

**Toward a New Credit Path®:**

**Lessons from a Survey**

**of 904 Alternatives Federal Credit Union Members**

Bill Myers and Deirdre Silverman, Project Managers  
New England Market Research, Survey Research  
Cathie Mahon and Jack Northrup, Report Writers  
Kirsten Moy, Senior Advisor



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William Myers  
Alternatives Federal Credit Union

Kirsten Moy  
Aspen Institute Economic  
Opportunities Program

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# Credit Path® Research

## I. OVERVIEW OF THE CREDIT PATH® REPORT

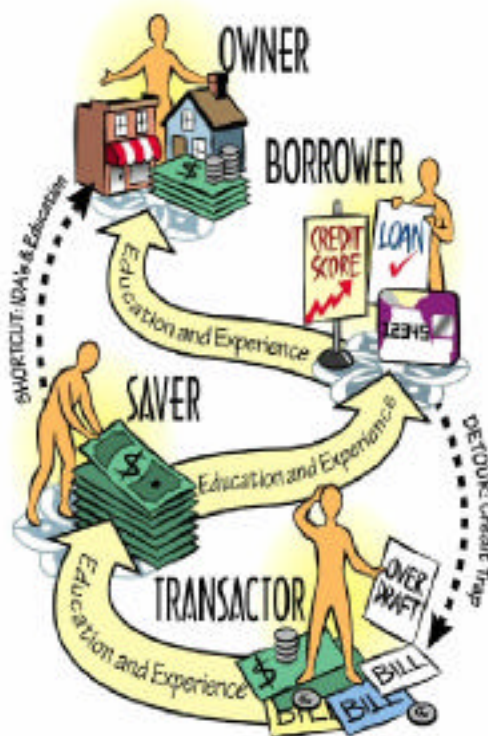
Alternatives Federal Credit Union, with the support of the Annie E. Casey Foundation, has engaged in a multi-year research effort to study the accuracy of the Credit Path® as a reflection of people's financial behavior, and its effectiveness as a framework for promoting progress toward greater asset accumulation, particularly among low-income households.

Alternatives Federal Credit Union is a full-service community development credit union located in Ithaca, New York. Founded in 1979, its primary service area includes seven counties in upstate New York. Alternatives combines the transaction and credit services of a financial institution with the asset-building programs of a community-based organization. The credit union has assets of \$50 million and more than 8,300 members, 68% of whom are low or very low income.

The Credit Path®, first formulated in 1995 by Alternatives' CEO William Myers, is a comprehensive framework for helping people move along a continuum of asset development through financial services. The Credit Path® delineates how different tools and interventions can be employed to help people move from:

**Transactor ==> Saver ==> Borrower ==> Owner**

Illustration of Existing Credit Path



Many in the community development and burgeoning asset building fields have seen the Credit Path® as a critical departure from both more conventional community development and financial institution approaches to low-income and unbanked consumers. For the community development field, earlier emphasis had been placed on moving low-income people (often engaging in the financial system only through transactions) immediately into asset ownership strategies, bypassing critical intermediate steps. From the financial institution perspective, there was a failure to acknowledge the potential of transactors for future ownership. This group was largely overlooked as a viable market segment. The Credit Path® posited that Transactors belonged on the financial continuum of moving toward ownership and that by establishing patterns and behavior of saving and borrowing productively, Transactors can and do achieve asset ownership.

Alternatives has used the Credit Path® in both its operations and educational activities. Specifically, the Credit Path® provides:

- A product design tool for credit union management and board. The Credit Path® is a tool to design new products and services that assist members in moving along a pathway toward greater self-sufficiency. The Credit Path® helps the credit union to identify and fill gaps in existing product offerings. The Credit Path® provides a framework for determining the social impact of new products and services.
- Training and orientation for credit union leadership and staff. The Credit Path® offers the credit union a unique method of communicating how its diverse range of products, services and programs promotes an underlying mission of asset development and financial self-sufficiency among its members.
- A financial education framework for members. More recently the credit union has incorporated the Credit Path® into its financial education curriculum, offering members opportunities to reflect upon how they engage with the financial system and to increase their likelihood of achieving ownership status.
- An understanding of unbanked consumers (termed Transactors in the Credit Path® Model) as part of a financial continuum, with the potential to enter the financial mainstream and progress toward asset ownership, if offered appropriate products, services and incentives.

Since 2002, the credit union has conducted seminars for other credit unions, banks, CDFIs and community organizations about the Credit Path®, focusing on the role that products and services play in both encouraging and inhibiting forward movement along the path. The Annie E. Casey Foundation has incorporated training on the Credit Path® model into its work on Family Economic Success.

In the interest of refining the Credit Path® and exploring its role in the evolving world of the financial service industry, Alternatives initiated this multi-year research project. With the support of the Annie E. Casey Foundation, Alternatives initiated two separate studies on whether the Credit Path® in its current form is a realistic reflection of their members' financial lives.

Key findings of these reports are discussed below, and in greater length in a more detailed report from New England Market Research, available at <http://www.alternatives.org/CPResearch.pdf>. These findings may be summarized as:

1. While the Credit Path® does depict stages of financial engagement for Alternatives members, the study did not find it to be an accurate step-by-step representation of how the financial life of a member actually evolves.

2. Shifts in the financial services industry may have altered this ordering of how people progress between the Saver and Borrower stages of the Credit Path®.
3. Each stage along the Credit Path® is much more complex than is currently represented.
4. Life events impact respondents' progress on the Credit Path®.
5. There is a strong correlation between income and placement on the Credit Path®. The Credit Path® in its current form may be more relevant for low-income households than for middle- and upper-income households.

