# Who Uses Alternative Financial Services, and Why?

**Matthew B. Gross, Federal Reserve Board**[1]
**Jeanne M. Hogarth, Federal Reserve Board**[2]
**Adithya Manohar, Ohio Wesleyan University**[3]
**Stephen Gallegos, University of California – Merced**[4]

## Introduction

Alternative financial services (AFS) have received heightened scrutiny in the aftermath of the financial crisis of 2008. As traditional forms of credit have been increasingly unavailable to the average consumer, many individuals and households have turned to alternative financial services to satisfy their needs for short-term, small-dollar credit and for other financial services that historically have been provided by banks or other financial institutions. Using data from a 2009 Current Population Survey study, we create a user profile for six AFS products – payday loans, pawn shop loans, nonbank check cashing, nonbank money orders, refund anticipation loans, and rent-to-own stores – and explore the reasons consumers give for using these products.

Payday loans are short-term loans that are securitized with the borrower's next paycheck or other regular payment (for example, pension checks or Social Security benefits). The debtor gives the lender a post-dated check in exchange for an advance on a paycheck or other deposit. The payday lender either deposits the check on the specified date or the borrower pays back the lender and retrieves the check. A standard payday loan contract charges a fee of $17.50 for every $100 loaned. Because the terms on these loans are so short, the fees translate into high implicit interest rates. For example, a $400 loan over a two week period, with a $70 fee translates to an implicit APR of 450%. The high interest rate combined with the short term of the loan often causes the borrowers to "roll over" the loan, either immediately or later in the pay cycle. This situation can lead to debt spirals which are extremely difficult to exit.

Because of the high APRs, many state legislators have begun to regulate payday loan operations. At the time of the CPS study in 2009, 13 states and the District of Columbia had banned payday lending. A number of other states limited the fees that payday lenders could charge by placing a cap on the APR (currently, 16 states ban or cap interest rates on payday loans). The 2007 Defense Authorization Act (P.L. 109-364) limits the implicit interest rate on payday loans to military personnel to 36 percent. Recently, some banks have begun to offer deposit advance products which operate in a similar way to payday loans. For simplicity, the term payday loan will be used throughout this paper to refer to traditional payday loans, bank deposit advances, and any other short-term small-dollar credit products that use paychecks as collateral.

Pawn shops also offer securitized, short-term credit to consumers; however, in the case of pawn shops, the loan is securitized by a personal possession of the borrower. Borrowers have a limited time to pay back the loan, and if they default, the pawn shop takes ownership of the item and can re-sell it. In most cases, the value of the loan represents only a fraction of the value of the item that is pawned.

Nonbank money orders are offered for a fee by businesses such as Western Union and MoneyGram as well as the U.S. Postal Service. Many banks offer this service to bank customers for free, so nonbank money orders are more popular for people who do not have a bank account.

Refund anticipation loans (RAL) are loans that are securitized by a taxpayer's future tax refund. Many regulators and academics have debated the dynamics of the relationship between tax preparers and tax filers with

some arguing that tax preparers take advantage of their clients by guiding them to RALs instead of using direct deposit to speed up access to their tax refunds. Beginning with the 2011 tax season, the IRS stopped publishing a "debt indicator" that signaled whether the taxpayer's refund would be paid or retained as payment for government debts (Consumer Federation of America, 2010). Without this indicator, fewer tax preparers were willing to offer RALs. In addition, federal banking regulators have also taken action to stop banks from underwriting RALs (Consumer Federation of America, 2011).

Rent-to-own (RTO) stores allow consumers to rent furniture, electronics or other merchandise with the option of buying it at a later date. In many ways, the RTO transaction act like an extension of credit from the store to the consumer; the consumer must pay off the value of the merchandise with monthly or bi-monthly payments that include interest-like fees. If the payments are not made, the RTO store can repossess the item. The effective interest rates on RTO items are often higher than the interest rate on credit cards or installment contracts; however, these stores are an option for people who wish to buy consumer products but who are credit-constrained.

