

Beyond Tax Preparation

Measuring the Market Impact of Wealth Building Initiatives

National Community Tax Coalition
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The free tax preparation community has started to broadly expand its wealth building programs for low-income families into other financial services.

Now, we need tools to measure the impact of these initiatives.

Beyond Tax Preparation

Measuring the Market Impact of Wealth Building Initiatives

I The broader financial services context

II Measuring market impact



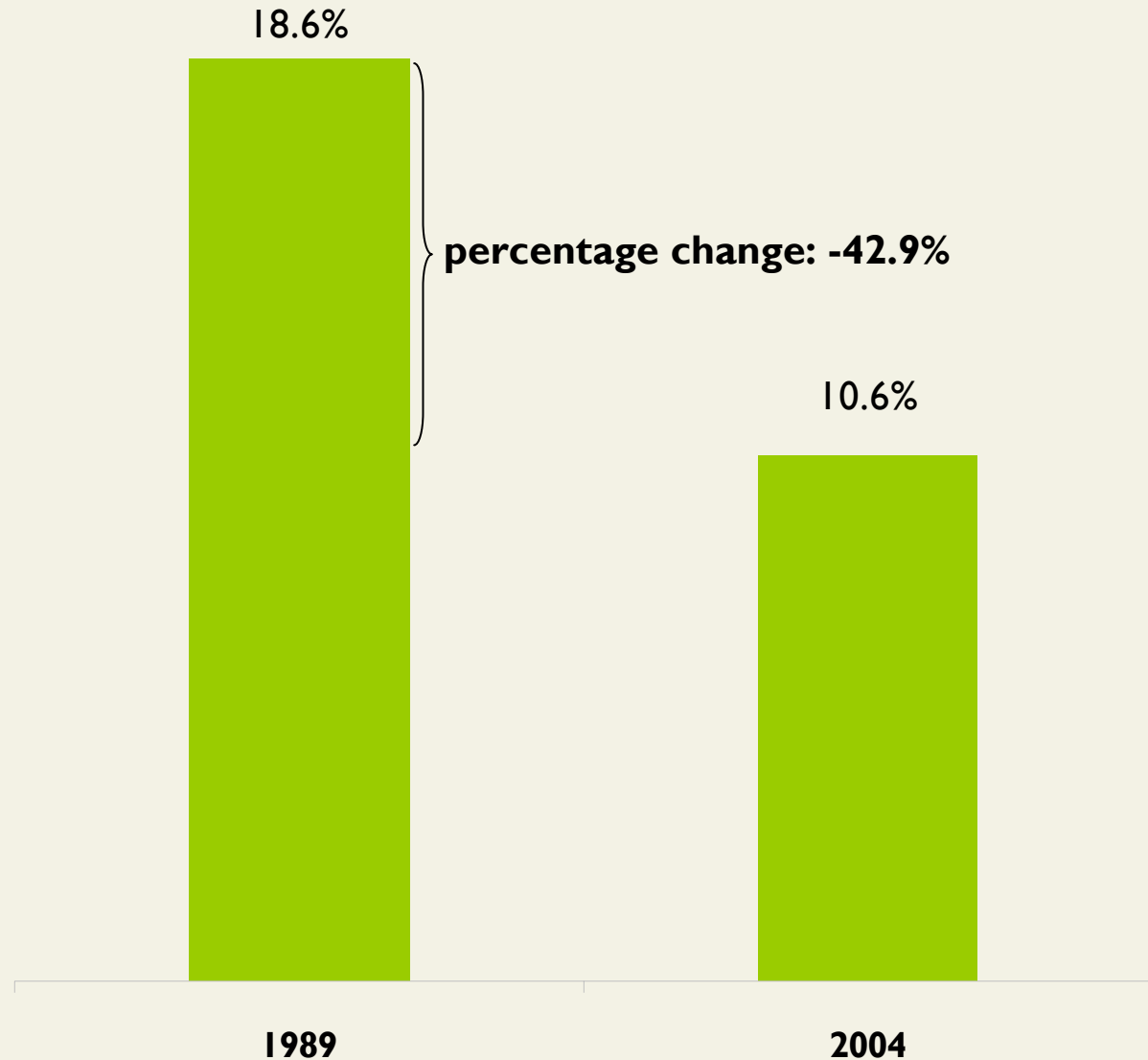
In recent years, there has been a substantial increase in access to financial services, along with a growing amount of political and media attention to the downsides of that democratization.

We can see that democratization by considering access to checking accounts, credit, and debt.

Between 1989 and 2004, the share of U.S. households without a basic checking account dropped by 43 percent.