## II. RESEARCH CONTEXT

The research conducted over the previous two years studied the members of Alternatives FCU to determine:

- Whether the Credit Path® accurately reflects members' progress through financial life
- The impact that product development and education may have on promoting movement along the Credit Path®, particularly for low-income and underserved people
- The replicability of the model in other contexts and settings
- Functional attributes, e.g., demographic, attitudinal and behavioral of each of the four Credit Path® stages
- Demographic, behavioral and attitudinal composites of each of the four Credit Path® stages
- Member self-identification on the Credit Path®.

The two-year research project produced two studies. A study in June 2004 by Shorebank Advisory Services reviewed account data on members and conducted interviews with a small sample of credit union members, board members and employees. The strength of this study was in showing how frequently the Credit Path® was used by both Board and staff members in strategic decisionmaking and in service delivery. The account data study proved fairly inconclusive due to incompleteness of records resulting from members with accounts at multiple financial institutions. This led to difficulties in forming clear definitions for each stage of the path from account data alone.

The second study, upon which the major findings of this report are based, was conducted by New England Market Research, Inc., under the auspices of the Aspen Institute. This study consisted of surveys conducted over a fourteen-day period via mail, online at the credit union's web site, and in the credit union lobby. Two survey questionnaires were developed with shared demographic data points (to allow for linking the survey responses). In addition to the demographic data, one questionnaire gathered financial information and the other collected behavioral and attitudinal information regarding finances. There were a total of 904 survey responses. The survey produced great breadth of information. The findings of this paper draw primarily upon the latter research, with some qualitative information from the earlier research for additional context. The intent of this paper is to interpret the data in a broader context and to draw lessons that will be useful to the growing field of practitioners engaging in asset building work.

### III. KEY FINDINGS REGARDING THE CREDIT PATH® MODEL

#### 1. While the Credit Path® does depict stages of financial engagement for Alternatives members, the study did not find it to be an accurate step-by-step representation of how the financial life of a member actually evolves.

The Credit Path® envisions four stages of financial engagement: Transactor, Saver, Borrower and Owner. Ideally, people pass through each stage as they progress toward asset accumulation while continuing to use the products and services at earlier stages.

The survey first tested whether these categories in fact make sense within an asset development framework. The responses demonstrated that the four categories of Transactor, Saver, Borrower and Owner provide enough distinction to allow inclusion of almost all members as engaging in at least one level on the path. It also showed these to be credible categories when tied to age, income, financial ownership, savings behavior, life events and other variables. Furthermore, the survey shows that these stages are closely linked as people engage in multiple stages on the Path simultaneously. Less than 1% of the sample was found in only one category only.

Yet the survey findings failed to find that individuals follow the sequencing of stages as presented by the Credit Path®. Survey responses showed financial life to be more complex than the Credit Path® diagram indicates. People tend to use bundles of products at multiple stages (or categories) without necessarily using products at the stage or step immediately above or below on the Path.

In attempting to determine movement or progress along the Path<sup>1</sup>, researchers found that respondents were as or more likely to move from Transactor ==> Borrower ==> Saver ==> Owner as Transactor ==> Saver ==> Borrower ==> Owner, thus inverting the sequencing of the Borrower and Saver stages. It remains true that people generally move to a middle position of Saver and/or Borrower before becoming Owners. Very few people become Owners first without saving or borrowing, except in the case where an inheritance may have substituted for saving behavior and the need to borrow.

#### 2. Shifts in the financial services industry may have altered this ordering of how people progress between the Saver and Borrower stages of the Credit Path®.

When initially conceived, the Credit Path® assumed savings as the natural and proper precursor to borrowing. However, shifts in the financial services industry in recent years may have created greater opportunities (for better or worse) for those with little or no savings to obtain credit, thus altering the stages. The traditional pathway in credit unions, which often served as the alternative for those without access to bank financing, was to establish reliable savings patterns and build sufficient savings to secure initial loans. As a person's credit history grew, so did his or her ability to borrow. Early experiences in the credit card industry also relied on secured credit cards as a first step to borrowing.

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<sup>1</sup> Because the study was not longitudinal but rather a snapshot in time, the researchers used proxies to simulate “progress” or “movement” on the Credit Path. Age was the primary proxy for movement because it denotes time, and subsequent movement, in a more readily understood and accepted sense than other variables. However, the research also explored other variables that could indicate movement including tenure at the credit union, education levels and income as proxies for movement along the path.

With a booming subprime finance industry, widespread availability of credit cards and heavy reliance upon credit scores (which do not take savings into account) savings is no longer a necessary step towards creditworthiness and borrowing. For many, borrowing has supplanted savings as the next rung up on the ladder for a person engaging primarily in transactional services. In fact, the overlap of borrowing and transactional services in check-cashing establishments (in most states) has facilitated a person's ability to move easily between Transactor and Borrower without ever engaging in savings products or behaviors. Similarly, a proliferation of low- or no-down payment home mortgage products can effectively launch a Transactor to Borrower and Owner without ever engaging in savings behavior. The danger in this scenario is that while people may more readily become owners, the actual net worth or equity they hold may be zero or negative as housing values shift and interest and fees compound. This raises significant questions for the asset building field pursuing strategies to move people simply into ownership without sufficient emphasis on the savings and productive borrowing stages.

While survey responses showed that people had savings accounts before borrowing, actual savings activity begins several years after debt accumulation. Saving and borrowing are never far apart for all respondents. Indeed, many respondents borrow as a result of student loans before they build a credit record. Many are not working during this time, so there is little question of savings. Members began to save when they had steady employment. However, they are in debt at this point. Over time, ownership and retirement benefits accrue, and savings behavior is realized through the management of these and other assets.