Check cashers are businesses that cash checks for a fee. This service normally is provided by banks to their customers for free, so consumers who do not have bank accounts may use this service. Prices for check cashing vary by state and location, and may vary by the type of check (for example, payroll check, government check, personal check, etc.). Interestingly, access does not seem to be an issue – check cashers are often located in neighborhoods that also have bank branches. According to Fellowes and Mabanta (2008), 93% of nonbank check cashing operations are located within one mile of a bank or credit union branch, and 73% are located in the same neighborhood as a bank or credit union branch. Thus, consumers who use check cashers are making a conscious choice to use these firms instead of banks (Fellowes and Mabanta, 2008).

## Previous Studies

John Caskey's seminal work on "fringe banking" includes research on the supply and demand of check cashing, pawnshops, payday loans and money orders (1994, 2002, 2004). Using county-level data, Prager (2009) finds that alternative financial service providers locate themselves in areas with greater concentration of African Americans and people who lack high school diplomas. Berry (2005) uses data collected from low income families in Los Angeles, Washington DC and Chicago to analyze the reasons why people choose to be unbanked. The author finds some evidence which suggests that immigrants who send money abroad like to do all of their financial transactions in one place, which may account for some alternative financial service use. Also, the author posits that personal networks play a role in whether a household uses bank services or alternative financial services. Using United States Census data for four counties in Pennsylvania, Smith et al. (2008) analyze the location of alternative service providers and find evidence that supports the spatial void hypothesis that AFS providers are located in places that lack access to traditional banks. McKernan et al. (2010) look at the effect of various government regulations on alternative financial services. They find that rate caps are an effective way to limit pawnshop use but do not have a significant effect on payday loans. They show that RAL disclosure agreements show no significant changes in RAL usage.

Wilson et al. (2010) use a controlled laboratory experiment to study the utility gains from payday loans. In their experiment, they find that people with access to payday loans use them successfully; however, it is difficult to generalize this result over the long run because it is hard to control for consumers' time preferences. Morse (2011) studies the use of payday loans during emergencies or exogenous shocks and finds some favorable results that payday loans help consumers smooth consumption and limit negative events when dealing with income shocks. Using data from the National Survey of America's Families, Melzer (2011) finds very little evidence to support the claim that payday loans benefit consumers. He also shows that payday loan use can hinder a household's ability to pay bills. In a theoretical paper, Schafter et al (2005) argue that payday loans can often have lower fees than some mainstream finance products like late fees on credit cards or overdraft fees on checking accounts.

Fox and Woodall (2006) use survey data on check cashing and find that check cashing fees have increased over the last 20 years. They also find that consumers who use check cashing services are more likely to use other alternative financial products such as money orders and payday loans. Fellowes and Mabanta (2008) look at check cashing and find that access to traditional banks is not a factor for people who choose to use nonbank check cashing. Their analysis casts doubts on the spatial void hypothesis. Rhine et al. (2006) study the use of nonbank check cashing by unbanked and underbanked households. They offer a few suggestions for why minorities use check cashing including a lack of a liquid savings account and lack of comfort in mainstream financial institutions.

Kolodinsky et al. (2005) study rent-to-own transactions and find very high time price-preference differentials. The authors advocate better industry regulation as well as consumer awareness. Anderson and Jaggia (2009) use transaction level rent-to-own data and find that 73% of all items end up getting returned. Additionally,

they find that customers are defined by economics and not by demographics, although the study may suffer from a limited sample.

Theodos et al. (2010) study the market for refund anticipation loans and find that young and low income people are more likely to use this product. Additionally, they find that 70% of all RALor refund anticipation check services occur in 20% of all zip codes which suggests a condensed market. Stearns et al (2006) focus on the ethical aspects of refund anticipation loans and argue that RAL are an expensive product pushed on the people who can least afford them. Two out of five RAL users also qualify for earned income tax credits. They use survey data which suggests that many RAL users do not fully understand the product and the fees that they pay.

## Data and Methodology

The data come from the January, 2009 version of the Current Population Survey (CPS). The CPS is a monthly survey conducted by the Bureau of Census to study current trends in the labor market. In January, 2009, the Federal Deposit Insurance Corporation (FDIC) sponsored a supplement to the CPS that collected data on the financial behaviors of the unbanked and underbanked population. Unbanked households were defined as those where no one in the household has a checking of savings account. An underbanked household was defined as one in which the members have a checking or savings account, but use other AFS services at least once a year, or have used a refund anticipation loan in the past five years. The data contain more than 150,000 observations and are drawn from households in all 50 states and the District of Columbia.

