

Pathways to Financial Advancement: A Case Study

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Disclaimer

The views expressed in the paper are those of the authors and do not necessarily represent the views of the Federal Reserve Bank of Dallas or the Federal Reserve System.

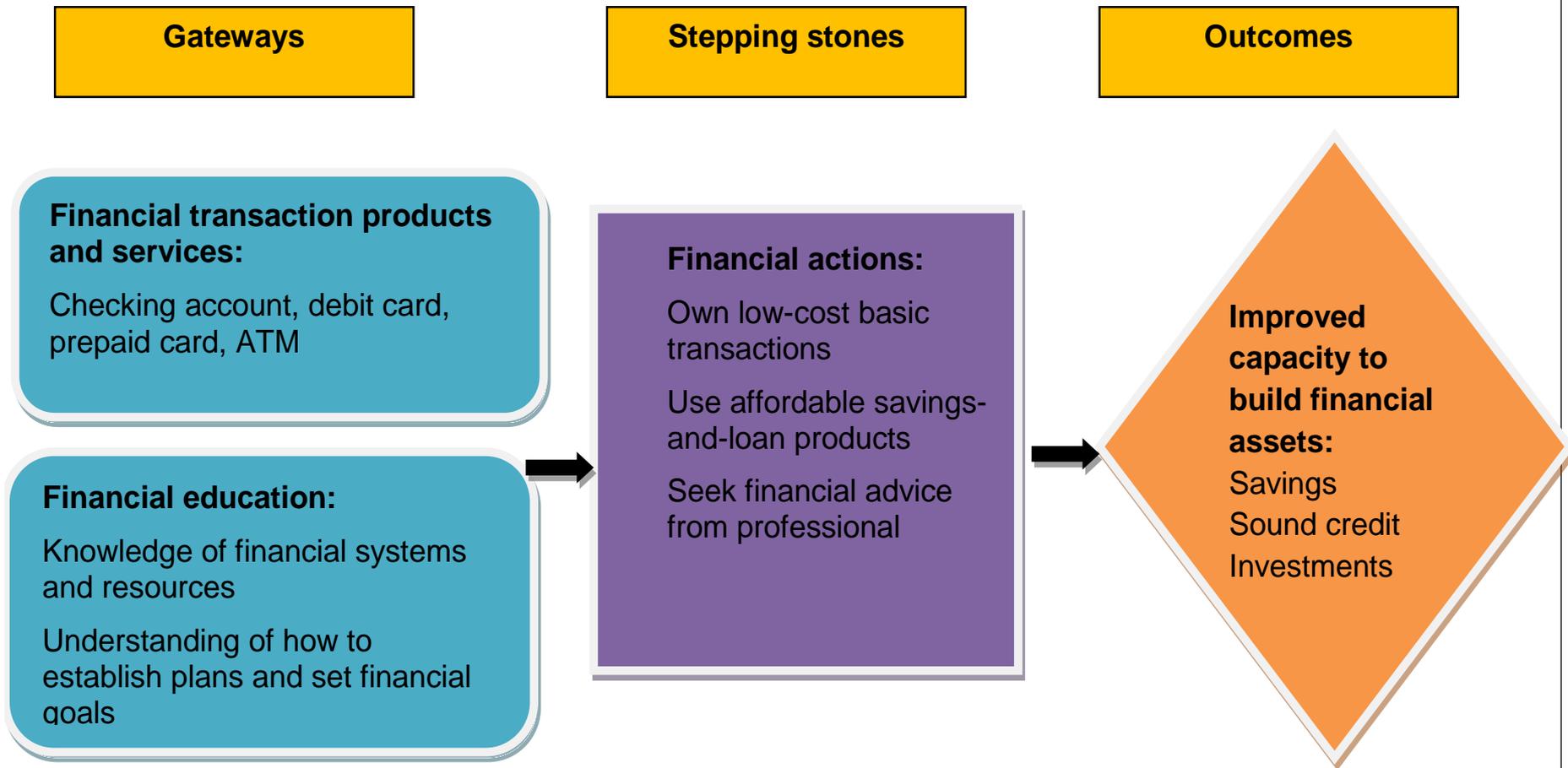
Research Goal

- Empirically test how financial practices and knowledge help low-income households get on a path to financial security, using data collected from South Dallas, a low-income minority community.