Proportion of households without a checking account, 1989 and 2004

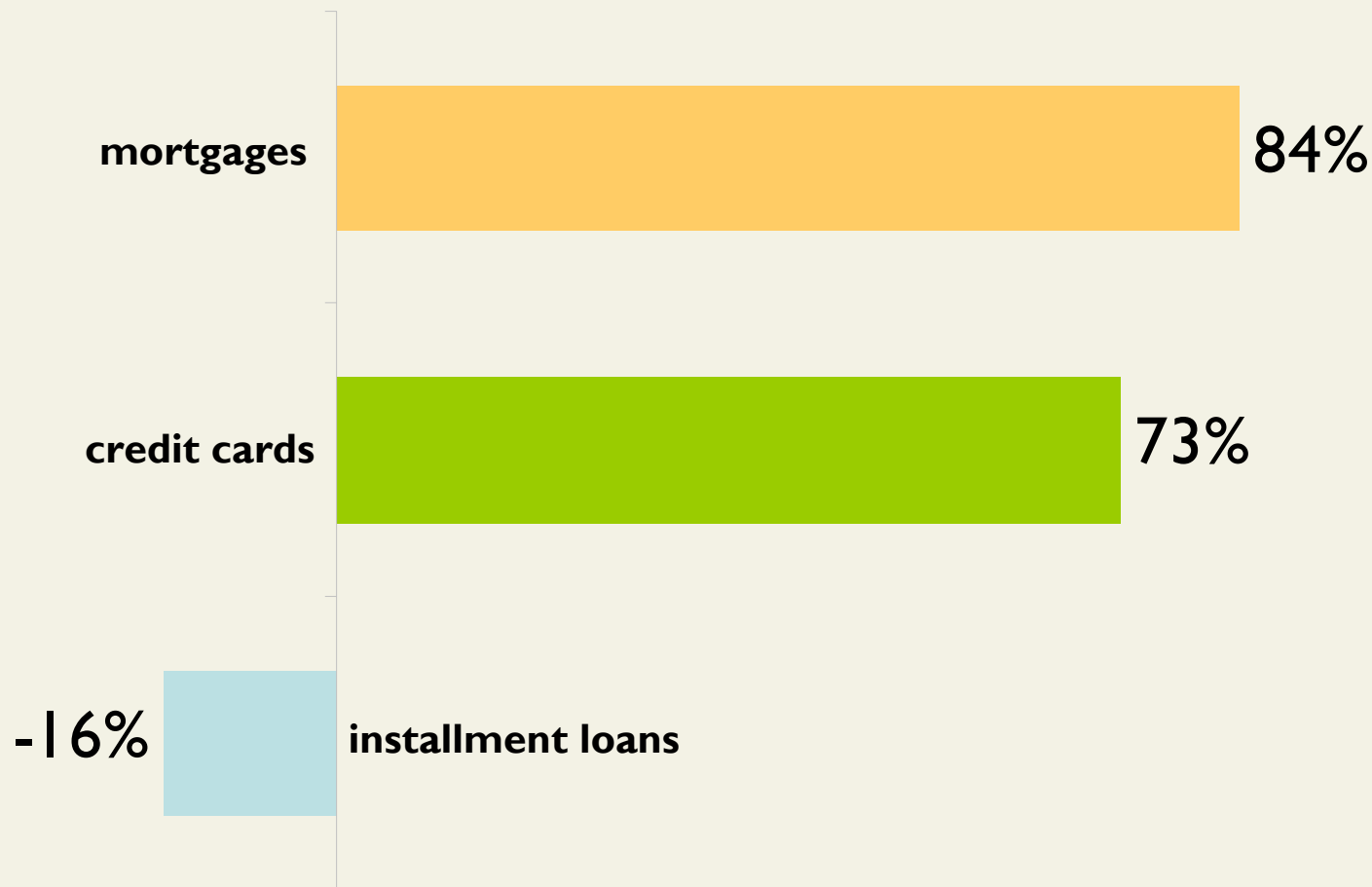
Source: Brookings' analysis of the 1989 and 2004 Survey of Consumer Finances



During this time, the proportion of low-income families with mortgages increased by 84 percent, and the proportion with credit cards by 73 percent...