Our analysis is done in two stages. First, we estimate a series of logit models to determine the correlates of using each of the six products. Each model controls for a group of demographic characteristics including race, income, education, age, household structure and employment status. The payday loan model also includes a dummy variable indicating whether a person lives in a state that had banned payday lending at the time of the survey. Thirteen states and the District of Columbia had bans on payday loans in January, 2009. This dummy variable allows us to partially control for state legislation that impacts the payday loan market. Consumers may still use payday loans by crossing to a neighboring state or using an internet payday lender. Because the survey asks if consumers have "ever" used a payday loan, it is also possible that consumers moved from a payday lending state to a non-payday lending state. Thus, this state indicator is only a crude estimator of the impacts of state policy.

For the models that estimate the use of money orders, pawn shops, refund anticipation loans, and RTO agreements, we include a dummy variable indicating whether the household is banked (unbanked = 0). This variable was omitted from the payday lending model because the use of payday loans implies having a bank account. Additionally, the bank account variable was omitted from the check cashing model because of perfect collinearity in a model used in the second stage of our analysis.

The CPS questions asking about AFS use are coded as yes/no answers. The questions read:

- Have you or anyone in your household ever used payday advance services?
- Have you or anyone in your household ever sold items at a pawnshop?
- Have you or anyone in your household ever gone to a place other than a bank, a savings and loan or a credit union to cash a check you received from someone else?
- Have you or anyone in your household ever purchased a money order at a place other than a bank, a savings and loan or a credit union?
- In the past five years, have you or anyone in your household taken out a tax refund anticipation loan?
- Have you or anyone in your household ever rented or leased anything from a rent-to-own store because you couldn't get financing any other way?

After estimating the logit models, we use a multinomial logit to examine the reasons why people choose to use a given alternative financial service. The CPS uses fixed-response categories for these questions, which we collapse into three or four categories for our dependent variables (see Appendix 1). The independent variables include the same set of measures used in the logit models.

## Results

### Sample Description

Approximately 7.7 % of the sample did not have a bank account, and an additional 17.9% had a bank account but used alternative financial services in the last year. As with other studies, we find that relatively low proportions of U.S. households use AFS products and services: about 30% used nonbank money orders, 12% used

nonbank check cashing, 6% used pawn shops, 5% used RTO, and about 4% used payday loans and RALs (Table 1). The observations included in the regressions generally reflect the U.S. population, as might be expected from the CPS: roughly 37% had at least a college degree, 69% were non-Hispanic Whites, about 23% were under age 31, about two-fifths had incomes below $40,000, 56% were married, 63% were employed, about 85% lived in households with 4 or fewer people, 16% lived in non-metropolitan areas, 91% were U.S. citizens, and about 71% were homeowners.

