

**UNDERSTANDING THE USE OF FINANCIAL SERVICES  
BY RESIDENTS OF THE SOUTH AND WEST SIDES OF TUCSON**

**A report prepared by:**

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**for the Southwest Center for Economic Integrity**

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## **EXECUTIVE SUMMARY**

### **Key Findings**

#### **Survey Findings**

In April and May of 2006, the Southwest Center for Economic Integrity conducted a survey of 181 residents of the West and South Side of Tucson. The goal of the research was to learn more about patterns of use of financial services and products by residents of these areas as well as their level of satisfaction with them. Surveying was conducted at the following three community events: El Rio Health Fair held at El Rio Neighborhood Center; Fiesta Grande, a street fair on Grande Avenue and Fiesta Cinco de Mayo held at the Rose Wellness Community Center. Following are the main findings from the study:

#### **Use of Bank Services**

- 82% of respondents reported having a bank account or having had one in the past.
- Those who did not have a bank account, gave the following reasons for it:
  - o No money
  - o Dissatisfaction with bank services
  - o Credit problems

#### **Use of Credit Union Services**

- 50% reported having a credit union account or having had one in the past.
- Those who did not have a credit union account, gave the following reasons for it:
  - o Prefer bank services
  - o No money
  - o Perception of credit unions (credit unions are more mysterious)

#### **Use of Check Cashers**

- 38% of respondents have used check cashers.
- At least a third of check casher users, use these services more than once a month.

#### **Use of Payday Loans**

- 12% reported having taken out a payday loan in the last year.
- Most people used the loan to pay bills.
- About half of the people had to extend their loan at least once.

#### **Un-banked Population**

- 17% of people interviewed reported being un-banked.
- Over half of them had used check cashers

#### **Level of Satisfaction with Banks, Credit Unions and Check Cashers**

- Overall, respondents reported being more *satisfied* with the cost of loans, fees and interest rates charged by credit unions, followed by banks and check cashers.
- Respondents reported being more *dissatisfied* with credit union locations, followed by banks and check cashers.

- While respondents reported being more *satisfied* with the application process, language and location of payday lenders, they were most *dissatisfied* with their rates, the cost of their loans and fees they charge.

Demographics	Demographics of the un-banked
<ul style="list-style-type: none"> <li>- 39% men and 61% women</li> <li>- 80% Hispanic</li> <li>- Median age between 40-55 years old</li> <li>- Average education level is 12<sup>th</sup> grade</li> <li>- Median annual household income between \$19,000 – \$25,000</li> </ul>	<ul style="list-style-type: none"> <li>- 58% (18) men and 42% (13) women</li> <li>- 84% Hispanic</li> <li>- Median age between 40-55 years old</li> <li>- Average education level is 10<sup>th</sup> grade</li> <li>- Median annual household income is 12,000 or less</li> </ul>

### **Focus Group Findings**

#### **Mainstream Financial Services**

Participants indicated using mainstream financial institutions for the following reasons:

- Banks and credit unions offer a safe place to keep money.
- Having an account helps them manage their money better.
- Services and products.

Participants identified the following *problems* with bank and credit union services:

- Information is difficult to understand (even when available in Spanish).
- Consumers lack education about account management and fees associated with the use of certain products and services.
- High fees and interest rates on loans.
- Delay in posting transactions and availability of deposited funds makes it easy to overdraft the account resulting in high overdraft fees.
- Strict requirements on loans.

#### **Fringe Financial Services**

Participants indicated using fringe financial services such as those offered by check cashers and payday lenders for the following reasons:

- Convenience
- Accessibility
- Services offered
- Privacy

Main *problems* identified with fringe financial services:

- Outrageous fees
- Debt trap
- Lack of flexibility with loan payments
- No guarantees; not very secure

## INTRODUCTION

The fringe financial services industry, including check cashers and payday lenders has experienced a rapid growth nationwide, doubling in size in the past five years. An estimated 13,000 check cashing stores operated in the U.S. in 2005 (CFA 2006). These businesses serve a large population of mostly low-income un-banked and under-banked costumers who for different reasons find themselves marginalized from the mainstream financial industry. This population is estimated to be 10%-20% of the country's population (Reid 2006).