Of survey respondents, 83% had at least one type of loan, line of credit or existing credit card debt, indicating a wide availability and use of credit. Very low-income households, historically a population with limited access to credit, were found to have fewer debt instruments in categories such as home mortgage and equity loans, small business loans, automobile loans and credit cards (although 72% report using credit cards) than the remainder of the sample. However, these households have the same incidence of debt instruments available in personal, medical and education loans and a higher incidence in "other debt" than the remainder of the sample.

For the purposes of this study, the definition of Saver as any person holding a savings account was highly inclusive. Given that the target population was credit union members, the resulting high response (93%) would be expected. (Credit union members are required to maintain savings accounts as a condition for membership.) From this definition, we could initially conclude a higher incidence of saving than borrowing among respondents. When the definition of saver was narrowed to those individuals responding affirmatively to the question, "Are you a saver?" both the overall percentage of members reported as savers drops dramatically (from 93% to 44%) and the likelihood of a Transactor moving to Saver drops to 18% (versus 49% moving to Borrower and 42% moving to Owner).

Thus, while this target population had access to savings instruments, the behavior of saving among respondents was considerably lower. When we explored the nexus between respondents engaging in Transactor activities with those of Saver and Borrower activities, it was found that equal numbers were simultaneously in the Transactor-Saver category as in the Transactor-Borrower category.

While the ideal vision of the Credit Path® remains a movement from Transactor to Saver to Borrower, this may no longer be an accurate reflection of the reality of peoples' financial lives. This element of the Credit Path® may now be prescriptive rather than descriptive.

### **3. Each stage along the Credit Path® is much more complex than is currently represented.**

In order for the Credit Path® to accurately depict peoples' financial lives, it needs greater nuance or detail at each stage. Moreover, each stage along the Credit Path® has the potential for both positive and negative outcomes depending upon products used and broader economic influences. This lack of greater detail and nuance in the stages of the Credit Path® has led to considerable challenges in defining the steps.

There are two shortcuts indicated on the Credit Path® that indicate positive and negative implications to choices made at certain stages. The first shows education and Individual Development Account ownership, bringing members to asset ownership more quickly. This shortcut is supported by the data which confirm both education and IDAs as tools for accelerated progress to the Owner class. The second shortcut, the credit trap, shows how falling into high-cost loans and overindebtedness may inhibit progress on the Path. While these shortcuts offer some detail on how to progress, there is a need for greater delineation of the positive and negative options or products at each stage.

The Transactor stage is one in which people are simply engaging in financial transactions (cashing checks, making payments, etc.). Almost everyone engages as a Transactor in one form or another, whether by writing checks, cashing checks, receiving direct deposits of payments or making online payments of bills. The Transactor stage itself does not have a negative connotation. However, if someone is only engaging in the financial system as a Transactor or is using high-fee services to make transactions, there may be a negative impact on the household's budget. By detailing the different products and services at the transaction level and analyzing the impact on the household budget, we could learn a great deal more about how people choose to be Transactors and define productive versus non-productive forms of financial transactions.

The Saver stage is generally seen as a positive step (particularly for low-income individuals and families). However, there comes a point where too much invested in low-return savings vehicles may indicate that a household is not adequately leveraging savings. Thus, while the savings behavior is certainly not harming the household's finances, it may not be helping to add to the bottom line as much as possible. Delineation of savings products and their advantages and disadvantages at this stage would be critical to show not only that people should save but also how they may save and when to move that amassed savings to a subsequent stage of the Credit Path®.

At the Borrower stage, the Credit Path® shows clear examples of productive versus non-productive debt through the credit trap. This shows the dangers of non-productive debt particularly for those vulnerable to high-cost or predatory lending that forces people further back down the Credit Path® and reverses gains made by productive transaction and saving behavior. Over-leveraging and taking on high-cost credit through credit cards or alternative sources of financing such as lease-to-own schemes or emergency "payday" loans all represent non-productive forms of borrowing. Because of the availability of high-cost loans, many may be starting out the Credit Path® severely handicapped and unable to progress into other stages without intensive intervention. This earlier and severely disadvantaged stage of over-indebtedness likely needs additional further exploration.

It is at the Owner stage where the need for greater nuance and definition was most clearly demonstrated by the research. There is a high degree of ownership already among the Alternatives' survey respondents. Yet, through the responses on financial behavior and attitudes, it was clear that many sought greater guidance and clarity on how to engage most productively with financial products available to increase their holdings. The current Credit Path® diagram would indicate that achieving ownership of any type is the end result and at that

point a person has won, or achieved all that they can achieve in their financial evolution. In reality, despite 75% currently being Owners, many continue to search for ways the credit union or others could help them maximize and increase their assets.

#### **4. Life events impact the ability of individuals to move along the path.**

A key component of the research sought to identify key motivators and obstacles in pursuing the Credit Path®. One working hypothesis tested in the study is that life events influence not only self-perception of placement in, but also movement along, the Credit Path®. External life events were found to affect movement along the Credit Path®. These events included:

- death in the family
- job layoff/sickness
- divorce
- inheritance
- categories of best/worst/smarest financial events/advice

Occurrence of a life event was shown to have significant impact on a member's financial condition. Respondents reported impacts on income, ability to meet expenses, debt and savings levels as a result of these life events. Divorce, layoff or sickness showed strong negative influences on the ability of a member to progress along the Credit Path®. Death in the family had a mixed influence, as there were many who reported decreases in income and increased debt and expenses. However, inheritance (resulting from a death in the family) had a strong positive influence on savings, reduced debt levels and progression on the path to ownership.