Rate of increase in
low-income
households managing
debt, 1989-2004

Source: Brookings' analysis of the 1989
and 2004 Survey of Consumer Finances



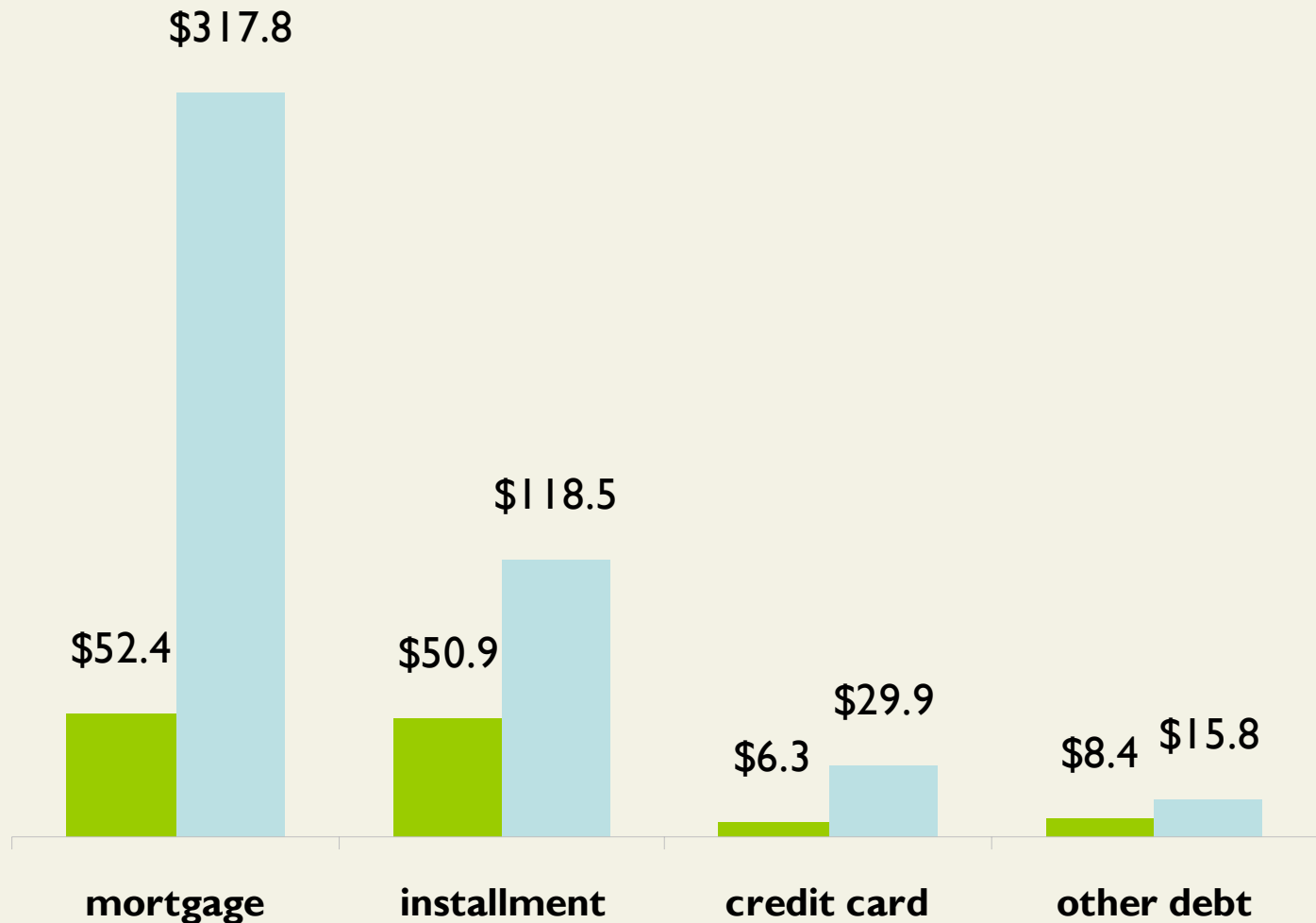
...and total debt held by low-income families grew by over 300 percent, adding up to \$481 billion in 2004.

Growth in debt
among low-income
consumers, 1989-
2004 (in 2004 dollars)

