ASSETS, CREDIT USE AND DEBT OF LOW-INCOME HOUSEHOLDS

By Marieka Klawitter and Colin Morgan-Cross, Evans School of Public Affairs, University of Washington

Key Findings

This report analyzes credit and debt for low-income and low-asset households and how it impacts the ability to accumulate wealth and increase financial security. Drawing on the Survey of Consumer Finances (SCF),[1] the FINRA National Financial Capability Survey (NFCS),[2] and existing research, we find:

- **Households with the lower incomes are less likely to have any assets, although income differences are not large.** The assets held by low-income families tend to be worth significantly less those of higher income families.

- **The lowest income households are less likely than average to hold financial and nonfinancial[3] assets**, particularly transaction accounts, retirement funds, homes, and vehicles.

- **Over the past 20 years, the likelihood of owning any asset has increased for low-income families**, narrowing the gap with higher income families. The value of assets increased over time only for higher income families.

- **Low-income households are significantly less likely than higher income households to have any debt**, particularly a mortgage, home equity line of credit, credit card balance, education loan, or vehicle loan.

- **Over the past 20 years, the gap between the percentage of high-income and low-income households holding debt has narrowed**. **However, the gap in *amount of debt* has widened**, with debt amounts increasing for higher income households and remaining nearly constant for lower income households.

- **Low-income families are more likely to experience debt hardship, and both low-income and low-wealth families are more likely to be at least 90 days delinquent on their debt payments.** Households with low wealth are also more highly leveraged (assets to debt ratio) than average.

- **Low-income households are less likely to have a credit card or to have a balance on a credit card than households with higher income**. Low-income households are more likely to be charged for exceeding their credit limit and more likely to use cards for a cash advance.

- **Overall, a majority of households lost assets during the 2007–2009 recession**—low-income households appeared to lose assets at a greater rate than households with higher income.

---

[1] The Federal Reserve's Survey of Consumer Finances (SCF) is a triennial cross-sectional survey; the current series began in 1983. The most recent survey was the first to be conducted as a panel survey, as 4,422 respondents interviewed in 2007 were re-interviewed in 2009.

[2] The National Financial Capability Survey was a telephone survey of 1,488 households conducted in 2009 designed to benchmark the key measures of financial capability and links to demographic, behavioral, and attitudinal characteristics.

[3] Financial assets are bank accounts, certificates of deposit, retirement accounts, stocks, and life insurance. Nonfinancial assets are homes, vehicles, property, and business equity.

Income Level and Assets

Before exploring credit use and debt holdings by families with low incomes or low net wealth, we present a snapshot of current levels of wealth. Using data from the Survey of Consumer Finances and the National Financial Capability Survey, we examine different types of financial and nonfinancial assets held by these families.

Households with the lowest incomes are less likely to have any assets, although this disparity is not large. Ninety-three percent of households in the bottom quintile of income (less than $22,400) hold some type of asset, compared to 98 percent of all families (Table 1, page 2).

The assets held by low-income households are worth significantly less. The median value of all assets (financial and non-financial) for the lowest income households is only $20,000, compared to over $200,000 for the average family.

The lowest-income households are less likely to hold financial assets than households with higher incomes, including transaction accounts, investments (such as certificates of deposit, stocks, funds, and savings bonds), life insurance, and retirement accounts.

Table 1. Percent of Households Holding Assets and Total Value of Assets, by Type of Asset

Type of Asset	Percent Holding Asset			Median Value of Asset	
	All Families	Families With Income Less Than $22,400[4]	Families With Net Wealth Under $1,200[5]	All Families	Families With Income Less Than $22,400
Any Asset	**98%**	**93%**	**93%**	**$204,000**	**$20,000**
Any Financial Asset	**95%**	**83%**	**85%**	**$29,600**	**$2,000**
Transaction acct.	92%	77%	80%	$4,000	$1,000
CD's	16%	9%	3%	$20,000	$10,000
Retirement acct.	56%	15%	27%	$48,000	$6,400
Stocks	14%	4%	4%	$4,900	$1,000
Life insurance	24%	15%	9%	$7,200	$5,000
Any Nonfinancial Asset	**93%**	**77%**	**76%**	**$162,000**	**$31,000**
Vehicle	87%	66%	73%	$12,000	$4,000
Primary residence	70%	42%	20%	$178,000	$90,000
Other property	13%	3%	2%	$150,000	$88,000
Business equity	14%	4%	3%	$50,000	$3,000

Source: Survey of Consumer Finances, 2009

[4] This is the 20th percentile of income.
[5] This is the 20th percentile of net wealth.