Check cashers offer a wide array of products and services such as: money orders, utility and bill payment, wire transfers, prepaid debit cards, phone cards, etc., charging a fee per transaction. According to a survey of check cashing outlets conducted by the Consumer Federation of America in 2006, check cashing fees range between 1% to 5% of the face value of the check for computer generated payroll checks and government benefits, and average 8.77% for hand written paychecks or personal checks. More than half of check-cashing stores also offer short-term payday loans.

Pay day loans are small cash advances secured by a personal check held for future deposit or electronic withdrawal from a customer's bank account. These loans of \$50-\$500 are due in full on the borrower's next pay day or within 14 days. Their annual percentage rates often exceed 400%.

Given the wide array of products and small loans offered by check cashers and payday lenders, the industry relies on loyal costumers. Some of the bigger companies offer loyalty and retention programs, rewarding repeat costumers with gifts and discounted fees based on points earned for each transaction at their stores. According to the Center for Responsible Lending, "Ninety percent (90%) of payday lending revenues are based on fees stripped from trapped borrowers. The typical payday borrower pays back \$793 for a \$325 loan... Predatory payday lending now costs American families \$4.2 billion per year in excessive fees." (CRL, 2006)

The payday lending industry gained access to Tucson markets in 2000 with passage of Senate Bill 1266 which exempted payday loan businesses from the state's capped interest rate of 36% on consumer loans. The law allowed payday lenders to charge a fee of 15% of the face value of a check for a two week period (390% APR) by stating that "the fee charged by the licensee [payday lender] is not interest for purposes of any other law or rule of this state"<sup>1</sup>

While these businesses are increasingly engaging in similar type of transactions as banks and credit unions, they are not as closely regulated as mainstream financial institutions are, leaving consumers vulnerable and with little recourse when faced with a claim or concern. This is particularly important given that these businesses are expanding their

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<sup>1</sup> Arizona State Statute 6-1260. Deferred presentment; amount; fees; loans to members of military service

product lines, offering substitute products to those offered by banks, such as debit and payroll cards at a very high cost to the consumer.<sup>2</sup>

Concerned with the rapid expansion of this industry in Tucson, a broad coalition of community organizations has joined efforts to better understand, document and raise awareness about the effects of high interest short term loans and other high cost financial services on low income residents of Tucson's West and South Side. It is worth noting that these areas have been traditionally underserved by the mainstream financial industry.

The goal of this research is to understand existing patterns in the use of financial services by residents of the West Side and South Side of Tucson. We are particularly interested in understanding the motivations consumers have to use these services and their level of understanding of these products and services. We are also interested in understanding the barriers preventing consumers from using traditional financial services and how these barriers differ for Spanish speaking Hispanic consumers and English speaking consumers. To answer these questions we conducted a survey at three community events in the South and West Sides of Tucson. We also conducted focus groups in English and Spanish in the spring of 2006.

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<sup>2</sup> For a thorough review of products and services offered by check cashers, see the 2006 report entitled *Cashed Out: Consumers Pay Steep Premiums to "Bank" at Check Cashing Outlets* by the Consumer Federation of America.

## **RESEARCH METHODS**

The research methods used in this study included quantitative and qualitative research techniques. We surveyed 181 people using a structured questionnaire administered through face to face interviews at three public community events attended by neighborhood residents from the West and South Sides of Tucson over a two-month period. These events were: El Rio Health Fair, held at El Rio Community Center; Fiesta Grande, a neighborhood street fair; and Fiesta 5 de Mayo, a public celebration sponsored by Luz Southside Coalition. Members of the Fair Lending Coalition were involved in the organization of these events and provided access to our team of interviewers.

Given the nature of these community events, Hispanics are overrepresented in the study and women are overrepresented in one of the sites where we interviewed. This study does not intend to be representative of all consumers of either mainstream or fringe financial services, but rather of a sample of mostly low and moderate-income consumers in the South Side and the West Side who attended these events. We used non probability convenience sampling for this study, aiming at completing as many interviews as we could during the duration of the events.

The questionnaire used was designed by staff at the Southwest Center for Economic Integrity and it included 5 sections. The first four asked the same set of questions related to consumers' experience with the following financial services providers: mainstream financial institutions (banks and credit unions), check cashers, payday lenders and auto title lenders. The last section asked demographic information of respondents.

We began each section by asking participants if they had used these services and asked about their level of satisfaction with them. For users of check cashers, payday loans and auto-title loans, we also asked how often they used these services, what for and why, as well as their level of satisfaction with them.