Motivation

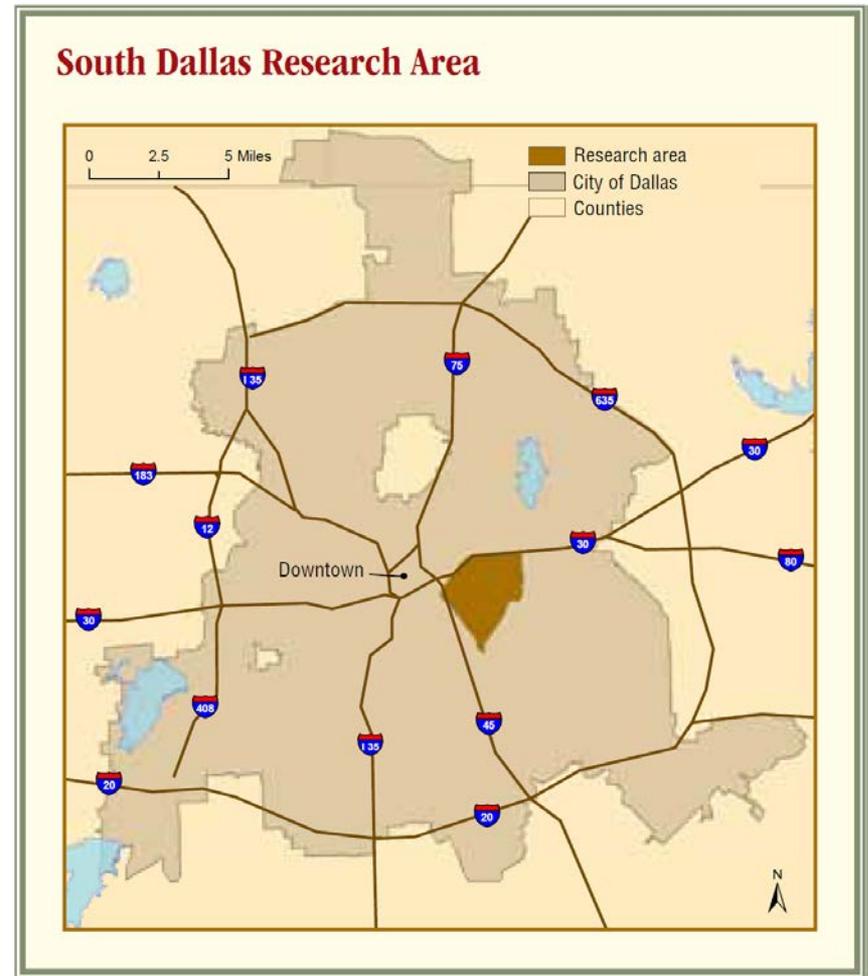
- Help low- and moderate-income families attain their financial objectives by raising awareness of evidence-driven asset-building financial practices, such as savings and long-term relationships with mainstream financial institutions.

A Conceptual Framework



Project Overview

- A component of a larger UTD study of the impacts of public investment on the well-being of residents in a South Dallas neighborhood.
- Data on demographics, perceptions, uses of resources, housing and household finances are collected from households by community-based field researchers.