Low-income households hold significantly less in retirement accounts. According to FINRA's National Financial Capability Survey, over three quarters of families with income less than $25,000 have no retirement account, while only 27 percent of families with incomes between $25,000 and $75,000, and 8 percent of families with income more than $75,000 do not have a retirement account.[6]

Low-income families are less likely to hold non-financial assets, particularly vehicles and homes. The value of nonfinancial assets held by low-income households is considerably less than the average household. This is significant given evidence that owning a vehicle can increase access to employment, medical care, and other services, and that home ownership may be an important driver of wealth accumulation.

There is evidence that, while both income and assets play a role in smoothing consumption during economic shocks, having assets is the most important indicator of financial stability and helps families at all income levels overcome economic hardship.[7] Assets, particularly homes, have been widely hypothesized as playing a role in further wealth accumulation, and there is evidence that homeownership might be a good strategy for enhancing financial security.[8] It is difficult, however, to isolate the impacts of homeownership on wealth while controlling for other factors or household characteristics, such as an underlying tendency to save.

While homeownership is strongly correlated with wealth accumulation and is a life goal for many families, over-investment in a home and failure to diversify assets are associated with negative wealth.[9] The impacts of home ownership also depend on the ability to access a mortgage with a reasonable and predictable interest rate and payment schedule. The challenge for low-income households is balancing the potential benefits of homeownership, as one of few investment opportunities, with the risk of becoming over-leveraged.

6 FINRA Investor Education Foundation. *Initial Report of Research Findings from the 2009 National Survey.* National Financial Capability Study. Prepared by Applied Research & Consulting LLC. December 2009.

7 McKernan, Signe-Mary; Ratcliffe, Caroline; and Vinopal, Katie. *Do Assets Help Families Cope with Adverse Events?* The Urban Institute, Brief 10. November 2009.

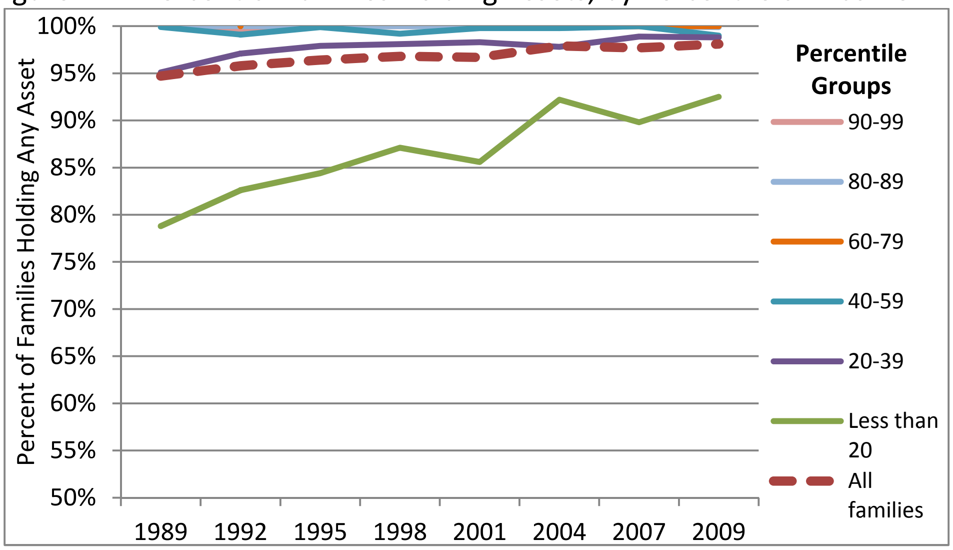
8 Zhu Xiao Di; Yi Yang; Xiaodong Liu. *The Importance of Housing to the Accumulation of Household Net Wealth.* Joint Center for Housing Studies, Harvard University. November 2003.