**Table 1**

*Characteristics of the Sample*

| | Nonbank check cashing | Nonbank money order | Payday loan | Pawn shop | Refund anticipation loan | Rent-to-own agreement |
|---|---|---|---|---|---|---|
| # of users (full sample) | 13122 | 34493 | 4768 | 6997 | 4476 | 5556 |
| % of users (full sample) | 11.68% | 30.79% | 4.29% | 6.30% | 4.03% | 4.99% |
| # of users in regression sample | 8031 | 22337 | 2869 | 4469 | 2405 | 3206 |
| % of users in regression sample | 11.06% | 30.83% | 3.99% | 6.23% | 3.35% | 4.45% |
| **Total # in regression sample** | 72,587 | 72,450 | 71,853 | 71,758 | 71,854 | 72,044 |
| | | | | | | |
| **Demographics of regression sample (%)** | | | | | | |
| State Allows Payday Loans (base) | | | 72.01% | | | |
| State Prohibits Payday Loans | | | 27.99% | | | |
| Bank Account (base) | | 93.22% | 91.63% | 93.28% | 93.25% | |
| No Bank Account | | 6.78% | 8.37% | 6.72% | 6.72% | |
| **Highest level of education** | | | | | | |
| Less than high school (base) | 13.32% | 13.33% | 13.26% | 13.24% | 13.27% | 13.28% |
| High school graduate | 29.84% | 29.85% | 29.83% | 19.50% | 29.83% | 29.81% |
| Some college education | 19.54% | 19.53% | 19.49% | 27.54% | 19.50% | 19.52% |
| College graduate | 27.47% | 27.45% | 27.53% | 9.90% | 27.53% | 27.51% |
| Post-graduate education | 9.83% | 9.85% | 9.89% | 10.2 | 9.88% | 9.89% |
| **Racial/ethnic identity** | | | | | | |
| White (base) | 69.29% | 69.34% | 69.53% | 69.45% | 69.50% | 69.45% |
| Black | 11.00% | 10.99% | 10.89% | 10.91% | 10.93% | 10.92% |
| Hispanic | 13.24% | 13.23% | 13.15% | 13.19% | 13.13% | 13.19% |
| Other | 6.46% | 6.45% | 6.43% | 6.46% | 6.44% | 6.44% |
| **Age** | | | | | | |
| 18-30 (base) | 23.45% | 23.47% | 23.28% | 23.28% | 23.30% | 23.32% |
| 31-45 | 27.45% | 27.44% | 27.47% | 27.50% | 27.44% | 27.44% |
| 46-60 | 28.03% | 28.04% | 28.10% | 28.07% | 28.10% | 28.09% |
| Over 60 | 21.07% | 21.05% | 21.15% | 21.15% | 21.15% | 21.14% |
| **Annual household income** | | | | | | |
| Less than $20,000 (base) | 15.96% | 15.96% | 15.91% | 15.89% | 15.93% | 15.92% |
| $20,000 to $39,999 | 23.11% | 23.11% | 23.03% | 23.01% | 23.03% | 23.01% |
| $40,000 to $59,999 | 17.92% | 17.90% | 17.89% | 17.92% | 17.88% | 17.93% |
| $60,000 to $99,999 | 23.05% | 23.05% | 23.10% | 23.09% | 23.11% | 23.07% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Over $100,000 | 19.97% | 19.98% | 20.07% | 20.10% | 20.05% | 20.07% |
| **Marital status** | | | | | | |
| Single male | 19.63% | 19.64% | 19.50% | 19.48% | 19.49% | 19.53% |
| Single female | 24.08% | 24.08% | 24.06% | 24.04% | 24.02% | 24.01% |
| Married (base) | 56.29% | 56.28% | 56.44% | 56.48% | 56.50% | 56.45% |
| **Employment status** | | | | | | |
| Employed (base) | 63.03% | 63.04% | 63.00% | 63.04% | 62.98% | 63.01% |
| Unemployed | 5.96% | 5.97% | 5.95% | 5.94% | 5.96% | 5.95% |
| Not in labor force | 31.02% | 31.00% | 31.04% | 31.03% | 31.06% | 31.03% |
| **Household size** | | | | | | |
| 4 or fewer (base) | 84.96% | 84.95% | 85.01% | 85.02% | 85.00% | 84.98% |
| 5 or more | 15.04% | 15.05% | 14.99% | 14.98% | 15.00% | 15.02% |
| **Metropolitan status** | | | | | | |
| Metropolitan | 83.79% | 83.76% | 83.68% | 83.70% | 83.71% | 83.71% |
| Non-metropolitan (base) | 16.21% | 16.24% | 16.32% | 16.30% | 16.29% | 16.29% |
| **Citizenship status** | | | | | | |
| U.S. citizen | 91.90% | 91.91% | 91.96% | 91.93% | 91.97% | 91.94% |
| Non-citizen (base) | 8.10% | 8.09% | 8.04% | 8.07% | 8.03% | 8.06% |
| **Homeownership status** | | | | | | |
| Homeowner | 70.90% | 70.92% | 71.09% | 71.07% | 71.09% | 71.11% |
| Non-homeowner (base) | 29.10% | 29.08% | 28.91% | 28.93% | 28.91% | 28.89% |