Source: Brookings' analysis of the 1989
and 2004 Survey of Consumer Finances

1989

2004



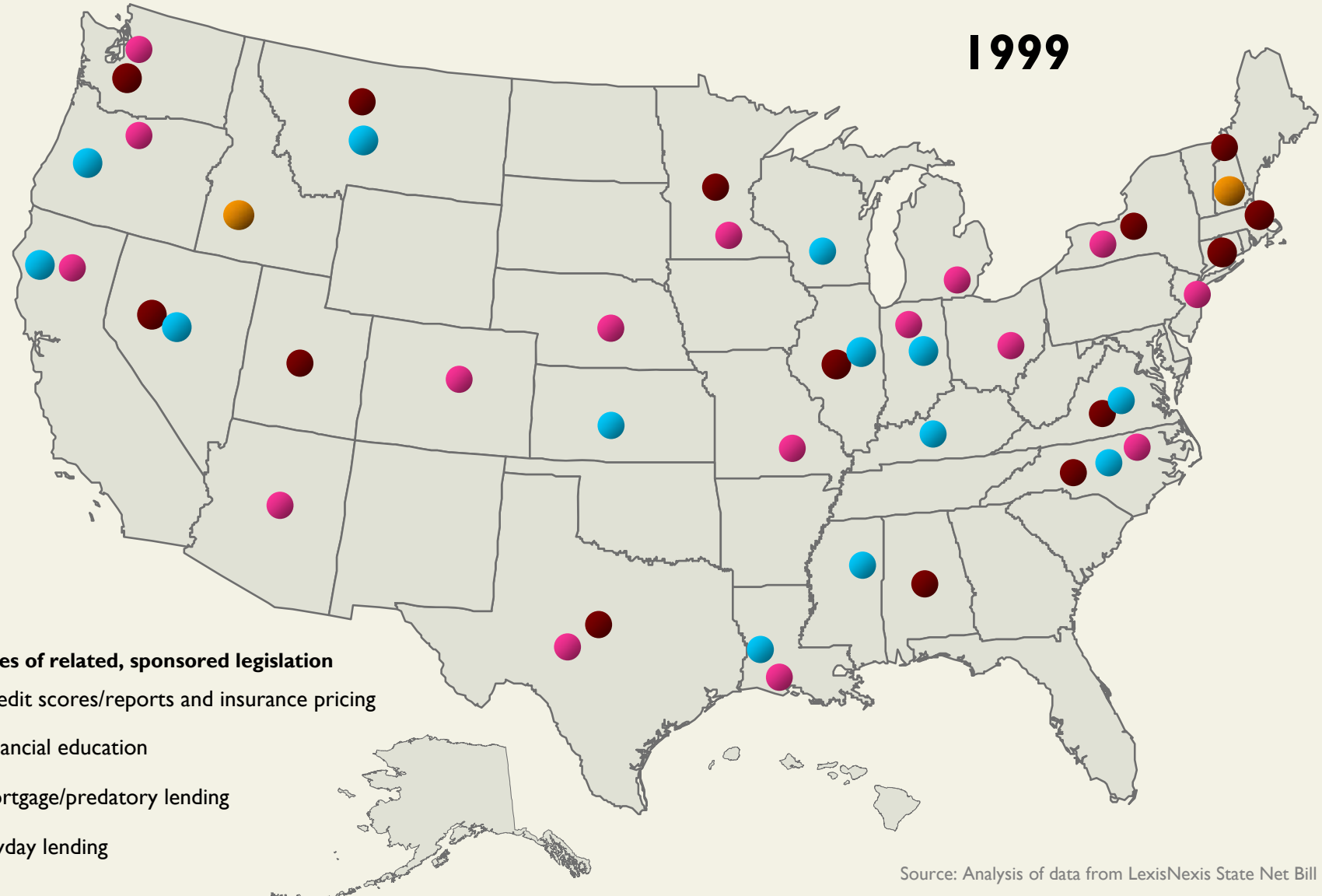


These recent market trends have created new opportunities for families to get ahead, but also new potential pitfalls to economic mobility, triggering a growing political and media response.

We can see evidence of the growth in political attention by considering state legislation from the last 8 years

In 1999, states were starting to wake up to some of the downsides of this democratization.

1999

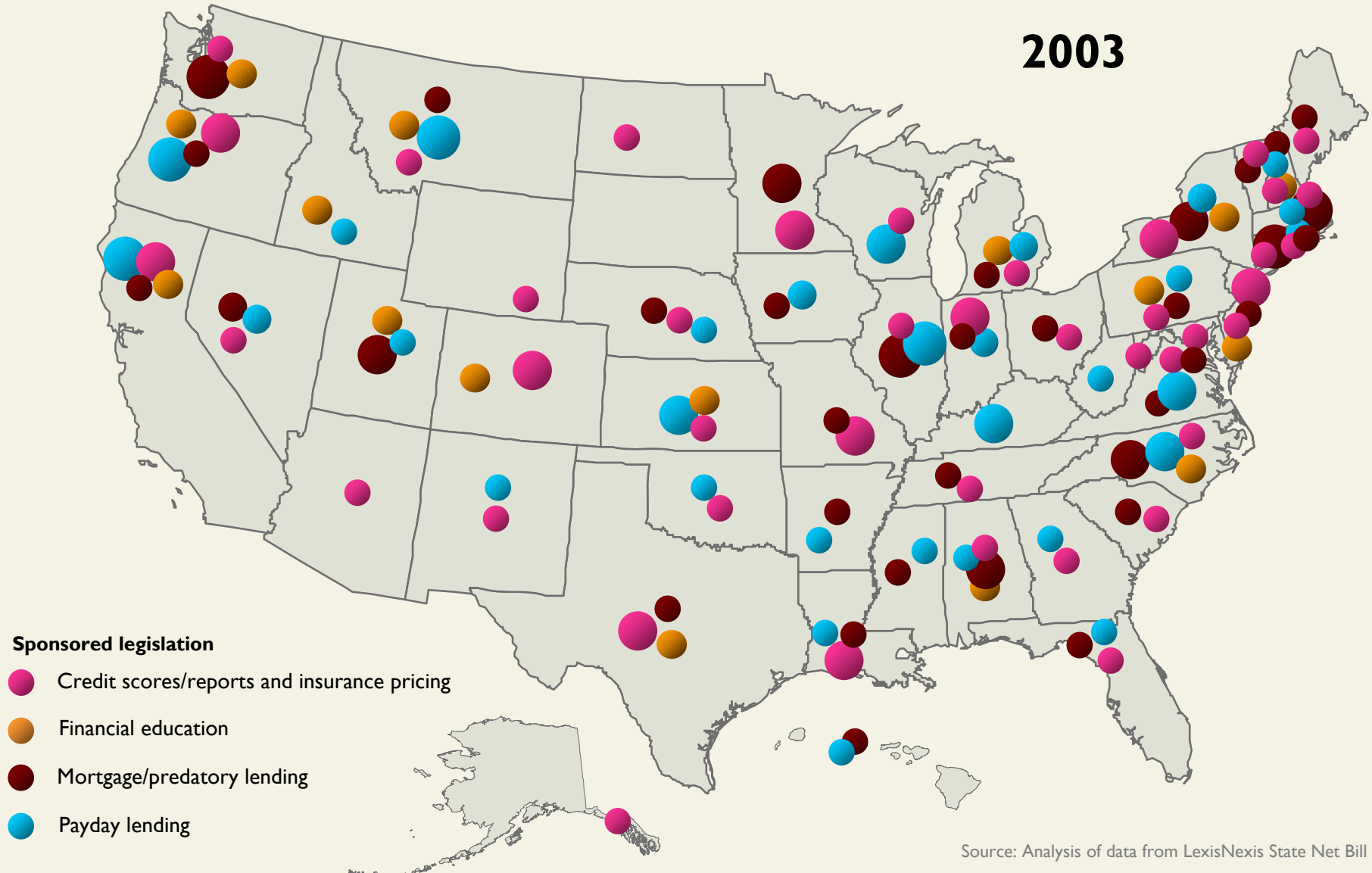


Source: Analysis of data from LexisNexis State Net Bill Tracking

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By 2003, nearly every state had considered at least some related legislation.