Inheritance was higher (51% of sample) than anticipated and exerted significant influence on people's ability to achieve ownership status. The question of intergenerational transfer of wealth is a significant area to study in future research. Long-term financial and estate planning are highly underdeveloped areas in the non profit asset-building field, yet can yield significant results in terms of movement along the Credit Path®.

#### **5. There is a strong correlation between income and placement on the Credit Path®. The Credit Path® in its current form may be more relevant for low-income households than for middle- and upper-income households.**

Very low-income respondents (50% of Household Area Median Income) were more likely to have characteristics representative of lower levels on the Credit Path® than the remainder of the sample. Very low-income households are more likely to use fringe services frequently or often, have fewer retirement accounts, less health and life insurance and are more likely not to have filed tax returns during the last three years. The survey focusing on attitudes and behavior among respondents showed that very low-income households are much less likely to feel in the financial mainstream and are not as optimistic about their future as the remainder of the sample. They tend to view dead-end jobs and lack of skills as obstacles to success in moving forward.

Low-income members began saving at an earlier age (median age 16 compared with 20 for remainder of sample), but reported opening an account at a later age than the remainder of the sample. Their savings behavior shows characteristics more associated with lower levels on the Credit Path®. They are 30% more likely not to have had a savings account at some time since being an adult, 50% more likely not to have had a checking/share draft account at some time

since being an adult, and only half as likely to have direct deposit, a mechanism widely seen as leading to greater savings behavior.

Very low-income households report balancing checkbooks less, lapsing their accounts more, making more withdrawals (for less money) and fewer deposits and to be more likely to miss loan payments than the remainder of the sample. They also are less likely to have become Owners and even at the ownership stage, own far fewer assets.

Not surprisingly, ownership levels were lower among the very low-income respondents when compared to the remainder of the sample. However, they were also less likely to have moved to ownership recently. Only 33% of very low-income households own a home compared to 81% of the remainder of the sample. Those very low-income households that do own a home owned that home at a younger age than others, 29 versus 31 years of age. Only 2% had bought their house in the last year compared with 12% for the rest of the sample and only 11% had bought their house in the last five years compared with 26% for the rest of the sample.

When comparing very low-income homeowners to very low-income renters, we found that the homeowners report higher household income (\$11,000 for home owners, \$7,700 for renters). Very low-income homeowners also reported being members of Alternatives longer than renters (nine years versus six years) and are more likely to be married or partnered.

This is the market segment upon which the Credit Path® could have the greatest impact. The particular experience of very low-income households is critical to explore for numerous reasons. Most significantly, the Credit Path® model has been promoted primarily as a tool to help low-income households build wealth and accumulate assets. Therefore, their experience along the path is far more relevant to the replicability of the Credit Path® model than that of higher income households.

Furthermore, the experience of very low-income households is important for credit union management because while these households accounted for only 26% of survey respondents, credit union data on accounts opened since 2000 show that very low-income households open 47% of all new accounts. Low-income members are more likely to conduct more of their financial business with the credit union than the remainder of the sample.

Moreover, very low-income households are likely to be in need of more than just financial tools to proceed along the Credit Path®. The surveys showed that these households are:

- 1/2 as likely to have life insurance
- 1/3 less likely to have health insurance
- 1/3 less likely to have overdraft protection

## Conclusions

Alternatives created a pivotal conceptual tool for the asset-building field by developing the Credit Path®. It offers a clear visual representation of how individuals may move toward accumulating and growing assets. The Shorebank study found the Credit Path® provides a framework for credit union staff and leadership to design products and services with a goal of helping members move along a pathway toward greater economic stability and ownership. As any framework, it needs updating and enhancing to continue to provide a vehicle for institutions around the country to formulate their asset building strategies.

The New England Market Research/Aspen research finds that the categories in the Credit Path® effectively describe different stages of people's financial life and that these stages combine to present a whole picture of how people evolve over time. But the sequencing of stages currently depicted does not provide an accurate picture of how the financial life of a member actually evolves.

The finding regarding the sequencing of Saver versus Borrower is extremely important not only for the updating and revamping of the Credit Path® but also because borrowing is such an important part of financial lives of people in this country. Short of some external event or windfall, one cannot accumulate significant assets without borrowing. Yet, it is a stage that is fraught with potential pitfalls. Low-income people are extremely disadvantaged in borrowing. Access is no longer the issue as much as the types and costs of products that are made available. Any strategy for asset accumulation should focus on debt/lending in conjunction with a thoughtful savings strategy.

**Further research is needed.** This research provided very rich data for the field and reached a substantial sample. The methodology should be replicated in other communities in which the Credit Path® or other asset pathways are being used to design products and programs. Specific recommendations for further research include:

- More in-depth probing of savings patterns for very low-income populations. The earlier study by Shorebank failed to unearth significant findings on savings patterns from analyzing the credit union data because many members use multiple institutions. The survey found that very low-income credit union members indicated a much greater likelihood of using Alternatives as their primary financial institution. Thus, more in-depth account analysis of very low-income members could provide insights into savings behavior over time.
- Research on the movement along the Credit Path® should be targeted to populations with characteristics similar to those beginning their financial engagement at the “lower” end of the Credit Path®. Those who begin with fewer assets will reveal more information on the types of interventions that generate the greatest progress along the path.
- The New England Market Research survey provided a comprehensive and thorough analysis of financial condition, behavior and attitudes, and would continue to be useful in future research to assess patterns in different communities and contexts. The current survey tool could be slightly modified to allow for greater reflection on patterns and behaviors over a period of time.
- Pilot programs on asset pathways should take into consideration this research and test some key hypotheses that it has surfaced. Two key hypotheses that could be tested in pilot programs are: the critical role of productive credit products in the development of assets, and the linkage of debt to savings as a means to move more people toward active savings behaviors.