The qualitative piece of this research was composed of two focus groups, one conducted in English and one in Spanish with residents of the West Side and the South Side of Tucson. The goal of the focus groups was to provide a narrative of people's experiences with these services and to explore their understanding, attitudes and feelings about financial services they use.

## RESEARCH FINDINGS

### I. Use of financial services

Table 1 shows respondents use of financial services at all three sites. We found an overall high percentage of bank users (82%), followed by credit union users (50%) and Check Casher users (38%).

*Table 1. Number of current and past users of financial services  
n=181*

<b>Financial Services</b>	<b>Number of responses</b>	<b>Percentage of users (%)</b>
Bank Acc	149	82
CU Acc	91	50
Check Casher	68	38
PDL	22	12
ATL	4	2

\* Some people use multiple services

The use of financial services varies somewhat when we look at data separately by interview site. At El Rio Health Fair, 75% of people reported having used a bank account, and 38% reported using check cashers and credit union accounts.

At Fiesta Grande and Fiesta 5 de Mayo we asked the question about use of financial services differently from El Rio Health Fair. People who reported not using a specific service (bank account, credit union account, check casher, payday loan and auto title loan) were asked if they had used them in the past. On Table 2 we look at present and past use of financial services by respondents at El Rio Health Fair. On Table 3 and Table 4 we look at present and past use of financial services by respondents at Fiesta Grande and 5 de Mayo. We notice an overall lower percentage of bank users, but a slightly higher percentage of credit union users compared to responses at El Rio Health Fair.

*Table 2. Financial Services currently used or used in the past by respondents at El Rio Health Fair.  
n=53*

<b>Financial Services</b>	<b>Number</b>	<b>Percentage of users (%)</b>
Bank Acc	40	75
CU Acc	20	38
Check Casher	20	38
PDL	3	6
ATL	2	4



Table 3. Financial Services currently used by respondents at Fiesta Grande and 5 de Mayo n=128

Financial Services	Currently use services	Percentage of users (%)
Bank Acc	84	66
CU Acc	51	40
Check Casher	48	38
Payday Loans	8	6
Auto Title Loans	0	0

Table 4. Financial Services used in the past by respondents at Fiesta Grande and 5 de Mayo (asked to those who currently don't use these services)

Financial Services	Currently don't use these services n	Have used these services in the past	Percentage of past users (%)
Bank Acc	35	25	71
CU Acc	77	20	26
Had a PDL	114	11	10
Had an ATL	118	2	1.7

When asked if they had used these services in the past (see Table 4) 71% of those who responded currently not having a bank account (35 people who responded to this question) reported that they had one in the past. On the other hand, from those who stated currently not having a credit union account, only 26% reported having had one in the past. Percentage of users of credit union and check casher services in the past is quite low compared to the percentage of past users of bank services.

Out of 128 people interviewed at Fiesta Grande and 5 de Mayo, 44 people reported currently not having a bank account and 35 of them gave the following reasons for that. Data from El Rio Health Fair is not included, because we did not include this question in the questionnaire used there.

#### Reasons for not using bank services

1. Money issues, lack of funds, financial instability or no job
2. Dissatisfaction with bank services. Responses included: bad interest rates, high costs and fees and previous bad experiences using bank services.
3. Use of credit union instead of bank. Some respondents answered that they prefer credit unions because they offer better rates and benefits.
4. Credit problems or past mismanagement of account resulting in high fees and penalties.
5. Other responses included: lack of trust in banks; prefer using cash; owe child support; no SS# and being new in town.

Out of 128 people interviewed at Fiesta Grande and 5 de Mayo, 77 people reported not having a credit union account. Respondents gave a wider variety of answers to this question than those who reported not having a bank account.

#### Reason for not using credit union services

1. Uses or prefers bank services. Considers banks more trustworthy. Currently owes money to the bank.
2. No money or no job. All the money goes to pay bills.
3. No need to.

4. No particular reason. Responses included: haven't had the time, interest or opportunity to open an account.
5. Perception of credit unions. Answers included: Have questions about credit unions; credit unions seem more mysterious; don't know how to open an account; afraid of using credit union services.
6. Moved, changed jobs, had credit union account through spouse's old employer but not anymore.
7. Membership restrictions. Respondents thought that they had to belong to an organization to be a member of a credit union.
8. Bad experience with a credit union in the past.
9. High interest rates.
10. Other responses included: have bad credit; too many requirements; don't like having debts/loans; no SS#; new in town; have VISA card through work; spouse has credit union account.