**Who Uses AFS Products? Logit Analysis**

For the first stage of analysis, we used logit regressions to explore the correlates of using AFS products (Table 2). All of the independent variables were significant for at least two of the six products studied. Across all models, college graduates were consistently less likely to use any of the AFS products; the same was also true for persons over 60, those in the highest income category, and home owners. Compared with employed households, unemployed households were consistently more likely to use all AFS products studied. U.S. citizens were more likely to use all AFS products, compared with non-citizens, as were consumers in larger households of 5 or more persons. Having a bank account was associated with being less likely to use nonbank money orders, pawn shops, RALs, and RTO (the only equations to include this variable). Blacks were less likely than whites to use pawn shops, but more likely than whites to use any of the other AFS products. Although there are some variations among the models, the general picture that emerges is that users of AFS products are less educated, minority, middle aged (31-45), lower income, unemployed, renters, from larger households, and unbanked. Furthermore, consumers who live in states where payday loans are banned are less likely to use payday loans, although use does not drop to zero.

**Table 2**

*Logit Regressions (standard errors in parens)*

| | Payday Loans | Money Order | Pawn Shops | RAL | RTO | Check Cashing |
|---|---|---|---|---|---|---|
| Payday Loans Banned | -1.089*** | | | | | |
| | (0.0619) | | | | | |
| High school graduate | -0.0371 | -0.114*** | -0.139** | -0.147* | -0.359*** | -0.216*** |
| | (0.0639) | (0.0287) | (0.0502) | (0.0656) | (0.0535) | (0.0379) |
| Some college | -0.0235 | -0.120*** | -0.0631 | -0.384*** | -0.526*** | -0.291*** |
| | (0.0694) | (0.0316) | (0.0551) | (0.0752) | (0.0619) | (0.0426) |
| College graduate | -0.499*** | -0.371*** | -0.398*** | -0.848*** | -1.118*** | -0.566*** |