9 McKernan, et al. "*Do Assets Help Families Cope…*"

Asset Holding Over Time

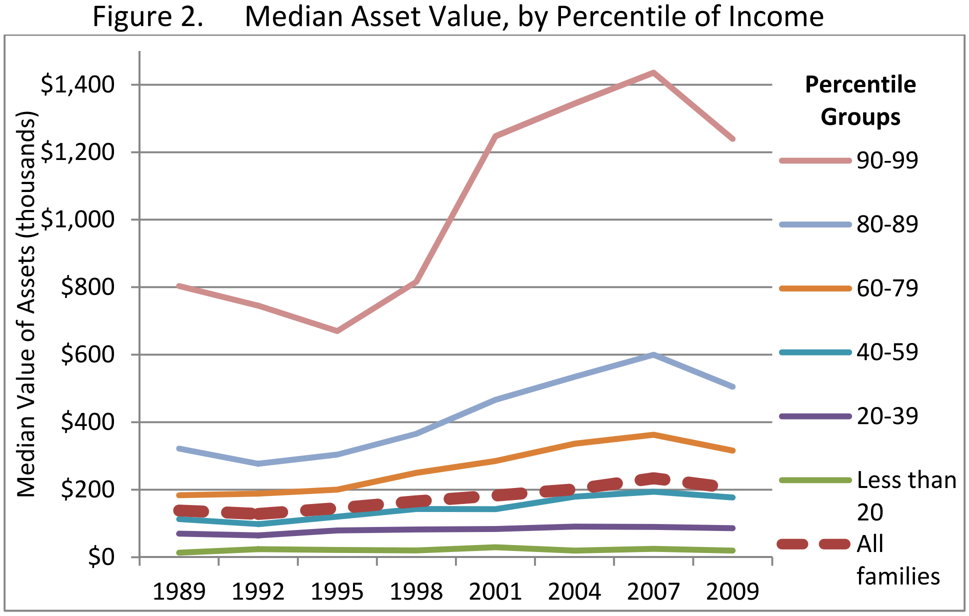
Over time, the likelihood of owning any asset has increased for low-income families, narrowing the gap with higher income families (Figure 1). But the value of assets held increased only for higher income families and fell slightly during the recent recession (Figure 2). Asset value did not change over time for families in the bottom two quintiles of income (households with income less than $39,100).

Figure 1. Percent of Families Holding Assets, by Percentile of Income



Source: Survey of Consumer Finances, 2009

Figure 2. Median Asset Value, by Percentile of Income



Source: Survey of Consumer Finances, 2009

Credit Use and Debt

Access to credit can allow households to smooth economic shocks, such as unemployment or unforeseen expenses, and to build assets over time, through a mortgage, education, or vehicle loan.[10] However, using debt to finance daily consumption for an extended period or at high interest rates contributes to the risk of becoming overburdened by debt, potentially preventing a household from accumulating assets in the long-run.[11]

Low-income and low-asset households are less likely to hold any debt, and hold different types of debt than do higher income and wealthier households (Table 2). Low-income households are significantly less likely to have a mortgage, home equity line of credit, credit card balance, or education loan than the average household. Low-income households, however, are more likely to have a vehicle loan. Low-wealth households are similarly less likely to have a mortgage, but are more likely to have a credit card balance, education loan, or vehicle debt.