2003

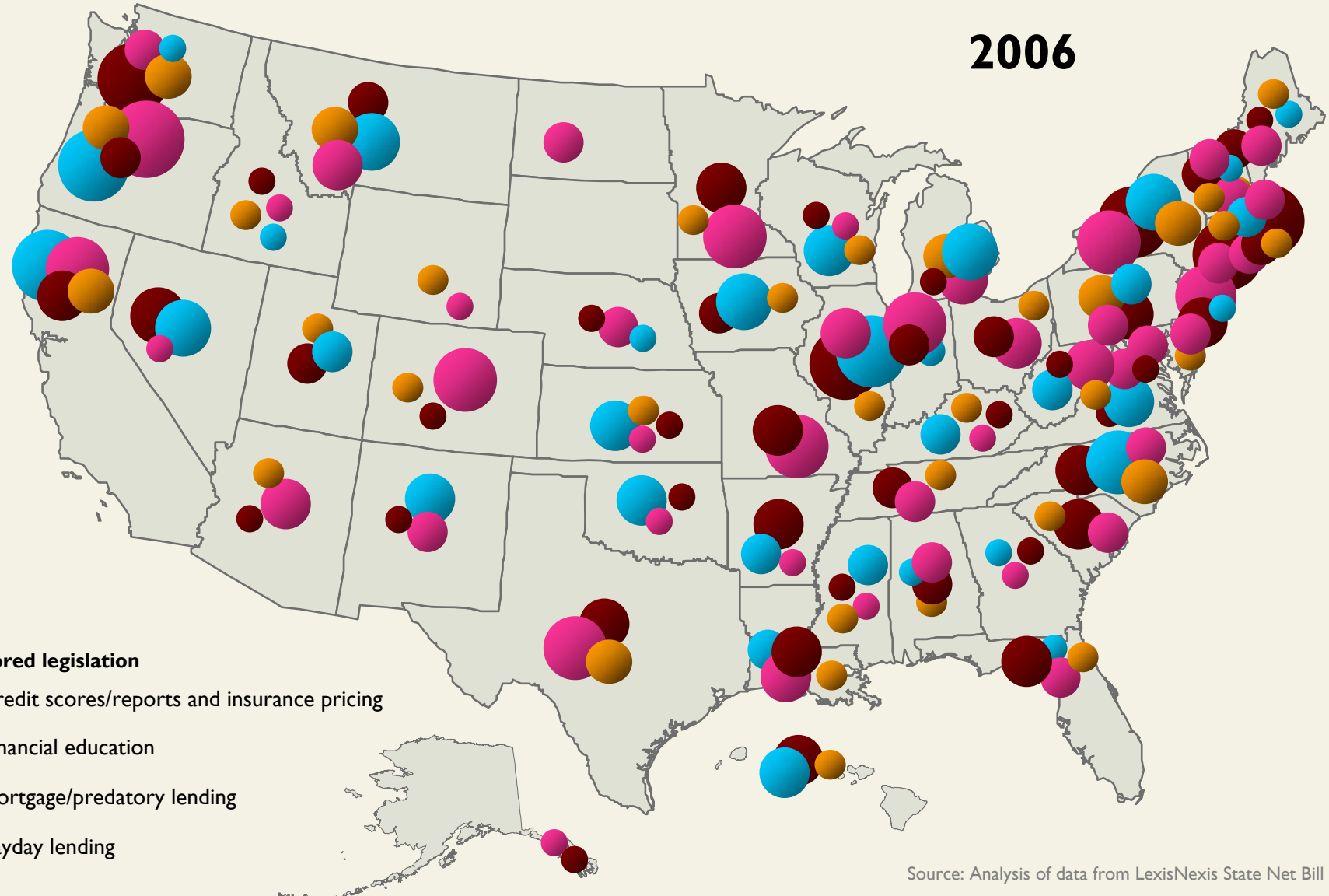


Source: Analysis of data from LexisNexis State Net Bill Tracking

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And by last year, all but one state had considered legislation related to this democratization trend.

2006



Source: Analysis of data from LexisNexis State Net Bill Tracking

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We can see evidence by looking at data collected by Brookings' communications team about our related work

This shows the coverage of our first publication on the high prices that moderate-income families tend to pay everyday necessities, including financial services.



Media coverage for
Brookings work on
high prices

By 2007, every major print media outlet, as well as a number of television and radio outlets, had covered this work in most major local markets.



Media coverage for Brookings work on high prices



Bottom Line

Access to financial service products in the low-income market has radically democratized in recent years, generating broad political and popular attention.

The tax preparation community is thus stepping into a big market, with a lot of already engaged players...making the measurement of market impact of NCTC difficult

Beyond Tax Preparation

Measuring the Market Impact of Wealth Building Initiatives

I

The broader context

II

Measuring market impact



I will talk about how to measure the market impact of three wealth building campaigns embraced by some NCTC members

1. Expanding access to checking accounts

2. Expanding access to financial education

3. Expanding access to credit



...keeping in mind that these are only a handful of the myriad financial products available to families today.

bonds savings accounts
mutual funds public equity
CDs money market accounts
401(k)s Coverdells annuities
real estate IRAs Roth IRAs
pension plans Keoghs
business assets brokerage accounts
529 accounts trusts
cash-value life insurance

1. checking accounts

2. financial education

3. credit usage

One way to measure impact is at the individual level, which is fairly straightforward, for example:

Goal: Open bank accounts for unbanked, low-income individuals

Basic Measure: Number of bank accounts opened

Better Measures: Number of bank accounts opened, account performance, utilization of services over time

Measuring market impact, on the other hand, is more complicated...