|  |  |  |  |  |  |  |
|---|---|---|---|---|---|---|
|  | (0.0756) | (0.0316) | (0.0583) | (0.0830) | (0.0710) | (0.0444) |
| Post-graduate education | -1.294*** | -0.388*** | -0.641*** | -1.964*** | -1.883*** | -0.799*** |
|  | (0.151) | (0.0406) | (0.0894) | (0.205) | (0.157) | (0.0681) |
| Black only | 0.731*** | 0.641*** | -0.240*** | 0.444*** | 0.287*** | 0.499*** |
|  | (0.0570) | (0.0293) | (0.0541) | (0.0648) | (0.0570) | (0.0384) |
| Hispanic | -0.108 | 0.128*** | -0.402*** | -0.110 | -0.0733 | 0.229*** |
|  | (0.0713) | (0.0310) | (0.0598) | (0.0768) | (0.0651) | (0.0420) |
| Other race | 0.0530 | -0.179*** | -0.198** | 0.0326 | -0.0142 | -0.206*** |
|  | (0.0837) | (0.0367) | (0.0686) | (0.0932) | (0.0807) | (0.0559) |
| Age 31-45 | 0.242*** | 0.145*** | 0.172*** | 0.221*** | 0.220*** | 0.0140 |
|  | (0.0522) | (0.0248) | (0.0415) | (0.0547) | (0.0487) | (0.0338) |
| Age 46-60 | -0.0739 | 0.100*** | -0.133** | -0.436*** | -0.216*** | -0.116** |
|  | (0.0582) | (0.0252) | (0.0449) | (0.0659) | (0.0552) | (0.0357) |
| Age over 60 | -0.969*** | -0.317*** | -1.126*** | -1.882*** | -1.224*** | -0.721*** |
|  | (0.0889) | (0.0304) | (0.0669) | (0.124) | (0.0830) | (0.0472) |
| Income=20,000 to 39,999 | 0.333*** | 0.0324 | -0.167*** | 0.508*** | 0.132* | -0.135*** |
|  | (0.0591) | (0.0278) | (0.0457) | (0.0660) | (0.0534) | (0.0359) |
| Income=40,000 to 59,999 | 0.136 | -0.0482 | -0.451*** | 0.181* | -0.140* | -0.282*** |
|  | (0.0703) | (0.0312) | (0.0551) | (0.0797) | (0.0661) | (0.0423) |
| Income=60,000 to 99,999 | 0.000522 | -0.216*** | -0.665*** | -0.150 | -0.373*** | -0.560*** |
|  | (0.0742) | (0.0319) | (0.0578) | (0.0864) | (0.0713) | (0.0451) |
| Income=100,000 and above | -0.806*** | -0.422*** | -1.172*** | -0.923*** | -1.167*** | -0.818*** |
|  | (0.105) | (0.0356) | (0.0720) | (0.121) | (0.103) | (0.0543) |
| Single male | -0.0135 | 0.0763** | 0.185*** | -0.193** | -0.117* | 0.193*** |
|  | (0.0560) | (0.0237) | (0.0419) | (0.0622) | (0.0526) | (0.0334) |
| Single female | 0.178*** | 0.0520* | -0.0151 | 0.0984 | 0.0585 | 0.0403 |
|  | (0.0523) | (0.0223) | (0.0423) | (0.0572) | (0.0493) | (0.0330) |
| Unemployed | 0.410*** | 0.169*** | 0.470*** | 0.363*** | 0.294*** | 0.204*** |
|  | (0.0667) | (0.0356) | (0.0525) | (0.0719) | (0.0642) | (0.0458) |
| Not in labor force | -0.192*** | -0.106*** | -0.119** | -0.175** | -0.0487 | -0.127*** |
|  | (0.0547) | (0.0221) | (0.0420) | (0.0593) | (0.0489) | (0.0325) |
| Metropolitan | -0.00828 | -0.225*** | 0.0656 | -0.206*** | -0.226*** | -0.213*** |
|  | (0.0500) | (0.0204) | (0.0386) | (0.0526) | (0.0447) | (0.0301) |
| American citizen | 0.973*** | 0.337*** | 1.230*** | 1.552*** | 1.596*** | 0.214*** |
|  | (0.104) | (0.0385) | (0.0908) | (0.130) | (0.107) | (0.0512) |
| Home owner | -0.954*** | -0.421*** | -0.604*** | -0.793*** | -0.894*** | -0.672*** |
|  | (0.0469) | (0.0211) | (0.0372) | (0.0515) | (0.0445) | (0.0291) |
| 5 or more in HH | 0.531*** | 0.0729** | 0.287*** | 0.717*** | 0.652*** | 0.369*** |
|  | (0.0522) | (0.0249) | (0.0438) | (0.0537) | (0.0478) | (0.0339) |
| Has bank account | --- | -0.785*** | -0.572*** | -0.278*** | -0.506*** | --- |
|  |  | (0.0370) | (0.0532) | (0.0718) | (0.0582) |  |
| Constant | -3.346*** | 0.272*** | -2.248*** | -3.619*** | -2.709*** | -1.104*** |
|  | (0.136) | (0.0589) | (0.115) | (0.163) | (0.133) | (0.0723) |
|  |  |  |  |  |  |  |
| Log likelihood ratio | -9953.25 | -41782.89 | -15272.00 | -8395.20 | -10877.62 | -22504.49 |
| Observations | 71,853 | 72,450 | 71,758 | 71,854 | 72,044 | 72,587 |

*** p<0.001, ** p<0.01, * p<0.05

**Why Do Consumers Use AFS Products? Multinomial Logit**

Because multinomial logit coefficients are difficult to interpret directly, we calculated the predicted probabilities of being in each of the response categories; regression results are in Appendix 2. Conditioned on using AFS products, users of pawn shops and payday loans are most likely to use these products because they are "easier than qualifying for a bank loan" (Tables 3 and 4). On the other hand, the main reason respondents give for using nonbank money orders and check cashing is that these AFS products are "more convenient" (Tables 5 and 6).