Table 2. Percent of Households Holding Debt and Value of Debt, by Type

	Percent Holding Debt			Median Value of Debt	
Type of Debt	All Families	Families With Income Less Than $22,400	Families With Net Wealth Under $1,200	All Families	Families With Income Less Than $22,400
Any Debt	**76%**	**56%**	**69%**	**$75,600**	**$10,000**
Mortgage	47%	12%	15%	$114,000	$48,000
Home equity line of credit	11%	3%	0%	$22,000	$22,000
Credit card balance	43%	29%	37%	$3,300	$1,100
Education loan	18%	12%	28%	$15,000	$16,000
Vehicle loan	14%	34%	30%	$12,000	$8,000
Other loans	14%	16%	20%	$3,300	$2,000

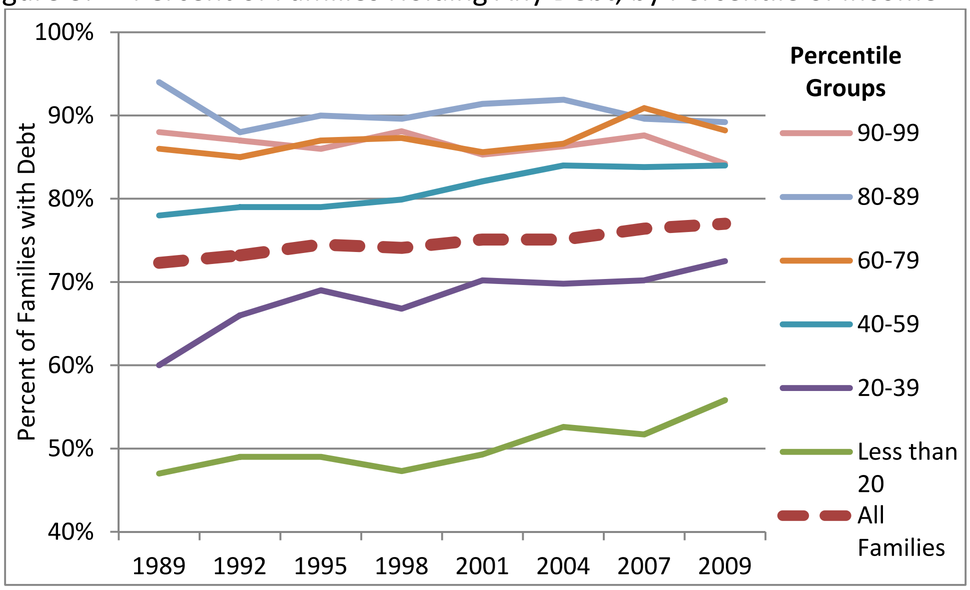
Source: Survey of Consumer Finances, 2009

[10] McKernan, et al. "*Do Assets Help Families Cope…*"
[11] Dearden, Chris; Goode, Jackie; Whitfield, Grahame; and Cox, Lynne. *Credit and Debt in Low-income Families.* Centre for Research in Social Policy, Loughborough University. Joseph Rowntree Foundation. 2010.

Debt Over Time

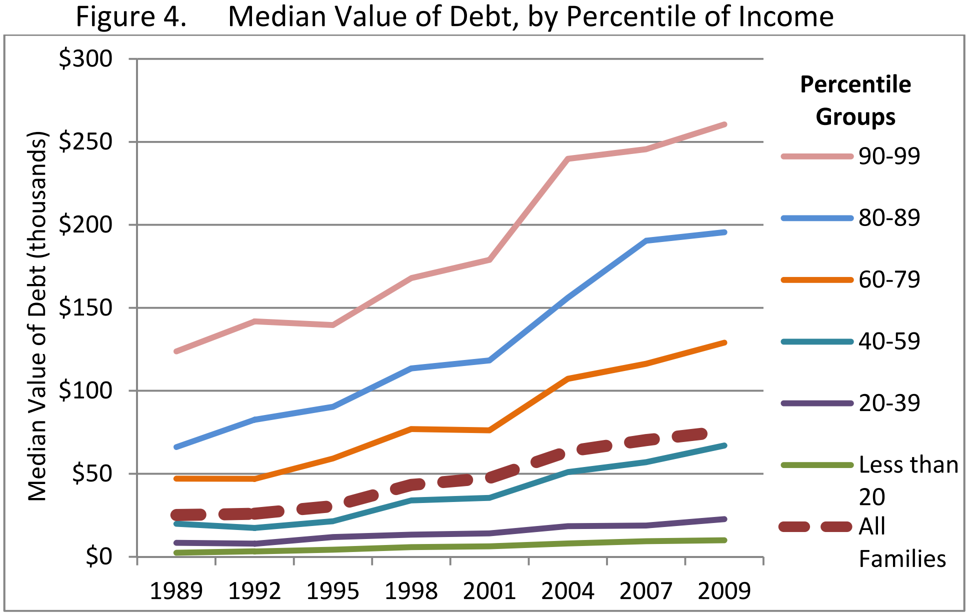
Over time, the percentage of families with debt has slightly increased, but the median value of debt has increased dramatically, from $25,700 in 1989 to over $75,000 in 2009 (Figure 3 & Figure 4). Over time, the gap between the percentage of high-income and low-income households holding debt has narrowed. However, the gap in *amount of debt* has widened, with debt amounts increasing consistently for higher income households and remaining nearly constant for lower income households.