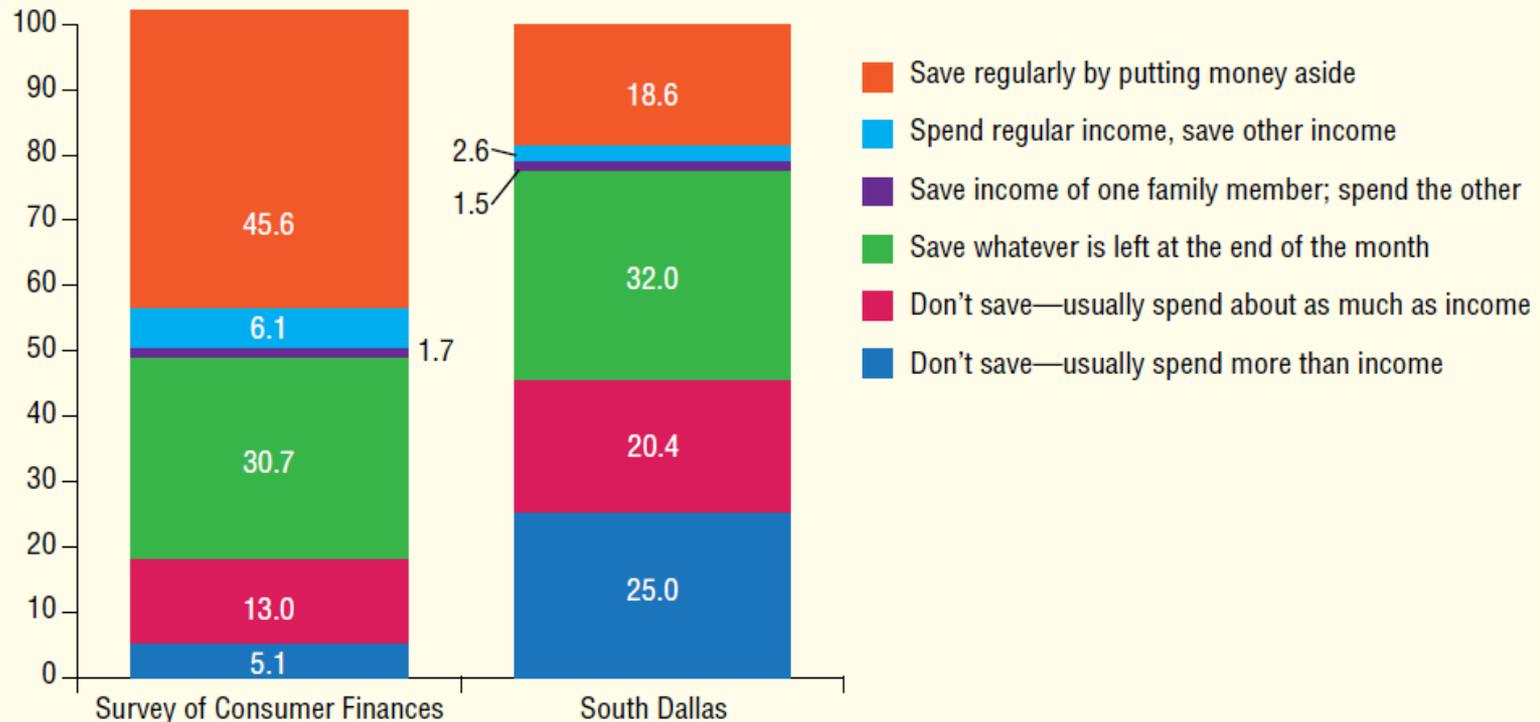
Financial Behavior and Product Usage

Variable	Description
Gateways	
Checking account	Participant has a checking account
Financial knowledge	Participant's score on test of knowledge of financial systems
Stepping stones	
Professional advice	Participant seeks the advice of a professional financial adviser or financial counseling organization when making major financial decisions
Savings account	Participant has a savings account
Mortgage	Participant has a mortgage
Cash paychecks at bank	Participant cashes paycheck through direct deposit or at a bank
Outcomes	
Save for emergencies	Participant saves for emergencies
Savings plan	Measures the rigor of participant's savings plan: 1=participant does not save; 2=participant saves but no set plan; 3=participant has consistent savings plan
Advise friend to invest in financial institution	Participant would advise a friend to invest a monetary gift in a U.S. savings bond, checking account, savings account or stocks
Behavioral measures	
Savings horizon	Time period participant considers when making savings decisions, ranging from 1 (next few months) to 5 (longer than 10 years)
Trust in banks	Participant's trust in banks, ranging from 1 (complete trust) to 4 (no trust)

How are South Dallas Residents Different from the Rest of the Population?