Ultimately, the Path needs updating and revamping to be more reflective of the current financial services environment. The diagram should be fleshed out with greater detail on productive vs. non-productive products and services at each stage. With greater development and nuance at each stage, the Path will become more useful for those beginning at higher stages of the Path, while offering greater insights for others to move forward.

## IV. STAGES OF THE CREDIT PATH®

Defining the stages of the Credit Path® posed significant challenges in both studies. Because people may engage with the financial system in various ways, trying to determine what constitutes membership at any stage was complicated. The multiple categorizations in the Aspen/NEMR report (see full report) showed the vast majority (99%) participates at multiple levels of the Credit Path® at any one time.

The definitions below help to identify the different stages and provide some attributes to members typically falling into these categories. Findings for this section are drawn primarily from the survey as it provides a more accurate view of the whole population. However, certain qualitative information from the Shorebank Advisory Services interviews has been incorporated.

### A. Transactor

Transactors generally have a heavy reliance upon cash and require access to cash transaction services in their financial lives. These services are either purchased on a per-transaction fee basis or may carry fees when accounts have a high volume of transactions.

For the purposes of the Aspen study, we defined Transactors as those who answer affirmatively to one of the following:

- use a check casher (11% of sample)
- have bounced a check in the last year (24% of sample)
- are bouncing more checks than last year (9% of sample).

Using this definition, 31% of the sample is defined as Transactors. The survey results showed that when compared to the remainder of the sample, Transactors were more likely to be:

- younger
- Alternatives members a shorter period of time
- more likely to be single or separated
- saw the Credit Path® as more likely to describe their life
- more than twice as likely to use fringe services
- more than twice as likely to have filed for bankruptcy
- less likely to have filed income tax returns
- scored themselves lower on the Credit Path®.

The Shorebank Advisory Services interviews found that those reporting they did not have a savings or checking account cited the following reasons: the inconvenient location or hours of the bank or credit union, their inability to meet minimum balance requirements, not enough money, or simply not seeing the need for a checking account.

The interviews suggest that going without a checking account or not using an existing checking account to pay bills is not always costly. Two people interviewed mentioned the inconvenience of having to regularly balance a checkbook, preferring to use cash or a credit card instead. At the same time, many interviewees who did not have checking accounts explained that a checking account just did not seem necessary, given the few transactions they had to manage at the time.

Understanding the true costs of using cash and transacting services requires a more extensive look at the types of transaction services used and the volume of these transactions.

## **B. Saver**

A Saver is generally defined as someone who actively engages in savings behavior. It was most difficult for both studies to develop accurate and relevant measurements for classifying Savers. In the initial Shorebank study, a Saver was defined as someone who regularly sets aside money to prepare for unexpected expenses, a down payment on a house or to save for retirement. However, the measurement used a relatively high amount of savings (\$500) to define Savers. This was complicated by that report's reliance exclusively upon credit union account data, which failed to capture those members with multiple savings vehicles and options.

The Aspen/New England Market Research study defined a Saver as anyone who held and maintained a savings account. Using this definition, it found that 93% were classified as Savers. The survey showed that when compared to the remainder of the sample, Savers were more likely to be:

- higher income
- older when they had children
- more likely to have health insurance
- less likely to have taken a Refund Anticipation Loan and to use fringe services
- more likely to have access to direct deposit and to use it.

The survey also asked the question, "Are you a saver?" 44% of the sample answered "yes". This is significantly different from the number who met the study's definition of Saver. Those who said "yes," compared to those who said "no" or "unsure," tend to have the following characteristics:

- older; higher income; more educated
- higher homeownership
- more likely to have incidence of death in family
- 64% have inherited something of value
- more goal directed
- longer time as members of Alternatives
- place themselves higher on the Credit Path®

In interviews conducted for the Shorebank study, almost all the interviewees reported that, at some point since becoming financially independent, they had saved regularly or consistently. Interviewees reported approaching savings in at least four distinct ways: 1) to simply save, 2) to plan for unanticipated expenses, 3) to meet a specific financial goal, and 4) to budget for anticipated recurring expenses. In the last category, savings were frequently withdrawn to cover those expenses.

## **C. Borrower**

A Borrower is generally defined as someone with a loan or loans outstanding, who is actively making payments on those loans. For the purposes of the survey, we were able to categorize Borrowers as anyone who:

- has any loans listed, including line of credit and/or
- has existing credit card debt.

Using this definition, 83% of the sample is considered to be a Borrower. The survey showed that when compared with the remainder of the sample, a Borrower was more likely to be:

- younger
- have more full time workers in the home
- had not been Alternatives members as long
- had children at an older age
- more likely to use fringe services
- more likely to be bouncing checks
- twice as likely to take a Refund Anticipation Loan
- five times as likely to owe money on credit cards and owed three times as much
- withdrew 1/3 the amount from their savings account as others.

The survey indicated certain demographic characteristics similar to those of Transactors, in terms of age (younger) and tenure with the credit union (less) than those fitting the Saver and Owner profiles. Behavioral characteristics are also more closely associated, particularly in relation to bouncing checks, using fringe services and taking out Refund Anticipation Loans.