Figure 3. Percent of Families Holding Any Debt, by Percentile of Income



Source: Survey of Consumer Finances, 2009

Figure 4. Median Value of Debt, by Percentile of Income



Source: Survey of Consumer Finances, 2009

Debt Hardship

Low-wealth households are much more likely to be highly leveraged (high debt to assets ratio) (Table 3)**.** This pattern, however, does not hold for household income—low-income households are leveraged at rates similar to the average household. As Table 2 shows, low-asset households are much more likely to hold credit card debt and educational loans; perhaps they are younger than low-income families.

Low-income households are much more likely to experience "debt hardship," or having debt payments of at least 40 percent of income. Families with low incomes or low net wealth are also more likely to be at least 60 days delinquent on their debt payments.

Table 3. Leverage, Debt Ratio, Hardship, and Delinquency, by Income and Net Wealth

	Leverage Ratio[12]	Median Debt Ratio[13]	Percent With Debt Hardship[14]	Percent 60 Days Delinquent on Debt
All Families	**15%**	**19%**	**15%**	**7%**
Percentile of Income				
Less than 20	14%	19%	27%	15%
20–39	19%	17%	20%	12%
40–59	24%	20%	15%	8%
60–79	25%	22%	13%	4%
80–89	23%	19%	8%	2%
90–99	8%	13%	4%	0%
Percentile of Net Wealth				
Less than 25	108%	12%	11%	17%
25–49	56%	23%	19%	8%
50–74	32%	22%	16%	4%
75–89	18%	18%	13%	1%
90–99	6%	13%	11%	1%

Source: Survey of Consumer Finances, 2007

The FINRA National Financial Capabilities Survey looked more closely at a household's likelihood to own a credit card and asked survey respondents about their experiences repaying credit card balances. Credit cards tend to have higher interest rates than other forms of credit and may trap their users with significant debt when used for daily consumption.

Low-income households are less likely to have a credit card, but more likely to be charged for exceeding their credit limit and more likely to use the card for a cash advance than other income groups (Table 4, page 8). All income groups are similarly likely to pay their balance in full.

[12] Leverage is calculated as the ratio of total debt to total assets.
[13] Debt ratio is calculated as the ratio of debt payment to income.
[14] Debt hardship is defined as a debt ratio higher than 40 percent (debt payment is 40 percent of Income).

Table 4. Experience with Credit Cards, by Income

	Income Group		
	Less Than $25,000	$25,000 - $75,000	More Than $75,000
No Credit Card	**61%**	**20%**	**6%**
At Least One Credit Card[15]	**39%**	**78%**	**92%**
Experience With Credit Cards (in Past Year):			
Paid credit cards in full	54%	52%	55%
Carried over a balance and was charged interest	47%	52%	51%
Paid the minimum payment only	36%	30%	22%
Charged a late fee for late payment	26%	25%	19%
Charged an over the limit fee for exceeding credit line	12%	8%	4%
Used the cards for a cash advance	12%	8%	6%

Source: FINRA National Financial Capability Survey, 2009

Low-income and low-wealth households are less likely to have a balance on a credit card than households in the middle spectrum of income (Table 5). Low-income households have balances at a similar rate as the highest earners and at a lower rate than average.