### **Banks used**

People who reported having a bank account were asked which bank they use. Some respondents gave multiple answers. Table 5 shows the banks that are more commonly used among respondents. Wells Fargo and Bank of America have the lead in number of users with 36% and 34% respectively. We included Bank One (currently Chase) because respondents identified it as a separate bank from Chase.

*Table 5. Bank Used  
n=124*

<b>Bank Used</b>	<b>Number</b>	<b>Percentage of Users (%)</b>
Wells Fargo	48	36
Bank of America	46	34
Chase	21	16
Compass	10	7
Other	8	6
Bank One	2	1
Washington Mutual	0	0
Total	135*	100%

\* Some people gave multiple answers.

### Credit Unions used

People who reported having a credit union account were asked what credit union they used. Some respondents gave multiple answers. Table 6 shows that DM FCU (currently Vantage West FCU) and Pima FCU are the most commonly used among respondents with 23% and 21% of users respectively.

Table 6. Credit Union used  
n=71

Credit Union	Number	Percentage of Users (%)
DM FCU	18	23
Pima FCU	17	21
Other	12	15
Tucson FCU	10	13
Tucson Old Pueblo CU	8	10
Hughes FCU	6	7
AZ Federal CU	3	4
Arizona Central CU	2	3
AZ State Savings & CU	2	3
Pyramid CU	1	1
	79*	100%

\* Some people gave multiple answers.

## II. Level of Satisfaction with financial services providers

### Satisfaction with Banks, Credit Unions and Check Cashers

One of the main goals of this study was to compare respondents' level of satisfaction with financial services provided by banks, credit unions and check cashers. We do not include Payday Loans and Auto Title loans on Tables 7 and 8, because the number of respondents who had used these services was significantly lower compared to bank, credit union and check cashier users.

Table 7 shows responses from El Rio Health Fair and Table 8 shows responses from Fiesta Grande and 5 de Mayo. We present these numbers separately because the question was asked differently at El Rio Health Fair from the other two sites. At El Rio we asked: *What do you like the most about their services?* Some respondents gave multiple answers.

On Table 7 we see that 35% of responses indicate that respondents' like *service* the most at Banks. When asked about their preference regarding credit union services, the main areas of satisfaction were: *service* (32%) and *products and services* (19%). When asked about their satisfaction with Check Cashers, the main areas of satisfaction were *service* (26%) and *location* (26%).

Table 7. El Rio Health Fair respondents' preference by financial service provider

Service	Banks n=54 (%)	Credit Unions n=31 (%)	Check Cashers n=27 (%)
Hours of operation	9	6	7
Service	35	32	26
Cost of the loan	2	13	0
Fees	7	13	0
Convenience of Location	16	3	26
Application Process	2	0	11
Language spoken by employees	4	0	4
Privacy	0	0	4
Products & Services	13	19	15
Other	11	13	7

At Fiesta Grande and 5 de Mayo we asked respondents to rate their **level of satisfaction** with each of the above mentioned product or service offered by banks, credit unions and check cashers. We gave respondents four options: *satisfied, dissatisfied, neutral or not sure*. In this report we include only those responses that indicate *satisfaction* (Table 8) and *dissatisfaction* (Table 9).

Respondents at Fiesta Grande and 5 de Mayo, reported being most satisfied with the following services/characteristics:

Banks: *Language spoken by employees* (96%) and *Privacy* (90%).

Credit Unions: *Privacy* (96%), *Language spoken by employees* (92%) and *Service* (90%).

Check Cashers: *Language spoken by employees* (91%) and *Location* (85%).

Table 8. Fiesta Grande and 5 de Mayo respondents' satisfaction by financial service provider.

Services	Banks n=84 (%)	CU n=51 (%)	Check Casher n=47 (%)
Hours of operation	81	84	72
Service	82	90	74
Cost of the loan	30	74	27
Fees	54	78	34
Convenience of location	83	69	85
Application process	75	80	64
Language spoken by employees	96	92	91
Products	80	88	70
Interest rates	46	76	22
Privacy	90	96	64

The areas that show the highest contrast in level of satisfaction with services offered by banks, credit unions and check cashers are:

Cost of the loan: A high percentage of clients (74%) reported being satisfied with cost of the loan at credit unions, while only about a third of respondents reported being satisfied with the cost of the loan at banks (30%) and check cashing services (27%).