**Table 3**

*Probability of Giving Specific Reasons for Using Payday Loans*
(Bold is statistically significant relative to base reason)

|  | More convenient | Easier than qualifying for bank loan (base) | Other |
|---|---|---|---|
| Total share of respondents (weighted) | 0.2534 | 0.6209 | 0.1257 |
| Payday Loans Banned | 0.2349 | 0.6518 | 0.1134 |
| Payday Loans Allowed | 0.2563 | 0.6285 | 0.1152 |
| **Highest level of education** |  |  |  |
| Less than high school (base) | 0.2302 | 0.6602 | 0.1097 |
| High school graduate | 0.2808 | 0.6092 | 0.1101 |
| Some college | 0.2609 | 0.6073 | 0.1317 |
| College graduate | 0.2750 | 0.5981 | 0.1269 |
| Postgraduate education | 0.2918 | 0.5867 | 0.1215 |
| **Racial identity** |  |  |  |
| White (base) | **0.2365** | 0.6453 | 0.1182 |
| Black | **0.3335** | 0.5754 | 0.0911 |
| Hispanic | 0.2215 | 0.6569 | 0.1215 |
| Other | 0.2434 | 0.5951 | 0.1614 |
| **Age group** |  |  |  |
| 18-30 (base) | 0.2711 | 0.6284 | 0.1006 |
| 31-45 | 0.2336 | 0.6433 | 0.1232 |
| 46-60 | 0.2294 | 0.6257 | 0.1449 |
| Over 60 | 0.2797 | 0.5774 | 0.1429 |
| **Income** |  |  |  |
| Less than $20,000 (base) | **0.2562** | 0.6478 | **0.096** |
| $20,000 to $39,999 | **0.2137** | 0.6462 | 0.1401 |
| $40,000 to $59,999 | 0.2789 | 0.5857 | 0.1354 |
| $60,000 to $99,999 | 0.2752 | 0.6063 | 0.1185 |
| Over $100,000 | **0.4148** | 0.4342 | **0.1510** |
| **Marital status** |  |  |  |
| Single male | 0.2568 | 0.6324 | 0.1108 |
| Single female | 0.2532 | 0.6197 | 0.1271 |
| Married (base) | 0.2528 | 0.6362 | 0.1110 |
| **Employment status** |  |  |  |
| Employed (base) | 0.2598 | 0.6195 | **0.1207** |
| Unemployed | 0.2446 | 0.6306 | 0.1248 |
| Not in labor force | 0.2369 | 0.6699 | **0.0932** |

**Household size**

| | | | |
|---|---|---|---|
| 4 or fewer | 0.2458 | 0.6314 | 0.1227 |
| 5 or more | 0.2802 | 0.6277 | 0.0921 |
| **Metropolitan status** | | | |
| Metropolitan | 0.2500 | 0.636 | 0.1139 |
| Non-metropolitan | 0.2662 | 0.6153 | 0.1185 |
| **Citizenship status** | | | |
| U.S. citizen | 0.2562 | 0.6293 | 0.1145 |
| Non-citizen | 0.2061 | 0.6688 | 0.1251 |
| **Homeownership status** | | | |
| Homeowner | 0.2668 | 0.6189 | 0.1143 |
| Non-homeowner | 0.2436 | 0.6409 | 0.1155 |

*Note: 4.3% of all respondents (or 4768 individuals) reported the use of payday loans.*
N=2598

However, there are some interesting variations by demographic characteristics in the distribution of reasons given for using specific AFS products. For example, Blacks are more likely than Whites to say they use payday loans for convenience (33% vs. 23%, respectively), and, consequently, they are less likely to say they use payday loans because they are easier than qualifying for a bank loan (57% vs. 64%, respectively). Similarly, consumers with higher income are more likely to say they use payday loans because they are more convenient than are lower-income consumers (41% vs. 25%, respectively), whereas lower income consumers report using payday loans because they are easier than qualifying for a bank loan (65% vs. 43% for high income consumers). Consumers not in the labor force are less likely than their employed counterparts to give "other" reasons for using payday loans (9% vs. 12%, respectively), and more likely to say payday loans are easier than qualifying for a bank loan (67% vs. 62% respectively).

Turning to consumers who use pawn shops, those with no bank account are more likely to say using a pawn shop is easier than qualifying for a loan (51% vs. 44% for those with an account), and less likely to give other reasons (26% vs. 36%, respectively). Consumers with at least some college are more likely than their counterparts to give other reasons for using pawn shops (39-47% vs. 31%). Keep in mind that these "other" reasons include "banks don't have small loans" and being "more comfortable at a pawn shop than at a bank." The same is also the case for higher income consumers and younger consumers: they are more likely than their lower-income and older counterparts to say they use pawn shops for other reasons. Compared with Whites, consumers in the "Other" race category (excluding Blacks and Hispanics) are more likely to say they use pawn shops because they are more convenient (32% vs. 22%).

