<i>n</i>	%	<i>M</i>	<i>SD</i>
<i>Own a Debit Card</i>				
Yes	162	87%		
No	25	13%		
<i>Ever Used a Payday Loan Lender</i>				
Yes	94	50%		
No	93	50%		
<i>Current Loans (21 outstanding)</i>			\$519.32	\$240.06
<i>Ever Used a Pawnshop</i>				
Yes	130	69%		
No	57	31%		
<i>Current Loans (2 outstanding)</i>			\$94.00	\$19.90
<i>Ever Had a Rent-to-Own Account</i>				
Yes	38	20%		
No	149	80%		
<i>Current Loans (3 outstanding)</i>			\$279.67	\$72.57
<i>Monthly Debt</i>				
Range (0 - \$2728)			\$399.23	\$461.51
<i>Debt to Income</i>				
Range (0 - 4.4)		28%	0.52	26%

Despite a high usage of alternative financial services, the sample was not overburdened with their monthly debt. In this study, monthly liabilities included all types of debt (i.e., loans from all sources). These debts are generally considered by financial professionals to be a burden if the amount owed equals or exceeds 40% of monthly income. The average monthly debt payment was about \$399 (range \$0-\$2,728,  $SD = \$462$ ). The mean debt to income ratio, a measure of financial stability, was 22% with a standard deviation of 26%. Eighteen percent of the sample had a debt to income ratio of over 40%. Twenty-five percent of the sample had no monthly debt, 37% had less than \$100 in

monthly debt, and 2% had debt higher than their income (105% to 184%). Six participants who had no income were excluded from the analysis.

A substantial portion of the sample, however, had experienced significant financial challenges. For example, 24% of the sample had experienced a previous bankruptcy, and 4% had previously been through foreclosure. While 68% had no delinquencies on their current accounts, 71% of participants had debt classified as a collection debt ( $M = \$8,215$ ), which means the debt had not been paid on time, and the original creditors had classified the debt as “collection” or sold the debt to a collection agency.

### ***Credit***

Table 4 provides complete credit information about participants. The majority of the participants ( $n = 176$ ) had an Experian and/or a TransUnion credit score. Very few participants ( $n = 6$ ) had an Equifax score, the other major national credit reporting bureau, in addition to an Experian and/or a TransUnion credit score. Thus, Equifax credit scores were not used in the analysis. Approximately 6% of the participants ( $n = 12$ ) did not have a credit score. These participants had not interacted with creditors who reported their data to one or more of the credit bureaus.

**Table 4**  
**Credit Information**

	<i>M</i>	<i>SD</i>	Range
Experian Credit Score	598	85.15	450 – 814
TransUnion Credit Score	578	1.47	409 – 795
<i># of Installment Lines</i>	2.33	2.40	0 – 11
<i># of Revolving Lines</i>	1.20	1.77	0 – 11
<i># of Active Trade Lines</i>	1.13	93.88	0 – 11

The credit score from Experian ( $M = 598$ ) and TransUnion ( $M = 578$ ) were very similar. In general, the score given for “good” credit was between 620-650, which allows for access to credit at the best rate for the purchase of homes, loans for small business, and other assets (Hendricks, 2005). The mean number of active trade lines was 2.33 ( $M = 2.33$ , range 0-14), while 24% of the sample did not have active trade lines. On average, participants had over one active revolving accounts ( $M = 1.13$ ) and slightly over one active installment account ( $M = 1.20$ ).

### ***Comparison to National IDA Sample***

This study sample was compared to two other samples of IDA participants to gauge the degree to which the study participants were nationally representative. The first sample was from The American Dream Demonstration Project (ADD) participants, the first national evaluation study of IDAs in the United States (from 1996-2001), which was conducted by the Center for Social Development at Washington University in St. Louis. The second sample used for comparison was the 2008 population data of participants of the

Assets for Independence Act (AFI) program, which includes IDA participants whose matching funds are federal funds. Table 5 provides complete information about participant demographics in the current study, ADD, and AFI samples. The IDA sample had more females than ADD, while the ages of the participants were about the same for all three studies. The IDA sample also had a higher average monthly income than the other two samples.