Fees: About 78% of respondents reported being satisfied with credit union fees, while only 54% were satisfied with bank fees and 34% with check cashing fees.

Interest Rates: 76% of respondents reported being satisfied with credit union rates, while 46% were satisfied with bank rates and only 22% were satisfied with rates charged by check cashers.

### **Dissatisfaction with Banks, Credit Unions and Check Cashers**

Respondents at Fiesta Grande and 5 de Mayo, reported being most dissatisfied with the following services/characteristics:

Banks: *Rates* (31%) and *Fees* (30%)

Credit Unions: *Location* (25%) and *Hours* (12%)

Check Cashers: *Rates* (51%) and *Fees* (51%)

Table 9. Fiesta Grande and 5 de Mayo dissatisfaction with banks, credit unions and check cashing services.

Services	Banks n=84 (%)	CU n=51 (%)	Check Cashier n=47 (%)
Hours of operation	10	12	19
Service	10	4	11
Cost of the loan	13	4	31
Fees	30	8	51
Convenience of location	11	25	4
Application process	7	10	13
Language spoken by employees	1	2	4
Products	10	4	15
Interest rates	31	4	51
Privacy	4	2	13

The areas that show the highest contrast in level of dissatisfaction with services offered by banks, credit unions and check cashers are:

Cost of the loan: About a third of clients (31%) reported being dissatisfied with cost of the loan at check cashers, while 13% were dissatisfied with banks and only 4% with credit unions.

Fees: About half (51%) of respondents reported being dissatisfied with fees charged by check cashers, while about a third (30%) reported dissatisfaction with bank fees and a small percentage (4%) were dissatisfied with credit union fees.

Convenience of location: The highest level of dissatisfaction is reported by credit union users (25%) followed by bank users (11%) and check cashier users (4%).

Interest Rates:

About half (51%) of check cashier users reported being dissatisfied with their rates, while about a third of bank users (31%) were dissatisfied with bank rates. It is interesting to note that only 4% of credit union users reported being dissatisfied with rates they are being charged.

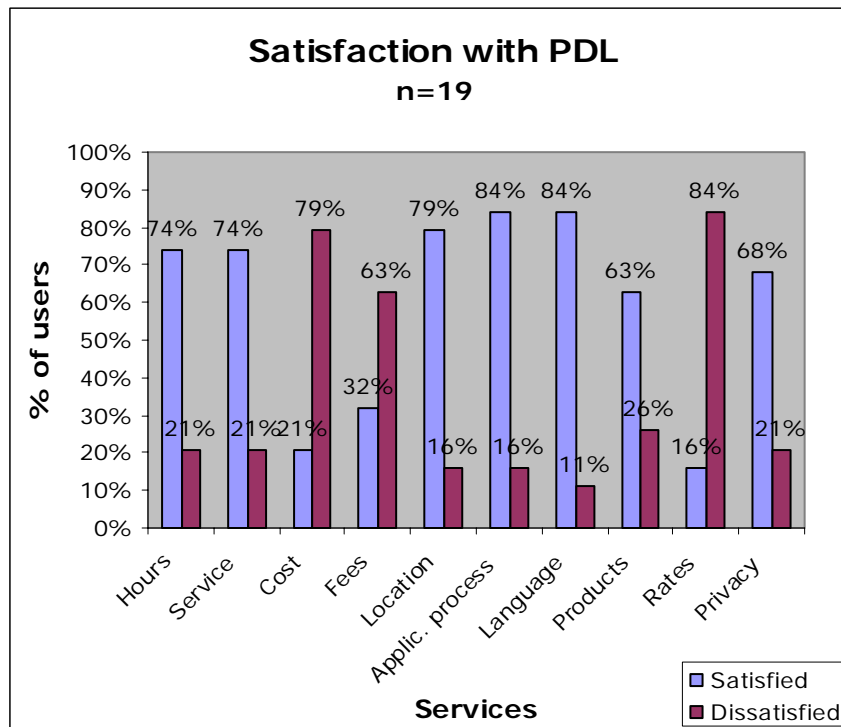
## Satisfaction and Dissatisfaction with Payday Loans

When asked about Payday loans, respondents reported being satisfied with: Application process (84%), Language spoken by employees (84%) and Location (79%). Respondents reported being dissatisfied with: Rates (84%), Cost of the loan (79%) and Fees (63%).