There are, however, organizations that can produce these estimates:

The Center for Financial Services Innovation (www.cfsinnovation.com)

Social Compact (www.socialcompact.org)

CFSI Center for Financial Services Innovation
An Affiliate of SunBank Corporation

home news events what we do topics publications

Topics

Topics | Products and Services

Such as prepaid cards, remittances, insurance, and check-cashing.

RESEARCH PAPERS

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by Sharna Rhine, Katy Jacob, Norman Osofsky and Jennifer Teicher
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SOCIAL COMPACT
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Research

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"Social Compact is demonstrating that you can do well economically in America and still do good socially in America."
- Honorable Bill Bradley

Search

In addition to performing market analyses in inner-city neighborhoods throughout the United States, Social Compact conducts research projects to contribute to innovation in the community development field. These research projects are often undertaken in partnership with some of the most dynamic leaders, organizations and financial institutions in community development. Current research projects include:

- Hidden in Plain Sight:** In partnership with the Social Policy Department at the London School of Economics, Social Compact's Senior Research Analyst Jamie Alderslade, discusses the merits of presenting inner-city asset data over deficiency data in identifying market strength and opportunity in a position paper sponsored by the Greenlining Institute. The paper concludes that cities can play vital informational roles in bridging information gaps that contribute to market failures in America's underserved neighborhoods.
- Measuring the Informal Economy at a Local Level:** The informal economy is a key component of low-income neighborhood markets. As part of its innovative DRILLDOWN analysis, Social Compact has designed, employed and honed a proprietary data tool for quantifying the informal economy in over one hundred underserved neighborhoods across the U.S. Using this experience, Social Compact is working with the Metropolitan Policy Program at the Brookings Institution to develop a national tool for measuring the informal economy.

There are no tools to directly measure the impact of financial education, but local credit score data offer one potential measure.

Credit scores are available from TransUnion's TrenData database at multiple levels of geography.

