Viewing Submission

Title:
Financial Capability and Public Policy
Description:
Regulations and policies concerning consumer finance have changed significantly over the past five years. The creation of the Consumer Financial Protection Bureau is just one example of how policymakers are attempting to remedy potential problems in the consumer financial market. Yet, consumer knowledge and behavior, along with the institutions that support financial decisions, are also important to understand under a shifting policy landscape. This panel explores how consumers attain financial capability and what policymakers can do to facilitate consumer financial decisions.
Policy Area:
Social & Family Policy
Secondary Policy Area:
Asset Building
Cross-cutting Theme:
No theme chosen
Are any of the participants listed in this submission a student?:
Yes
Are you (the submitter) willing to act as a chair and/or discussant at the 2012 Fall Research Conference?:
Yes, as either a chair or discussant
If you chose yes, what are your areas of expertise?:
Housing & Community Development, Social & Family Policy

Slot:
Saturday, November 10, 2012: 8:30 AM-10:00 AM

Proposal id# 2722
Start Time:
8:30 AM
Building Assets or Debt? Do First Time Homebuyers Know the Difference and Does It Matter?

Stephanie Moulton, John Glenn School of Public Affairs, The Ohio State University, Caezilia Loibl, The Ohio State University and Anya Savikhin, The University of Chicago

Abstract Text:

The recent mortgage crisis has drawn attention to the salience of consumer decisions regarding mortgages, indicating that first-time, lower-income consumers may be relatively uninformed and vulnerable when making home-purchase decisions. The amount of new debt acquired through home purchases, and the ability to manage the new debt post-purchase is of particular concern. In this analysis, we leverage data collected through a field experiment involving low- and

moderate-income homebuyers in Ohio to address the following questions: To what extent do lower-income homebuyers accurately perceive their overall borrowing constraints, and how does this understanding (or lack thereof) influence decisions regarding their mortgage? Are less knowledgeable homebuyers more or less likely to respond to offers for financial counseling post-purchase?

We match self-reported data on financial well-being to administrative data drawn from mortgage origination files and credit reports. This unique combination of self-report and administrative data allows us to construct measures of both perceived and actual borrowing constraints based on self-reported debt levels, payment amounts and payment difficulty, compared with credit report data on total debt, monthly payments and payment history. Through multivariate analysis, we first evaluate the effects of borrowing constraints (perceived and actual) on administrative mortgage characteristics, including full monthly payment (principal, interest, taxes and insurance), mortgage amount and home value at the time of purchase. Second, we estimate the probability that borrowers will respond to an offer of financial counseling post-purchase, based on their perceived and actual borrowing constraints. In both estimations, we include a robust array of demographic and household characteristics, as well as measures of financial confidence, financial literacy, financial support and time preferences.

We find that those consumers who underestimate their non-mortgage debt incur significantly higher mortgage debt relative to income. We also find that homebuyers who underestimate their debt are less likely to take up the offer of free, phone-based financial counseling after purchase. Similarly, those who perceive themselves as having more debt than they actually have are nearly twice as likely to enroll in the financial counseling service. These findings are timely given the ongoing housing crisis and policy debate over extending (or retracting) homeownership to lower income, and potentially less informed, consumers.

Proposal id# 2723
Start Time:
8:50 AM
Emergency Savings and Household Outcomes

Leah M. Gjertson, University of Wisconsin-Madison

Abstract Text:

The recent economic downturn has highlighted the financial fragility of many U.S. households. As a result, unemployment, the foreclosure crisis, high consumer debt, and retirement savings have garnered significant attention among researchers and policymakers. Yet, another key financial reality for many households is the inability to access liquid assets quickly in order to meet unexpected expenses. Households may prepare for such expenses by setting aside modest amounts of emergency ("rainy day") savings. Adequate preparation for a financial emergency is especially important for low-income households, who have less access to traditional sources of

credit and whose tighter budgets make saving more difficult. Households unable to meet unexpected expenses can experience serious hardships including utility disconnection, housing instability, inadequate medical care, and loss of transportation.