In interviews conducted for the Shorebank study, many interviewees reported obtaining financing from sources other than financial institutions. These sources included: family members, community-based organizations and car dealers. Several reported using payment plans in which they paid interest to a store or health care provider and a few interviewees reported receiving loans from community-based organizations, such as Ithaca Neighborhood Housing or Better Housing for Tompkins County. A handful reported using fringe-lending services such as rent-to-own shops.

## **D. Owner**

An Owner is defined as someone who has purchased or accumulated appreciable assets. The Shorebank report defined this stage as people who are able to build equity through homeownership or by starting a business. For the purposes of the Aspen/New England Market Research survey, the category of Owner was expanded to include ownership of financial instruments with long-term appreciable values.

An Owner has at least one of the following:

- real estate (40%)
- a home (72%)
- retirement account (57%)

- stocks (44%)
- CDs (32%)
- bonds (32%)
- other investments (14%).

Under this definition, 75% of the respondents are classified as Owners. The survey showed that when compared with the remainder of respondents, Owners were more likely to be:

- older, had more income and more education
- more people and more full time workers in household
- withdrew more money from last savings account withdrawal
- Alternatives members for a longer time
- had children at an older age
- bounced fewer checks
- less likely to use fringe services
- more likely to have filed tax returns for the last three years
- more likely to be Savers than Borrowers.

In interviews conducted for the Shorebank study, several reported that a good credit history, savings, and the terms of the loan were most important in their ability to borrow for a home. Financial education appears more important in borrowing for a business than for a home. The members who took out business loans reported that the terms of the loan and financial education were most important in their ability to take out the loan. Interviewees reported that borrowing from family members was not as important as other conditions in their ability to borrow for a home or business.

## V. MULTIPLE CATEGORIES OF CREDIT PATH®

As noted in the findings, most respondents fell in more than one category along the Credit Path® (less than 1% of the sample is classified in one category only).

Attributes of members change as they progress through financial life and participate in one or more of the four categories simultaneously. The table below shows the percentage of the sample belonging to each category.

	<i>% sample belonging</i>		<i>% sample belonging</i>
<b>Transactor</b>	<b>30%</b>	<b>Saver</b>	<b>93%</b>
Transactor/Saver	28%	Saver/Borrower/Owner	57%
Transactor/Borrower	28%	Saver/Owner	71%
Transactor/Saver/Borrower	25%	Saver/Borrower	76%
Transactor/Owner	21%		
Transactor/Saver/Owner	20%		
Transactor/Borrower/Owner	19%	<b>Borrower</b>	<b>83%</b>
Transactor/Saver/Borrower/Owner	18%	Borrower/Owner	61%
		<b>Owner</b>	<b>75%</b>

Another way of stating the above is through odds.

If you are a Transactor, the odds of being in the following groups are:

- Saver 91%
- Borrower 91%
- Owner 67%

If you are a Saver, the odds of being in the following groups are:

- Transactor 70%
- Borrower 82%
- Owner 76%

If you are a Borrower, the odds of being in the following groups are:

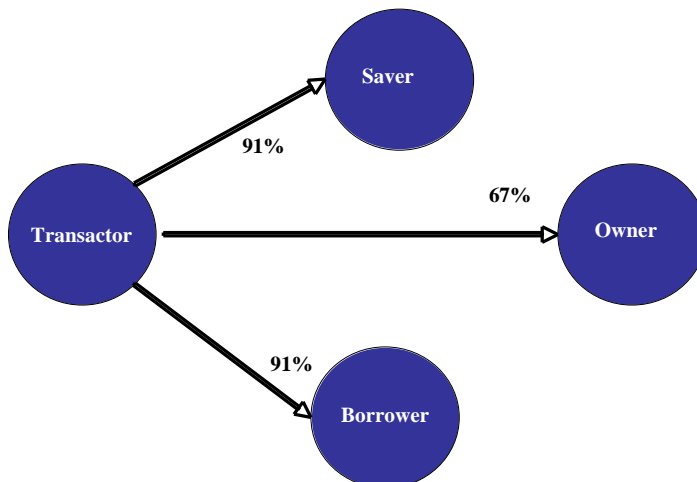
- Transactor 34%
- Saver 92%
- Owner 74%

If you are an Owner, the odds of being in the following groups are:

- Transactor 28%
- Saver 95%
- Borrower 74%

The Aspen Institute/New England Market Research report gives a more thorough depiction of category migration with graphics demonstrating the probabilities of inhabiting multiple categories simultaneously. For the purposes of this summary report, we are including the depiction of the Transactor category. The research shows that a person classified as a Transactor is equally likely to also be a Borrower as Saver (91%) with a lower percentage of Transactors also Owners (67%).

Transactor “ as likely to also be Saver as Borrower before “ Owner



Since the survey represented a snapshot in time, the research team did not have the longitudinal data to gauge movement or progress over time. The team decided upon certain proxies to determine movement along the Path. The best proxy was age, but length of Alternatives membership, income and education are also considered here.

Do Transactors “go” to Saver? Yes, a Transactor is younger than a Saver, younger than a Borrower and younger than an Owner, despite the relatively “tight” age distribution of the sample. The table below shows mean ages for all groups.

	<i>Mean age</i>		<i>Mean age</i>
<b>Transactor</b>	<b>42.3</b>	<b>Saver</b>	<b>44.5</b>
Transactor/Saver	42.0	Saver/Borrower/Owner	43.3
Transactor/Borrower	41.9	Saver/Owner	46.9
Transactor/Saver/Borrower	41.6	Saver/Borrower	43.3
Transactor/Owner	44.3		
Transactor/Saver/Owner	44.1		
Transactor/Borrower/Owner	43.5	<b>Borrower</b>	<b>43.6</b>
Transactor/Saver/Borrower/Owner	43.2	Borrower/Owner	45.9
		<b>Owner</b>	<b>47.1</b>

Transactors are younger than Borrowers who are younger than Savers who are younger than Owners. Indeed, Transactor/Borrowers are younger (slightly) than Transactor/Savers and both are younger than Owners.