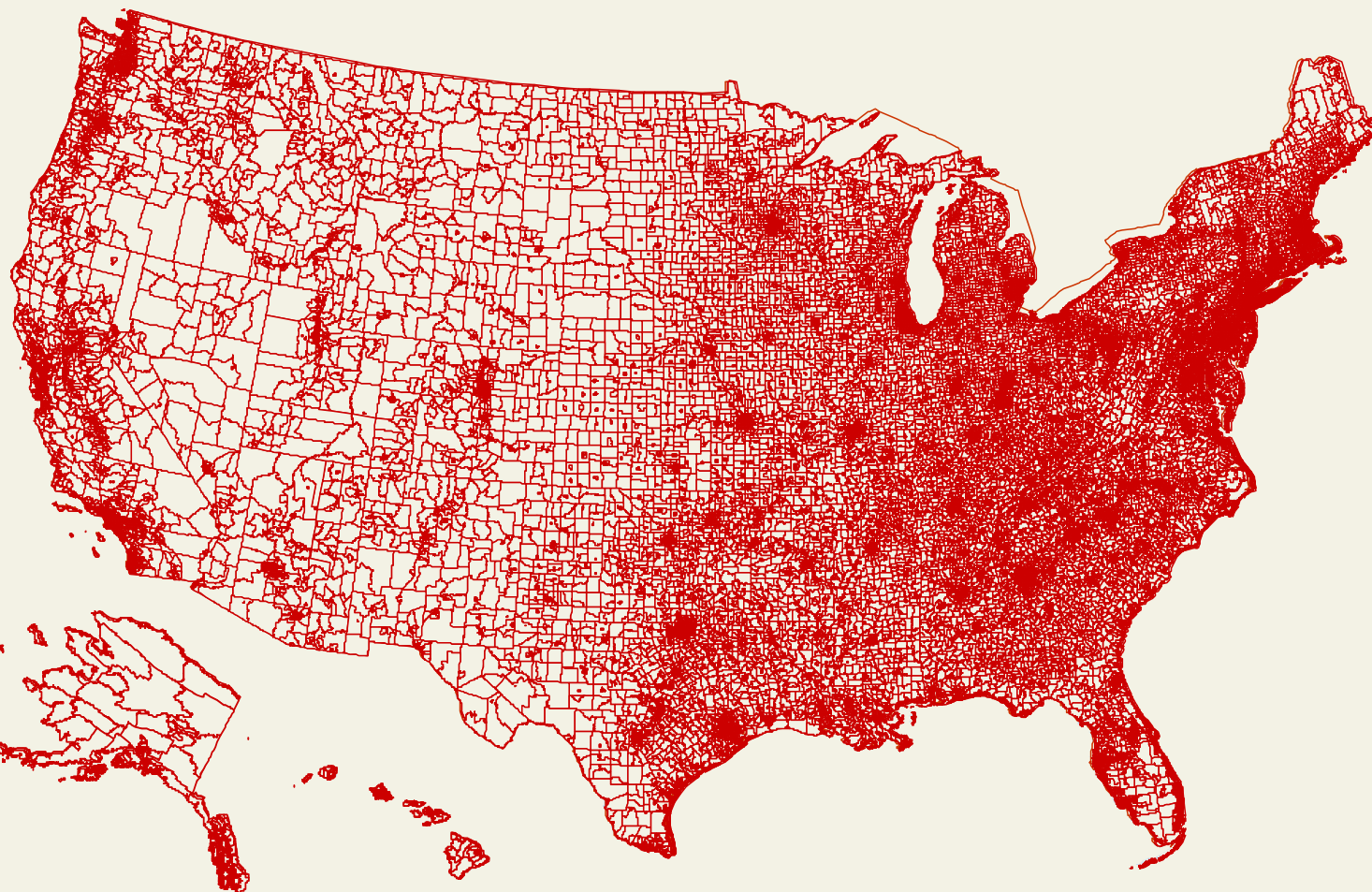
national

state

metro

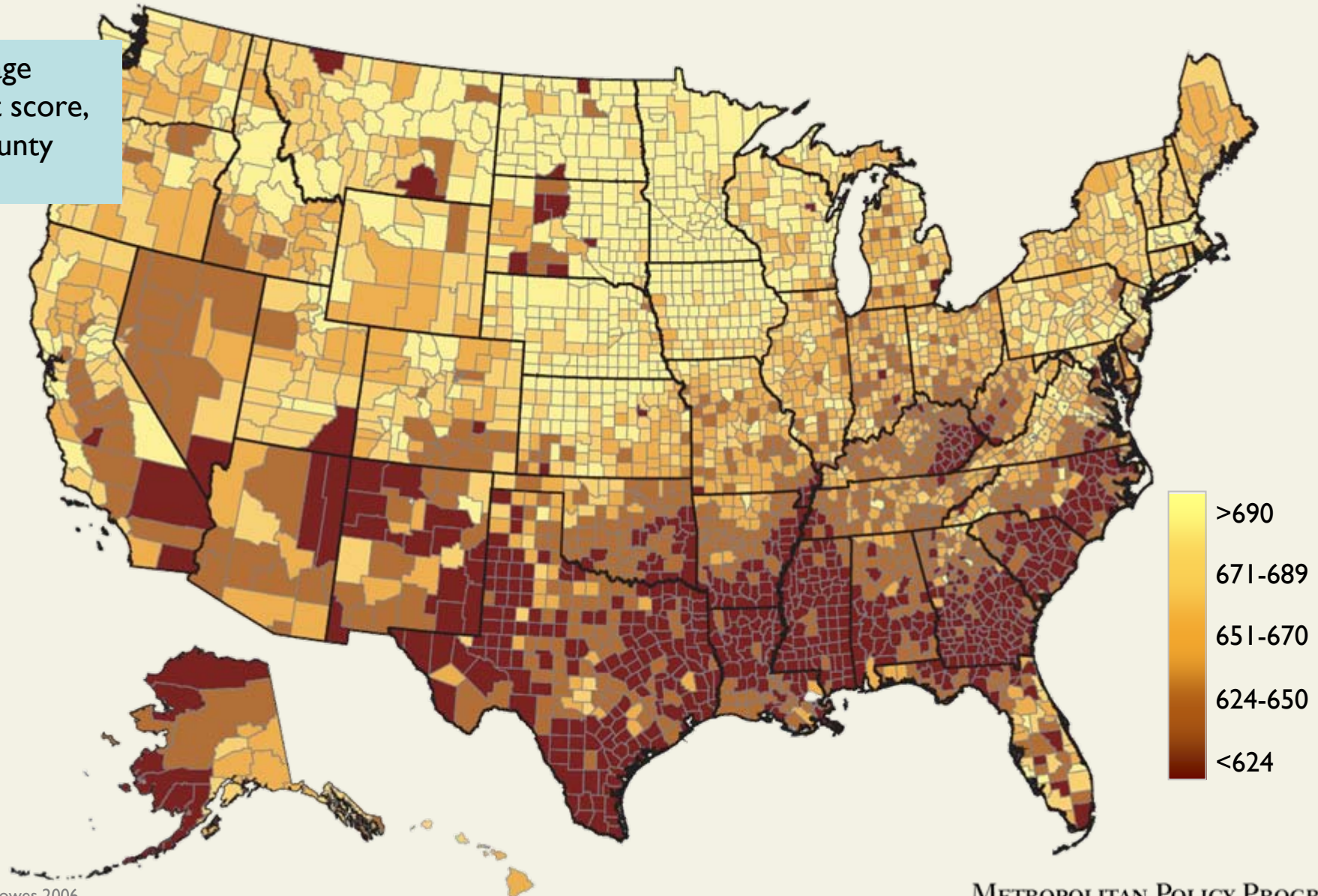
county

census tract



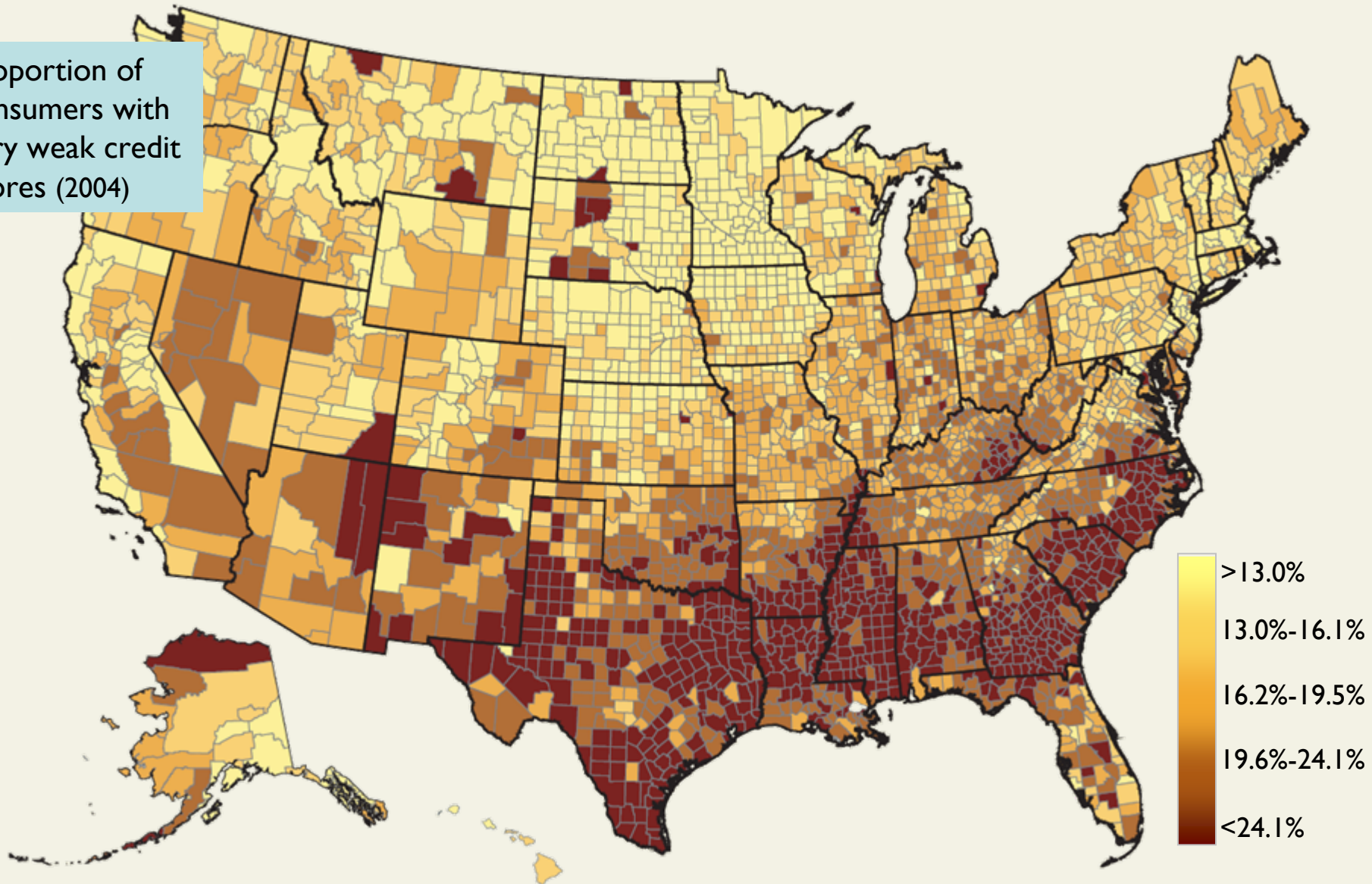
Credit score data show the substantial variance in consumer financial behavior across the country. For instance, this map looks at mean credit scores.

Average
credit score,
by county
(2004)



This shows the proportion of consumers with very weak credit scores.

Proportion of
consumers with
very weak credit
scores (2004)



There are several tools available to measure credit usage, such as DataPlace (www.dataplace.org) and TransUnion’s TrenData (products.trendata.com). For instance, this shows credit usage in metro, lower-income markets.

Highest and lowest credit usage rates in lower-income markets	
metro	credit usage rate
Boston-Cambridge-Quincy, MA-NH	74.5%
Pittsburgh, PA	67.3%
Providence-New Bedford-Fall River, RI-MA	62.9%
Detroit-Warren-Livonia, MI	40.8%
Charlotte-Gastonia-Concord, NC-SC	40.0%
Las Vegas-Paradise, NV	36.2%

Source: Fellowes and Mabanta 2007

Similarly, this shows highest and lowest median debt held in metro, lower-income markets.

Highest and lowest debt levels in lower-income markets	
metro	median total debt