Table 10. Level of Satisfaction and Dissatisfaction with Payday lenders  
n=19

Services	Percentage of Respondents Satisfied (%)	Percentage of Respondents Dissatisfied (%)
Hours of operation	74	21
Service	74	21
Cost of the loan	21	79
Fees	32	63
Location	79	16
Application process	84	16
Language spoken by employees	84	11
Products	63	26
Rates	16	84
Privacy	68	21

Figure 3. Level of satisfaction and dissatisfaction with services offered by payday lenders.



### III. Patterns of use of financial services

#### Check Cashing Services

The majority of respondents reported having used check-cashing services 2 – 5 times in the last year (24%) followed by once a month (15%) in the last year as noted on Table 11. Respondents reported using several check cashing services at the same time. On table 12 we see that 53% of 88 responses indicate the use of check cashers to cash checks and 24% to pay bills. People who use check-cashing services pay a fee per transaction, often calculated as a percentage of the transaction value. This translates into high fees for frequent users, especially when compared to those fees charged by mainstream financial institutions on checking and savings accounts.

*Table 11. Frequency of use of check cashing services in the last year.*

<b>Frequency of Use</b>	<b>Number</b>	<b>Percentage of respondents (%)</b>
Once or twice ever	8	12
Once	9	13
2-5 times	16	24
6-11 times	2	3
Once/month	10	15
Twice/month	9	13
More than twice/mo	6	9
Other	8	12
Total	68	100%

*Table 12. Purpose of use of check cashing services*

<b>Use</b>	<b>Number of responses</b>	<b>Percentage of responses (%)</b>
Cash checks	47	53
Pay bills	21	24
Send money	5	6
Money orders	5	6
Loan	3	3
Other unspecified	7	8
Total	88	100%



## Payday Loans

The majority of respondents (43%) reported having taken out one payday loan in the last year followed by 19% who took out a loan 2-5 times in the last year and 14% who took a loan several years ago.

*Table 13. Frequency of use of Payday loans in the last year.*

<b>Frequency</b>	<b>Number of respondents</b>	<b>Percentage of respondents (%)</b>
Once	9	43
2-5 times	4	19
6-11 times	0	0
Once/month	1	5
Twice/month	0	0
More than twice/month	0	0
Once, years ago	3	14
Other	4	19
Total	21	100%

On Table 14, we see that out of 10 people who responded having taken an extension on their payday loans, 6 reported taking out two extensions and 3 taking out one extension.

*Table 14. Payday loan extensions*

<b>Extensions</b>	<b>Number</b>	<b>Percentage of respondents (%)</b>
once	3	30
twice	6	60
more than 2 times	1	10
	10	100%

Table 15 shows respondents' main purpose for taking out a payday loan. It is worth noting that 13 respondents reported using the loan to pay bills, 2 used it for paying off debt and 2 for paying for expenses.

*Table 15. Purpose of using Payday Loans*

<b>Purpose</b>	<b>Number of respondents</b>	<b>Percentage of respondents (%)</b>
Pay bills	13	62%
Utilities	0	0%
Groceries	1	5%
Emergency	1	5%
Car Repair	0	0%
Avoid late fees	0	0%
Expenses	2	10%
Pay off debt	2	10%
Pay fees at bank	1	5%
Other	1	5%
	21	100%

## Auto Title Loans

Four people reported having taken out an auto title loan in the last year.

When asked how long it took them to pay it off, two of them said it took them 2 months to pay off their loans.

The main reasons given for taking out an auto title loan were: “Choice between rent vs. car”, “Emergency/unemployed”, “Last resort. Too expensive, would not do it again” and “During Christmas”.

### **Satisfaction and dissatisfaction with Auto Title Loans**

Two respondents said they were satisfied with the *hours, service, language spoken by employees* and *privacy* of auto-title lenders. One person reported liking the most their quick service and the fact that they don’t ask questions. Another person reported liking the cost of the loan.

Two people were dissatisfied with the *cost of the loan, the fees and rates*. One of them was also dissatisfied with the *application process, location and products*.