**Table 5**  
**Demographic Data**

<i>Baseline Characteristics</i>	IDA Study	ADD	AFI
<i>Gender</i>			
Male	19%	22%	18%
Female	81%	78%	82%
<i>Race/Ethnicity</i>			
African American	75%	40%	47%
Caucasian	19%	41%	N/A
Other	6%	29%	53%
<i>Age</i>			
34 yrs or Younger	48%	47%	50%
35 yrs or Older	52%	53%	50%
<i>Marital Status</i>			
Currently or Previously Married	41%	54%	61%
Never Married	59%	46%	39%
<i>Education</i>			
High School Diploma or Less	20%	42%	45%
More than a High School Diploma	80%	58%	55%
<i>Mean # of Adults in Household</i>			
	1.5	1.5	N/A
<i>Mean # of Children in Household</i>			
	1.6	1.7	N/A
<i>Checking/Savings Account</i>			
Yes	91%	80%	52%
No	9%	20%	48%
<i>Homeowner</i>			
Yes	30%	17%	23%
No	70%	83%	77%
<i>Business Owner</i>			
Yes	13%	N/A	15%
No	87%	N/A	85%
<i>Employed</i>			
Yes	85%	84%	89%
No	15%	16%	11%
<i>Monthly Household Income</i>			
Average	\$1,825	\$1,350	\$1,465
<i>Receiving Means Tested Benefits</i>			
Yes	25%	39%	36%
No	75%	61%	64%

A chi-square analysis was performed to determine the similarities between the study group and the two comparison groups (see Table 6). Several significant differences between the IDA study and the other two groups were found. First, the current study's IDA

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sample had a significantly higher percentage of African-Americans than the ADD sample ( $\chi^2 = 92.90$ ,  $p < .001$ ). Significantly more of the IDA participants had never been married (ADD-  $\chi^2 = 12.65$ ,  $p < .001$ ; AFI-  $\chi^2 = 31.27$ ,  $p < .001$ ) and had a high school diploma than the ADD ( $\chi^2 = 37.35$ ,  $p < .001$ ) or AFI participants ( $\chi^2 = 47.47$ ,  $p < .001$ ). The IDA participants were also significantly more “banked” than the ADD ( $\chi^2 = 14.22$ ,  $p < .001$ ) or AFI ( $\chi^2 = 114.56$ ,  $p < .001$ ) participants. While the IDA participants were employed and were business owners at the same rate as the other samples, significantly more IDA participants were also homeowners than ADD ( $\chi^2 = 26.11$ ,  $p < .001$ ) and AFI participants ( $\chi^2 = 6.79$ ,  $p < .001$ ). Significantly fewer IDA participants were receiving means-tested benefits than ADD ( $\chi^2 = 28.53$ ,  $p < .001$ ) or AFI participants ( $\chi^2 = 20.89$ ,  $p < .001$ ).

**Table 6**  
**Chi-Square Goodness-of-Fit**

<i>Characteristics</i>				<u>ADD</u>		<u>AFI</u>			
	<i>IDA</i>	<i>ADD</i>	<i>AFI</i>	<i>DF</i>	<i>X<sup>2</sup></i>		<i>DF</i>	<i>X<sup>2</sup></i>	
<i>Race/Ethnicity</i>									
	n=	n=	n=						
African American	136	72	85						
Caucasian	34	74	N/A						
Other	11	34	96	2	92.90 ***		2	NA	N/A
Total	181	181	181						
<i>Marital Status</i>									
Currently or Previously Married	76	100	113						
Never married	110	86	73	1	12.65 ***		1	31.27 ***	
Total	186	186	186						
<i>Education</i>									
High School Diploma or Less	38	79	85						
More than a High School Diploma	150	109	103	1	37.35 ***		1	47.47 ***	
Total	188	188	188						
<i>Checking/Savings Account</i>									
Yes	171	150	98						
No	17	38	90	1	14.22 ***		1	114.56 ***	
Total	188	188	188						
<i>Homeowner</i>									
Yes	58	32	43						
No	130	156	145	1	26.11 ***		1	6.79 ***	
Total	188	188	188						
<i>Receiving Means Tested Benefits</i>									
Yes	38	73	68						
No	150	115	120	1	28.53 ***		1	20.89 ***	
Total	188	188	188						

In summation, among other differences, the IDA study sample was more highly educated, had more assets in the form of homeownership, and was more heavily banked than other national samples of IDA participants. The IDA study sample was also more heavily banked than large-scale surveys of the low- and moderate-income population. Data from these samples suggest that 20%-30 % of households and 28%-37% of individuals are unbanked in the U.S. (Bucks, Kennickell, & Moore, 2006; FDIC, 2009; U.S. Department of the Treasury, 2009). The sample had a reasonable debt-to-income ratio, and therefore carried modest amounts of debt, suggesting this sample was particularly well suited for saving and purchase of assets.