Indianapolis, IN	\$16,330
Denver-Aurora, CO	\$15,963
Jacksonville, FL	\$15,963
San Jose-Sunnyvale-Santa Clara, CA	\$5,952
Milwaukee-Waukesha-West Allis, WI	\$5,837
New York-North NJ-Long Island, NY-NJ-PA	\$4,487

Source: Fellowes and Mabanta 2007

And, this shows highest and lowest mortgage delinquency rates in lower-income metropolitan markets.

Highest and lowest mortgage delinquency rates in lower-income markets	
metro	mortgage delinquency rate
Memphis, TN-MS-AR	16.8%
Detroit-Warren-Livonia, MI	13.0%
Cleveland-Elyria-Mentor, OH	12.3%
Los Angeles-Long Beach-Santa Ana, CA	2.8%
San Diego-Carlsbad-San Marcos, CA	2.1%
San Jose-Sunnyvale-Santa Clara, CA	0.9%

Source: Fellowes and Mabanta 2007



Bottom Lines

There are a handful of tools available to measure some local market impact, but it's hard to break out what impact is the result of NCTC work. Focusing on individual impact is much more straightforward.

Because NCTC groups collectively file less than 1 percent of EITC claims, there is still a massive need to build up the community's ability to meet this demand in its core competency. Groups should probably not expand unless it makes strategic sense.

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