This study examines the following two questions: (1) How do low-income households plan to cope with financial emergencies? (2) Are low-income households with emergency savings less likely to experience economic hardship (e.g. lack of money for food or basic needs, telephone disconnection, utility shut-off, repossession)? The study uses data from the Making Connections project, a longitudinal survey of households in disadvantaged neighborhoods in seven U.S. cities. Data collection took place in 3 waves between 2002 and 2011. A final sample of 2,381 households who were in all waves is used for the analysis. This unique dataset includes information on income, assets, debts and economic hardships, as well as rich data on neighborhood characteristics including local amenities such as financial institutions. An instrumental variable approach is used as a robustness check for unobserved variables that may be related to both the ability to acquire emergency savings and experiences of economic hardship. Distance to a financial institution is the instrument used to predict emergency savings. Further research is needed to examine the relationship between emergency savings and access to other forms of liquidity when faced with a financial emergency. In addition, research is needed on interventions that support the development of emergency savings among low-income households.

Proposal id# 2724
Start Time:
9:10 AM
Financial Capability Metrics

Jodi Jacobson, University of Maryland School of Social Work

Abstract Text:

Measuring financial capability among low-to-moderate income families is complicated given the lack of standardized measures and agreed upon outcome indicators within the field. This presentation describes the process of selecting outcome measures for a pilot study evaluating the Financial Stability Pathway (FSP) program in a large urban city. The FSP was developed by the Aspen Institute, in partnership with the Maryland CASH Campaign, to connect low-to-moderate income individuals and families to financial services. Researchers from the University of Maryland are evaluating outcomes from the FSP related to how FSP-trained providers are able to assist individuals and families in accessing and using affordable and appropriate financial products, saving for emergencies, building long-term assets, and managing their money better.

Human service providers at six community organizations, including free tax preparation sites, non-profit organizations that conduct public benefits screenings, certified credit counseling programs, and employee assistance programs, were trained to provide financial assessments,

referrals, and other supportive services to individuals interested in improving their financial capability and economic well-being. Researchers assessed both the effects of the FSP trainings on providers and the effects of the FSP services on clients. Preliminary descriptive results and the process of selecting outcome measures will be discussed. The measures assessing providers' knowledge, attitudes, and practice behaviors include scales and questions focused on the effects of professional education on the providers' own financial capability, personal financial wellness, personal financial knowledge, personal financial management behaviors, and their use of practice behaviors with clients seeking financial capability services. Client outcome measures include scales and questions related to financial education, personal financial wellness, attitudes toward financial capability, and financial behaviors. Standardized measures and questions were used whenever possible, allowing for comparisons to prior research. The presenter will share new scales and items that were created by the research team in collaboration with the FSP providers and trainers, and researchers in the financial capability field.

Measures for assessing providers' ability or self-efficacy to work with clients on financial problems are virtually non-existent. In a prior study led by the presenter, the researchers developed and modified measures to assess confidence related to financial stability work with clients. These measures will be discussed in detail during the presentation. To measure client outcomes, researchers need to balance the need for standardized outcomes with the appropriateness of the measures for the population receiving services. For low, or no income, individuals and families, outcomes may be quite different than those we would expect to measure for services geared toward working families with moderate incomes. The process used to select standardized scales and outcomes questions for the present study, which included no, low and moderate income individuals and families, will be discussed.

Proposal id# 2721
Start Time:
9:30 AM
Adult Financial Capability: Combining Transactional Accounts and Financial Advice for Low-Income Individuals

J. Michael Collins, University of Wisconsin

Abstract Text:

Financial decision making and access to banking services are frequently discussed in relation to low-income households on the fringe of the formal banking sector. High debt, asset tests in public programs, and family dynamics often create added barriers to savings. Yet, institutional frameworks clearly matter. Potentially even small financially-informed components of public programs may serve to improve outcomes for low-income households. In particular, access to transactional accounts in conjunction with financial counseling may be especially valuable.

This study assesses the combined impact of access to financial products and advice on the financial stability and well-being of low- and moderate-income adults. Using data from the New York City Office of Financial Empowerment, this analysis evaluates the effects of a program that connects lower-income individuals to direct deposit (via an existing account, a new safe checking account, or a prepaid card) and financial counseling on the bank account use and financial stability of individuals who participate in a transitional employment program: NYC's Parks Opportunity Program (POP). POP is one of the country's largest transitional employment programs.

The results of this analysis help provide an understanding of how financial counseling helps low-income individuals overcome barriers to banking. Outcomes six months after baseline include a combination of administrative and self-reported data from NYC records, financial institution records, credit reports, and surveys. Findings are informative to the development of future programs and initiatives that facilitate financial access and improve financial well-being of underserved, low-income adult populations.

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