Distribution of Savings Behavior Between Samples

Percent reporting savings behavior

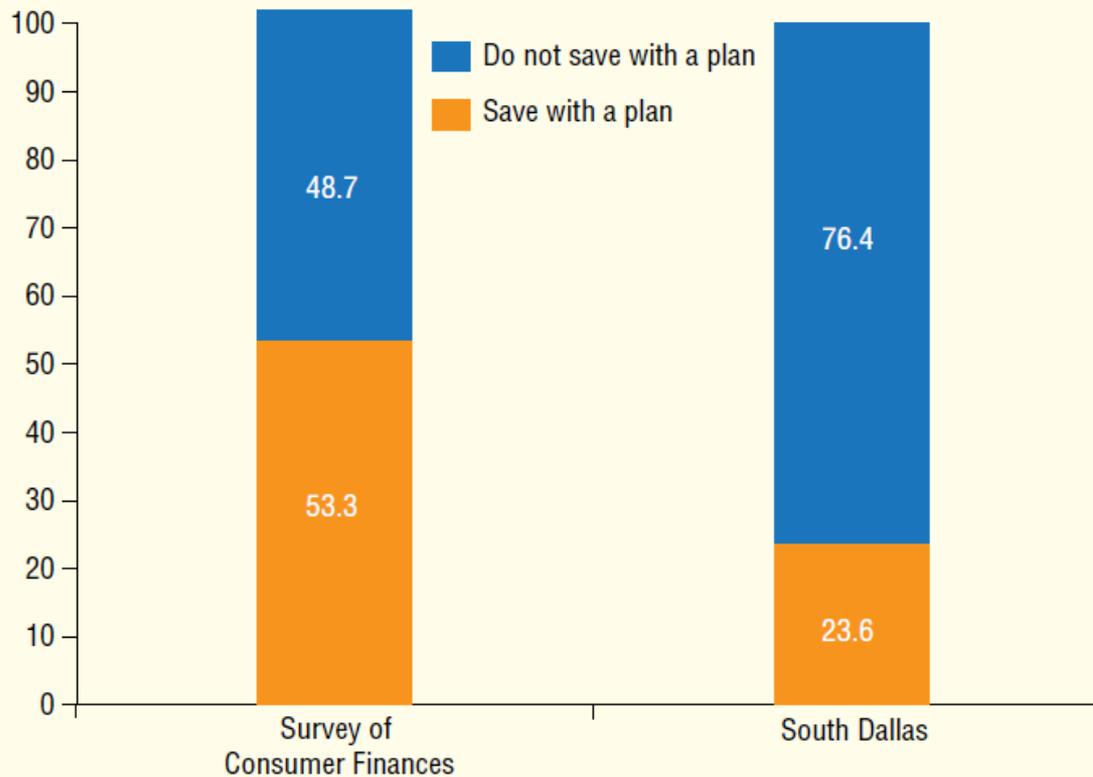


SOURCE: Federal Reserve Board 2007 Survey of Consumer Finances; University of Texas at Dallas South Dallas Survey.

How are South Dallas Residents Different from the Rest of the Population?