Similarly by studying tenure at the credit union, education and income levels, a similar picture emerges:

<i>Definition 1</i>	<i>Years AFCU member</i>	<i>Mean education</i>	<i>Mean income</i>
<b>Transactor</b>	<b>8.1</b>	<b>4.7</b>	<b>\$37,868</b>
Transactor/Saver	8.3	4.6	\$39,274
Transactor/Borrower	8.2	4.6	\$38,960
Transactor/Saver/Borrower	8.5	4.6	\$40,619
Transactor/Owner	9.4	4.8	\$47,391
Transactor/Saver/Owner	9.3	4.9	\$48,181
Transactor/Borrower/Owner	9.3	4.8	\$48,706
Transactor/Saver/Borrower/Owner	9.3	4.9	\$49,630
<b>Saver</b>	<b>9.3</b>	<b>4.7</b>	<b>\$40,073</b>
Saver/Borrower/Owner	10.1	4.9	\$46,403
Saver/Owner	10.6	4.9	\$45,498
Saver/Borrower	8.9	4.7	\$40,833
<b>Borrower</b>	<b>8.8</b>	<b>4.7</b>	<b>\$39,835</b>
Borrower/Owner	10.2	4.9	\$45,725
<b>Owner</b>	<b>10.6</b>	<b>4.9</b>	<b>\$44,985</b>

Thus, a more accurate depiction of the financial reality for those entering at “lower” ends of the Credit Path® is a movement to Borrower then Saver. The Credit Path® as an instructional tool can demonstrate the importance of movement to Saver as a precursor to Borrower, but it does not illustrate the current reality of Transactors.

The appendix to the full report presents even more compelling evidence of this shift in placement when the definitions are shifted (including defining Saver as those responding yes to the question “Are you a Saver?”)

## VI. OBSTACLES AND INFLUENCES IN THE CREDIT PATH®

A key component of the research sought to identify key motivators and obstacles in pursuing the Credit Path®. This section looks at external factors that may influence or inhibit progress along the Credit Path®. This information is drawn largely from the survey instruments; however, there is some qualitative information provided from member interviews as well.

### A. Life Events

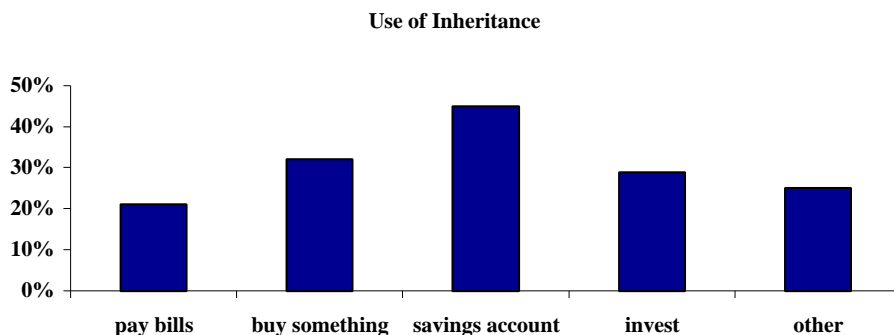
One working hypothesis involving the Credit Path® is that life events influence not only member self-perception of placement in, but also movement along, the Credit Path®. Life events can be broken down, for purposes of our discussion, into the following events:

- inheritance
- death in the family
- job layoff/sickness
- categories of best/worst/smartest financial events/advice
- divorce.

#### *Inheritance*

Fifty-one percent of the sample reports receiving an inheritance. Distinguishing characteristics of these members are:

- longer tenure at the credit union
- they had children later in life
- they have higher incomes
- are more educated
- score themselves higher on the Credit Path®
- are more likely to have been raised in wealthy families.



### *Death in the Family*

Twenty-seven percent of the sample indicated that a death in the family had an impact on their financial lives. Of those who answered “yes”:

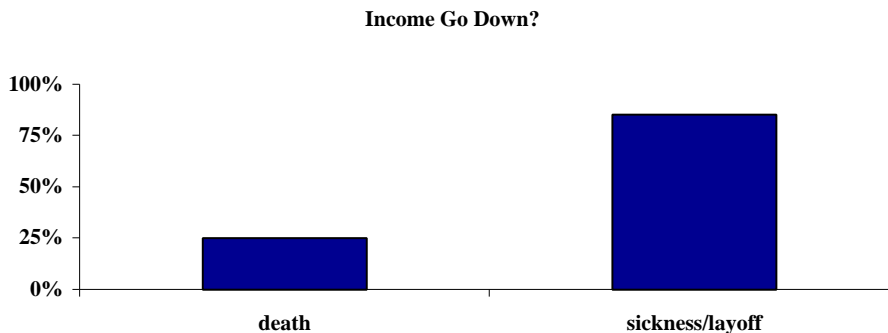
- on average it happened 11 years ago
- the member was 37 years old
- 24% indicated that their household income went down
- 16% borrowed money to meet expenses
- 13% withdrew savings
- 10% withdrew other investments
- these members scored themselves higher on the Credit Path®.

### *Sickness/Layoff*

Thirty-six percent of the sample indicated that a sickness/layoff had an impact on their financial lives. Of those that answered “yes”:

- on average it happened 10 years ago
- the member was on average 36 years old
- average time out of work was 1.5 years
- the incident happened once on average
- 90% indicated that their household income went down
- 49% received disability payments during this period
- 35% borrowed money to meet expenses
- 57% withdrew savings
- 29% withdrew other investments
- these members scored themselves lower on the Credit Path®.