## DISCUSSION

Even with more education, a higher rate of being “banked,” and having a future orientation with interest in savings and asset-building, the sample followed many of the same financial behavioral patterns as the general low-income population. Although banked, the majority of participants readily used alternative providers, such as payday lenders and pawn shops, rather than loan products offered by their mainstream financial providers. The low mean credit score indicates the sample was beginning the asset-development process with poor credit and unable to access credit with the best possible terms. Unless IDA participants are able to increase their credit score during the time they participate in IDA programming, participants who attempt to add their IDA savings to a loan to purchase IDA asset may pay more for access to credit, which could impact the long-term affordability of the asset and jeopardize their long-term asset ownership. At the outset of IDA programming, participants also lack the means by which to improve their credit score. The responsible use of active trade lines (i.e., revolving and installment) has been shown to be one of the most helpful steps in improving credit scores (Credit Builders Alliance, n.d.). While most financial experts suggest a minimum of three active trade lines, (optimally a mixture of revolving and installment) (Hendricks, 2005), the sample mean was far below this recommendation. Paying down certain types of debt and facilitating an appropriate match between credit that will result in active trade lines are important steps toward improving the credit scores and histories of participants.

Asset development programs may wish to gather extensive data about financial behaviors and credit throughout IDA programming, and focus on improving credit prior to asset purchase as an important program element. Given the need for reputable, effective, low-cost credit counseling, programs can focus on increasing credit scores by including programming that directly addresses this need. Programs may assess prospective IDA participants for their use of alternative providers, such as payday lenders and pawnshops. In addition, programs should educate clients about credit, provide individualized credit counseling, offer referrals for mainstream alternatives for short-term lending, or seek funding to become direct providers of short-term lending. For example, programs could benefit from partnerships with mainstream financial services to refer clients to market lending products with local providers, such as credit unions, so their clients could avoid alternative providers and products. Viewing strong credit as a financial asset that will serve clients in many ways will propel programs to consider credit scores as part of their program evaluation efforts. Finally, programs may also wish to join or begin community

efforts to provide incentives to the formal financial sector to create products and services specifically geared to low- and moderate-income households to facilitate their access to the mainstream credit market and lower-cost financial products and services.

### **IMPLICATIONS**

This study has implications for practitioners who work with low-income clients and who address one or more aspects of financial health (i.e., relational, emotional, cognitive, behavioral, and/or economic aspects). First, the results of this study reinforce the need to include data about financial behaviors in assessment and intervention, such as questions about use of transaction accounts, monthly and collection debt, and use of alternative and formal financial institutions. Low-income clients with and without transaction accounts use alternative providers, therefore practitioners cannot assume that clients with transaction accounts are utilizing the accounts, and accessing credit at reasonable rates at formal financial institutions. Second, practitioners should also be aware that even gainfully employed clients interested in building assets struggle with low credit scores and poor credit histories, which may impact other therapeutic goals. Practitioners may wish to include the topic of credit in the assessment and ongoing work with clients.

This area also has implications for research, education, and policy. Future, national-level research is needed on credit building elements within IDA programs to determine their effectiveness in building credit in the long run. Research is also needed on those efforts currently underway to create partnerships between IDA programs and financial providers to assist participants to increase their credit and obtain affordable credit for their asset purchase to determine the outcomes of these partnerships. Within social work education, increased exposure to the importance of credit within economic justice efforts will better prepare social workers in the field for this element of their practice. Finally, social welfare policy efforts that include assets must also consider and promote credit building as an important aspect.

### **LIMITATIONS**

While the participants were drawn from the population of those seeking IDAs, the sample may not represent the national IDA population, nor a random draw of all low-income households relative to demographics, wealth characteristics, and in motivation to purchase assets. This suggests that the results apply to households who are eligible and would want to apply for an IDA, but not necessarily to the whole employed low-income population. Another limitation is the lack of generalizability. When compared to other national samples of IDA participants, some differences were found, in the levels of education, homeownership rate, and number who have a transaction account (“are banked”). Therefore, the results should not be generalized to the national IDA population. Additionally, credit information provided is cross-sectional and may not represent a broad view of the credit histories of IDA participants. However, the results are suggestive of the credit profile of the some of the individuals that would likely participate in IDAs.

## CONCLUSION

Low-income populations, including those seeking assets, struggle with poor credit, including low credit scores. IDA participants exhibit similar financial behaviors as other low-income populations regarding the use of the alternative financial service sector and credit. IDA programs have institutionalized credit education through general financial education programs, and some offer additional credit counseling resources, such as one-on-one credit counseling. Additional resources and supports regarding credit may be helpful. For example, some IDA programs are creating post-IDA financial planning services (Collins, n.d.), while others are institutionalizing financial coaching, which is individualized, client-centered financial advice (Mangan, 2010). Gathering data on the credit profiles of IDA clients may assist programs to create and develop the credit aspect of their programming that recognized credit as a financial asset, and will benefit clients in the long-run. Credit information holds the potential to provide essential data to add to the body of knowledge regarding financial outcomes of IDA programs. Accessing and utilizing credit information on a regular basis can assist to inform IDA and other asset development programs about the current and long-term financial health of participants, and the degree to which programming and resources are assisting participants in their work toward improved financial health.

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