Credit card balance is highly correlated with income, with low-income households owing significantly less on their credit cards than households with more income. Low-wealth households also owe significantly less on their credit cards.

Table 5. Percent of Families with Credit Card Balance and Amount of Balance

	Percent	Balance
All Families	**43%**	**$3,300**
Percentile of Income		
Less than 20	29%	$1,100
20–39	38%	$2,100
40–59	51%	$3,000
60–79	57%	$4,700
80–89	52%	$7,200
90–99	32%	$9,400
Percentile of Net Wealth		
Less than 25	37%	$1,800
25–49	55%	$3,000
50–74	46%	$5,000
75–89	40%	$4,200
90–99	25%	$5,000

Source: Survey of Consumer Finances, 2009

[15] Percentages do not round to 100 percent because credit card status for some households was undetermined.

Low-income households are more likely to access certain types of alternative financial services, such as pawnshops and tax refund anticipation loans (Table 6). These types of debt often carry much higher interest rates and fees and shorter repayment periods which can create difficulties with repayments.[16]

Table 6. Debt through Alternative Financial Services (in the Past 5 Years)

Type of Alternative Financial Service	Less Than $25,000	$25,000–$75,000	More Than $75,000
Auto title loan	5%	7%	10%
Payday loan	6%	6%	2%
Tax refund anticipation loan	12%	7%	3%
Pawn shop	16%	7%	1%
Rent-to-own	8%	4%	1%

Source: Financial Capabilities Survey, FINRA 2009

Impacts of the Recession on Low–Income, Low-Asset Households

In 2009 the Survey of Consumer Finances re-surveyed participants of the 2007 survey, the first time the survey was longitudinal. Comparing the 2007 and 2009 survey results provides a glimpse of the impacts of the economic recession on income, assets, and changes in debt held by low-income households.

The data suggest that income increased for households with income below the 2007 median ($50,100) and declined for families with income near or above the 2007 median (data not shown).[17]

The majority of households remained in their 2007 relative wealth bracket in 2009 (Table 7). However, most families (65 percent) experienced a loss in wealth and the median percentage change in wealth for all families was a loss of 18 percent of 2007 wealth.

Table 7. Changes in Net Wealth from 2007–2009

	Percentile of Net Wealth, 2009				
Percentile of Net Wealth, 2007	Less Than 25	25–49	50–74	75–89	90–99
Less than 25	76%	21%	3%	0%	0%
25–49	19%	60%	19%	1%	0%
50–74	4%	17%	62%	16%	1%
75–89	1%	2%	24%	60%	12%
90–99	0%	1%	4%	17%	78%

Source: Survey of Consumer Finances, 2009

[16] McKernan, Signe-Mary; Ratcliffe, Caroline; and Kuehn, Daniel. *Prohibitions, Pricecaps, and Disclosures: A Look at State Policies and Alternative Financial Product Use.* The Urban Institute. (2010).
[17] Bricker, Jesse; Bucks, Brian; Kennickell, Arthur; Mach, Traci; and Moore, Kevin. *Surveying the Aftermath of the Storm: Changes in Families Finances from 2007 to 2009.* Finance and Economics Discussion Series. Federal Reserve Board, Washington D.C. 2011.

For the families that lost wealth, the median decline was 45 percent. For families that gained wealth, the median gain was 57 percent. Much of the loss in wealth appeared to be driven by a decline in home equity.

Overall, a majority of households lost assets during the recession and low-income households lost assets at a greater rate than households with higher income (Table 8). This decline was driven by a loss of nonfinancial assets. Low-income households gained financial assets during the 2007-2009 period, but had larger losses in nonfinancial assets.