Layoffs and sickness have had a greater financial impact than a death, both in behavior and placement on the Credit Path®.



## Divorce

Sixteen percent of the sample indicated that they are or have been divorced. These individuals:

- are older and lower income
- have been divorced 14 years on average
- are less likely to be working full time; more likely not to be working.

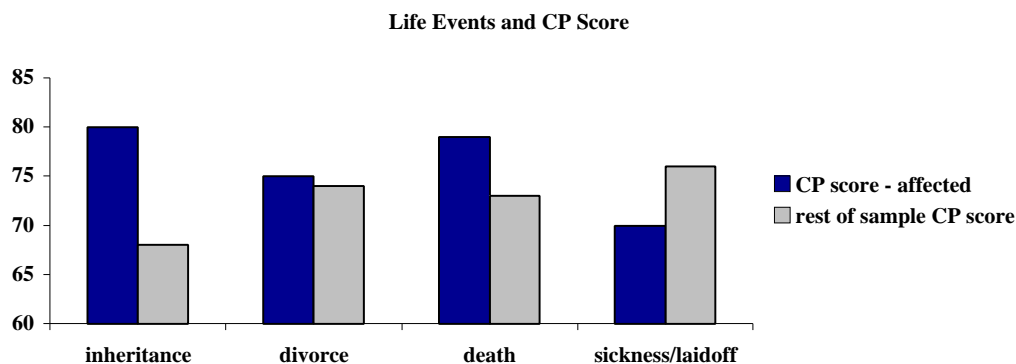
80% indicated that they were poorer immediately after the divorce. 29% indicated that they were better off financially one year after the divorce.

A hypothesis of the Credit Path® research is that occurrence of a “life event” may advance or retard a member on the Credit Path® compared to a member of similar demographic composition who has not had the occurrence of such an event. The most significant of these variables are shown in the table below. The far right column indicates whether there is a significant difference in self scoring on the Credit Path® as a result of the life event, and how much, whether positively or negatively, the score is affected.

<i>Variable description</i>	<i>Sample</i>	<i>Increase/decrease on self-scored CP</i>
incidence of inheritance	51%	+18
use of inheritance – invest	29% of inheritors	+17
incidence of family death	27%	+6
incidence of sickness/job layoff	34%	-6
age at first child	28	+2.5 points for each succeeding year
age of first savings account	20	+4.4 points for each succeeding year
# years member of Alternatives	9.4 years	+4.8 points for each succeeding year
incidence of divorce	16%	-
incidence of homeownership	72%	+34
frequency of Lottery playing	23%	-
incidence of bankruptcy	6%	-20

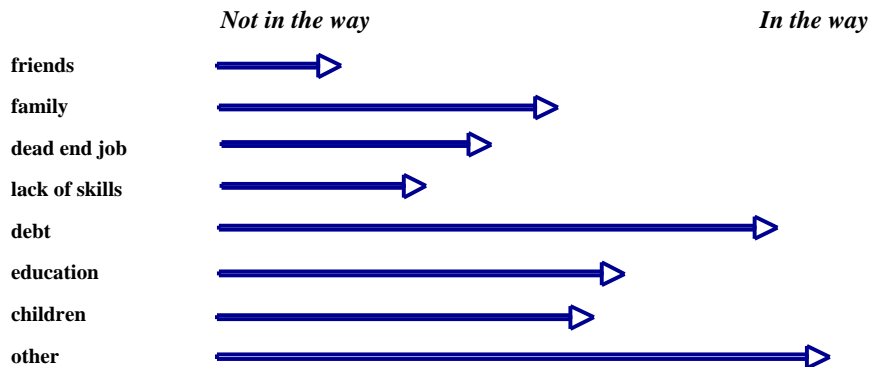
We may disagree whether all of the above variables are, in fact, “life events”, but we attempt to be broad in our definition and inclusion in order that we do not miss an opportunity for analysis.

We see that homeownership provides the greatest positive boost in Credit Path® self-scoring, followed by inheritance, while bankruptcy and layoff/sickness provides the greatest negative impact.



## B. Obstacles to Success

Eight potential obstacles to success were listed. The obstacle least in the way is friends, followed by family. Most in the way is “other”.



According to the interviews conducted by Shorebank Advisory Services, job instability (including job loss and low wages) was the most common roadblock mentioned. Interviewees reported that not budgeting or controlling expenses, health problems, divorce, having children and lack of financial knowledge were roadblocks or hindrances to financial progress. Yet interviewees reported that some of these roadblocks also spurred positive change. More than half of those interviewed reported that they had experienced some financial crisis that made them want to take greater control over their financial lives. The crises included divorce, job loss or job uncertainty, and having children. These events resulted in interviewees' putting more into savings, controlling and lowering expenses, and budgeting.

A better job was the most common shortcut to helping them achieve their financial goals and build their assets. Others reported that a committed partnership or marriage was important, while a number of interviewees reported that budgeting or controlling expenses helped them achieve their financial goals and/or build their savings and assets.

**For further information contact:**

**Deirdre Silverman at [deirdre@alternatives.org](mailto:deirdre@alternatives.org)  
Alternatives Federal Credit Union at <http://www.alternatives.org/>  
or  
Jan Simpson at [jan.simpson@aspeninst.org](mailto:jan.simpson@aspeninst.org)  
Aspen Institute at <http://www.aspeninstitute.org/accesstocapital>**