#### IV. Demographic characteristics of survey respondents

Overall there was an overwhelming representation of Hispanics (Table 17) with an 80% of respondents in this study. There was also an overrepresentation of women (Table 16) with 61% of respondents. This may be due to the nature of the events chosen for the survey and the schedule of one of the events on a weekday afternoon when many of the men were out working.

*Table 16. Gender*

<b>Gender</b>	<b>Number</b>	<b>Percentage of Respondents (%)</b>
Male	71	39
Female	110	61
	181	100%

*Table 17. Race/Ethnicity*

<b>Race/Ethnicity</b>	<b>Number</b>	<b>Percentage of Respondents (%)</b>
Caucasian	21	12
Hispanic	145	80
African American	3	2
Native American	6	3
Asian	1	1
Other	4	2
N/A	1	1
	181	100%

The median age of respondents (Table 18) fell between 40 and 55 years old and the average education level was 12<sup>th</sup> grade (Table 19).

*Table 18. Age*

<b>Age Bracket</b>	<b>Number</b>	<b>Percentage of Respondents (%)</b>
Under 18	1	1
18-24	14	8
25-39	42	2
40-55	66	36
56-70	48	27
Over 70	10	6
	181	100%

Table 19. Education Level

<b>Grade completed</b>	<b>Number</b>	<b>Percentage of Respondents (%)</b>
0	1	1
1-5	1	1
6-8	17	9
9-12	74	41
13-16	71	39
17-18	13	7
19 or more	3	2
N/A	1	1
	181	100%

The median annual household income falls between \$19,000 and \$25,000 (Table 20) and the average number of household members was 3.2 people.

Table 20. Income level

<b>Income Range</b>	<b>Number</b>	<b>Percentage of Respondents (%)</b>
12K or less	46	25
13K - 18K	20	11
19K - 25K	28	15
26K - 36K	28	15
37K - 47K	18	10
48K - 58K	15	8
59K - 69K	7	4
70K - 100K	10	6
100K or more	4	2
N/A	5	3
	181	100%

Table 21. Household members

<b>Number of people</b>	<b>Frequency</b>	<b>Percentage of respondents (%)</b>
1	29	16
2	35	19
3	37	20
4	43	24
5	19	10
6	9	5
7	4	2
8	2	1
N/A	3	2
	181	100%

## **Demographic Characteristics of the unbanked**

As we pointed out earlier, 17% of people interviewed reported not having a bank or credit union account. More than half of them (55%) mentioned having used check cashing services. It is interesting to note the demographic characteristics of respondents who were unbanked at the time of the survey and how they compare to the whole group.

Hispanics men are overrepresented in the unbanked population, compared to the population interviewed. 58% of unbanked respondents were men and 84% were Hispanic. The median age of this group fell between 40-55 years old. The average education level and median annual income was lower for the unbanked than for the whole group interviewed. The average education level was 10<sup>th</sup> grade and the median annual household income fell below \$12,000 for unbanked respondents.

## QUALITATIVE RESEARCH

In April and May of 2006, the Southwest Center for Economic Integrity conducted two focus groups, one in English and one in Spanish with 6 participants each, to explore the understanding, attitudes and feelings people in the West and South Side of Tucson have of financial products and services. The matrix below summarizes the main findings from both focus groups. It is worth noting that none of the participants in the Spanish focus group had any experience using credit unions and were interested in learning the difference between credit unions and banks.

### USE OF BANKS

	ENGLISH FOCUS GROUP	SPANISH FOCUS GROUP
Reasons for using bank services and products	<ul style="list-style-type: none"> <li>○ Having a place to save and have access to credit like car loans, mortgage loans, etc.</li> <li>○ Convenience of direct deposit, checking acc, debit card (helps keep track of the money) instead of carrying cash around.</li> <li>○ Help with budgeting. Having a checking acc helps not to spend as much.</li> </ul>	<ul style="list-style-type: none"> <li>○ Convenience.</li> <li>○ Better control of expenses with debit card.</li> <li>○ Security.</li> <li>○ Have a reference from a bank for large purchases or applying for credit.</li> </ul>
Problems with bank services and products	<ul style="list-style-type: none"> <li>○ Strict requirements and standards to access credit</li> <li>○ High fees (ATM, check cashing and remittances).</li> <li>○ Lack of information or education about banking services and costs.</li> <li>○ Information is difficult to understand.</li> <li>○ Transactions take time to get posted and checks to clear making it hard to keep track of the money.</li> </ul>	<ul style="list-style-type: none"> <li>○ Strict requirements and standards to access credit.</li> <li>○ High fees (overdraft fees) and rates.</li> <li>○ Information is hard to understand, even when it is in Spanish.</li> <li>○ Lack of services like “bill payment” at the branch.</li> </ul>
Things they would like to see change	<ul style="list-style-type: none"> <li>○ Fewer requirements to get a loan or special products for people who have had credit problems in the past.</li> <li>○ Small loans with fewer requirements.</li> <li>○ Less fees and cost of accounts.</li> <li>○ Free check cashing.</li> <li>○ More information/education on how to use banking services so they can avoid paying high fees and penalties.</li> </ul>	<ul style="list-style-type: none"> <li>○ Fewer requirements to get a loan.</li> <li>○ Lower fees and interest rates.</li> <li>○ Information that is easier to understand.</li> <li>○ More helpful staff.</li> <li>○ Longer hours of operation.</li> </ul>