Table 8. Change in Value of Asset Holdings from 2007–2009, by Percentile of Income

	All Assets		Financial Assets		Non-Financial Assets	
	Change in Value	Percent Change	Change in Value	Percent Change	Change in Value	Percent Change
All Families	**($29,500)**	**-13%**	**($1,600)**	**-5%**	**($21,700)**	**-12%**
Percentile of Income						
Less than 20	($5,200)	-21%	$300	18%	($10,400)	-25%
20–39	($3,100)	-3%	$600	7%	($6,300)	-8%
40–59	($22,200)	-11%	$1,200	6%	($9,300)	-6%
60–79	($51,900)	-14%	($3,600)	-5%	($35,700)	-14%
80–89	($104,800)	-16%	($14,900)	-10%	($55,900)	-15%
90–99	($238,100)	-16%	($96,200)	-19%	($132,000)	-16%
Percentile of Net Wealth						
Less than 25	$400	4%	$200	13%	($1,200)	-13%
25–49	($1,300)	-1%	($1,400)	-10%	($4,300)	-4%
50–74	($31,600)	-10%	($7,400)	-11%	($39,400)	-16%
75–89	($139,200)	-19%	($72,500)	-29%	($110,600)	-24%
90-99	($494,000)	-22%	($273,200)	-31%	($283,300)	-24%

Source: Survey of Consumer Finances, 2009

During the recession, the percentage of families holding debt decreased for households in all income groups (.5 percent to 7 percent). However, the value of debt increased overall, particularly for low-income households (Table 9).

Table 9. Change in Value of Total Debt from 2007–2009, by Percentile of Income

	Debt Holdings	
	Change in Median Debt	Percent Change in Median Debt
All Families	**$5,300**	**8%**
Percentile of Income		
Less than 20	$1,200	14%
20–39	$3,000	15%
40–59	$4,600	7%
60–79	$7,400	6%
80–89	$6,500	3%
90–99	$17,100	7%
Percentile of Net Wealth		
Less than 25	$2,700	22%
25–49	($5,500)	-8%
50–74	$1,300	1%
75–89	$6,500	5%
90-99	$1,800	1%

Source: Survey of Consumer Finances, 2009

Families became more leveraged during the recession. The overall leverage ratio (debt to assets ratio) increased from 2007 to 2009 by 3 percentage points, to 18 percent. Families that lost wealth tended to become more highly leveraged during the recession.[18]

Households experiencing debt hardship in 2007 (total debt payments greater than 40 percent of income) were more than twice as likely as other families to move down the wealth distribution by 10 percentile points. However, among families that experienced an increase in wealth of over 10 percentile points, a disproportionate number were more highly leveraged than average. Families that missed a debt payment were just as likely as other families to move down the wealth distribution, but were more likely to move down by more than 10 percentile points.[19]

Future Research

This report provides an initial glimpse into the asset holdings, credit use, and debt of low-income and low-wealth households. It is valuable to explore these findings in the context of asset building strategies, such as homeownership and credit-building programs, and policy solutions such as regulation of alternative financial services and low-cost credit alternatives for low-income households. Longitudinal studies exploring the changes to a household's credit use and debt over a substantial period of time will help us understand how these changes contribute to a household's long-term income and wealth. Only then can we begin to draw inferences on how different types of credit and debt may lead to economic hardship and financial insecurity, or conversely, to increased income and wealth accumulation for economically disadvantaged families.

[18] Bricker et al *"Surveying the Aftermath of the Storm…"*
[19] Ibid.

Appendix A. Household Income and Wealth by Percentile

The Survey of Consumer Finances divides families into percentiles of Income (6) and Wealth (5), and this report utilizes these groupings. The following table describes the percentile groupings and provides median income and wealth for each percentile.

Table 10. Median Income and Net Wealth of Percentile Groupings

Percentile of Income	Median Income
All Families	**$49,800**
Less than 20	$16,900
20–39	$31,900
40–59	$49,800
60–79	$75,700
80–89	$113,600
90–99	$188,300
Percentile of Net Wealth	**Median Net Wealth**
All Families	**$96,000**
Less than 25	$1,000
25–49	$57,000
50–74	$231,600
75–89	$612,000
90–99	$2,029,800

Source: Survey of Consumer Finances, 2009