Fewer South Dallas Respondents Save with a Plan

Percent of survey respondents indicating savings practice

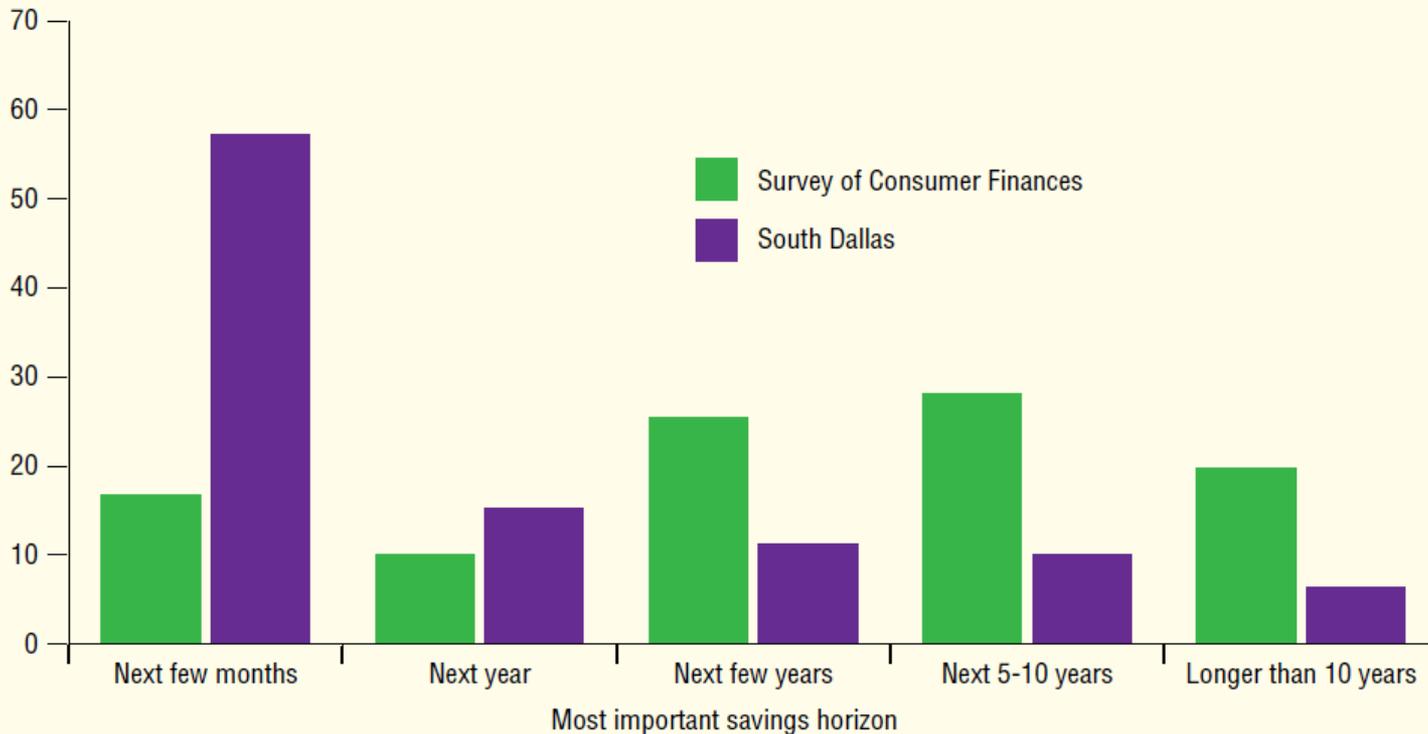


SOURCE: Federal Reserve Board 2007 Survey of Consumer Finances; University of Texas at Dallas South Dallas Survey.

How are South Dallas Residents Different from the Rest of the Population?

South Dallas Savings Horizon Tends to Be Short

Percent of sample reporting savings behavior



SOURCE: Federal Reserve Board 2007 Survey of Consumer Finances; University of Texas at Dallas South Dallas Survey.

Financial Behavior by Demographics

	All sample	Gateway		Stepping stone		Outcome	
		Checking account	No checking account	Savings account	No savings account	Savings plan	No savings plan
Gender (%)							
Male	40.8	39.8	43.1	41.2	40.4	39.0	41.4
Female	59.2	60.2	56.9	58.8	59.6	61.0	58.7
Ethnicity (%)							
Black	93.1	94.1	90.8	95.7	90.1	91.5	93.6
Other	6.9	5.9	9.2	4.3	9.9	8.5	6.4
Children (%)							
Yes	48.3	52.7	38.5	51.3	44.7	47.6	48.5
No	51.7	47.3	61.5	48.7	55.3	52.4	51.5
Income (%)							
Less than \$10,000	50.0	41.8	67.9	35.8	66.5	42.7	52.3
Between \$10,000 and \$20,000	23.0	25.9	16.5	26.7	18.6	25.6	22.2
\$20,000 or more	27.0	32.3	15.6	37.5	14.9	31.7	25.5
Unemployed (%)							
Yes	57.5	57.3	57.8	57.2	57.8	36.6	63.9
No	42.5	42.7	42.2	42.8	42.2	63.4	36.1
Observations	348	239	109	187	161	82	266

Preliminary Findings:

Between Gateways and Stepping Stones

- Owning a checking account is positively related to owning a savings account, having a mortgage and cashing paychecks through direct deposit or at a bank.
- When other factors are held constant, individuals with a checking account are 4.6 times as likely to have a savings account and 2.3 times as likely to have a mortgage or cash their paychecks through direct deposit or at a bank.
- However, knowledge of financial systems does not have a statistically significant relationship to any of the stepping-stone measures.

Preliminary Findings:

Between Stepping Stones and Outcomes

- Individuals who report that they would seek professional financial advice are more likely to save with a plan and also more likely to advise friends to invest in a financial institution.
- Participants with a savings account are more likely to report to save for emergencies.
- Participants who cash their paychecks through direct deposit or at a bank are more likely to save for emergencies.

Preliminary Findings:

Between Gateways and Outcomes

- Having a checking account is not statistically related to any of the outcome variables.
- Knowledge of financial systems is positively associated with all of the outcome measures. Participants who got just one additional question correct in the financial knowledge assessment were 5 percent more likely to save for emergencies, 15 percent more likely to advise a friend to invest in a financial institution and 8.5 percent more likely to report some savings behavior.

Other Findings

- Financial decisions of the South Dallas residents vary by demographic characteristics.
- Mixed results on behavioral influences:
 - Individuals who do not trust banks are less likely than those who do to seek professional advice.
 - The savings horizon is not correlated with the use of financial products or services.
 - Neither the trust in banks nor the savings horizon is significantly correlated with financial outcomes.

Only an Initial Step

- The study suggests that checking account ownership and financial knowledge— as well as the use of low-cost transaction accounts, savings accounts, mortgages and professional financial advice—are associated with improved financial decisions.
- The results are not sufficient for causal interpretations. Future research is needed to examine the mechanism behind these correlations.
- The study of the financial behavior of the South Dallas residents provides insights for other low-income neighborhoods with similar demographics.