**USE OF FRINGE FINANCIAL SERVICES**

	<b>ENGLISH FG</b>	<b>SPANISH FG</b>
Reasons for using fringe financial services (check cashers and payday loans)	<ul style="list-style-type: none"> <li>○ Convenience.</li> <li>○ Accessibility – easy to use, money available when there’s an emergency.</li> <li>○ Services such as: bill payment.</li> </ul>	<ul style="list-style-type: none"> <li>○ Necessity and Convenience.</li> <li>○ Easy.</li> <li>○ Service such as: bill payment. Payment is posted immediately.</li> <li>○ Operating hours – open on Sundays.</li> <li>○ Flexible requirements – don’t ask personal questions.</li> <li>○ Practical during emergencies.</li> </ul>
Problems with fringe financial services	<ul style="list-style-type: none"> <li>○ Outrageous fees.</li> <li>○ Debt trap.</li> <li>○ Saturation in target geographic areas.</li> </ul>	<ul style="list-style-type: none"> <li>○ High fees and interest rates on small loans.</li> <li>○ No flexibility with loan payments.</li> <li>○ Not very secure or trustworthy.</li> <li>○ Don’t offer guarantees.</li> <li>○ Take advantage of people by charging excessive fees.</li> </ul>
Things they would like to see change	<ul style="list-style-type: none"> <li>○ Lower interest.</li> <li>○ Payment in small installments.</li> </ul>	<ul style="list-style-type: none"> <li>○ Better information.</li> <li>○ Better customer service.</li> <li>○ More qualified employees.</li> </ul>

## Conclusions

- Consumers differentiate financial services providers and are aware of the difference in cost of their services. Consumers make their decisions based on different factors such as convenience, location and service, but mostly out of necessity. People decide to use those services that are accessible to them when they need them. This is particularly the case with services such as bill payment and small short-term loans.
- Low income consumers express difficulty accessing mainstream financial services. Some of the barriers mentioned include:
  - Information that is difficult to understand and lack of education about account management and fees associated with the use of certain products and services.
  - High fees on accounts and high interest rates on loans.
  - Delay in posting transactions and availability of deposited funds resulting in overdraft fees.
  - Funds not readily available to borrow, especially for people with limited and variable income.
  - Strict requirements on loans.
- Users of fringe banking services feel trapped in these high cost services. The availability of high cost short-term credit makes it easy for low-income consumers to borrow beyond their capacity to repay.
- Some consumers express interest in having access to more information and guidance about banking services and costs associated with them.

## Recommendations

- Mainstream financial institutions such as banks and credit unions can explore ways to make information about their products and services more accessible to low income clients and clients that have little experience using financial services. Better understanding of products and services may translate into better account management and more successful long term relationships with clients.
- Banks and credit unions can offer financial education classes or partner with non-profit organizations or community-based organizations that already offer them. Part of the curriculum could focus on understanding financial products and services available and costs associated with them.
- Mainstream financial institutions can develop affordable products and services for low-income consumers, such as small consumer loans or lines of credit that can be made available faster and with fewer requirements to be paid over a longer period of time than two weeks. Financial institutions could also offer popular products such as bill payment.



- Banks and credit unions can explore lower cost alternatives to deliver services in low-income neighborhoods through small branches or points of service located inside grocery stores. While it is common to find check cashing businesses delivering services this way, some banks have started doing this in Tucson.

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