**Table 4**

*Probability of Giving Specific Reasons for Using Pawn Shops*
(Bold is statistically significant relative to base reason)

| | More convenient | Easier than qualifying for bank loan (base) | Other |
|---|---|---|---|
| Total share of respondents (weighted) | 0.2112 | 0.4717 | 0.3171 |
| Has Bank Account | 0.1994 | 0.4395 | **0.3611** |
| No Bank Account | 0.2309 | 0.5081 | **0.2610** |
| **Highest level of education** | | | |
| Less than high school (base) | **0.1919** | 0.5016 | **0.3065** |
| High school graduate | 0.2108 | 0.4461 | 0.343 |
| Some college | **0.2190** | 0.3893 | **0.3917** |

| | | | |
|---|---|---|---|
| College graduate | **0.2188** | 0.3584 | **0.4229** |
| Postgraduate education | 0.1854 | 0.3424 | **0.4722** |
| **Racial identity** | | | |
| White (base) | **0.1954** | 0.4445 | **0.3601** |
| Black | 0.2248 | 0.5322 | **0.2430** |
| Hispanic | 0.225 | 0.4508 | 0.3242 |
| Other | **0.3181** | 0.3642 | 0.3177 |
| **Age group** | | | |
| 18-30 (base) | **0.2248** | 0.4135 | **0.3618** |
| 31-45 | **0.188** | 0.4841 | **0.328** |
| 46-60 | **0.1752** | 0.5118 | **0.313** |
| Over 60 | 0.1955 | 0.4482 | 0.3562 |
| **Income** | | | |
| Less than $20,000 (base) | 0.2178 | 0.4873 | **0.2949** |
| $20,000 to $39,999 | 0.1821 | 0.4454 | 0.3725 |
| $40,000 to $59,999 | 0.2075 | 0.3941 | **0.3984** |
| $60,000 to $99,999 | 0.1843 | 0.4012 | **0.4145** |
| Over $100,000 | 0.1830 | 0.3034 | **0.5135** |
| **Marital status** | | | |
| Single male | 0.1927 | 0.4772 | 0.3300 |
| Single female | **0.1724** | 0.506 | **0.3215** |
| Married (base) | **0.2223** | 0.4198 | **0.3579** |
| **Employment status** | | | |
| Employed (base) | 0.2031 | 0.4492 | 0.3476 |
| Unemployed | 0.2143 | 0.4794 | 0.3063 |
| Not in labor force | 0.2045 | 0.4431 | 0.3524 |
| **Household size** | | | |
| 4 or fewer | **0.2053** | 0.4347 | **0.3600** |
| 5 or more | **0.1984** | 0.5223 | **0.2793** |
| **Metropolitan status** | | | |
| Metropolitan | 0.2022 | 0.4520 | 0.3458 |
| Non-metropolitan | 0.2053 | 0.4505 | 0.3442 |
| **Citizenship status** | | | |
| U.S. citizen | 0.2042 | 0.4483 | 0.3474 |
| Non-citizen | 0.2115 | 0.5171 | 0.2714 |
| **Homeownership status** | | | |
| Homeowner | **0.2143** | 0.4158 | **0.3699** |
| Non-homeowner | **0.194** | 0.4873 | **0.3186** |

*Note: 6.3% of all respondents (or 6997 individuals) reported the use of pawn shops.*
N=4453

For nonbank money orders, the reasons were split into four groups: "more convenient," "banks charge more," "more comfortable," and "other." Consumers with a bank account are more likely than their unbanked counterparts to say that they use nonbank money orders because banks charge more (21% vs. 17%), while unbanked

consumers are more likely than the banked to say that they are more comfortable using nonbank money orders (6% vs. 2%). Consumers with higher levels of education and income are more likely to give convenience reasons for using nonbank money orders. There are also differences by race in reasons for using nonbank money orders. Blacks and Others are more likely than Whites to say that banks charge more (30% and 24% vs. 19%, respectively), while Whites are more likely to say that nonbank money orders are more convenient (65% vs. 57% for Blacks and 60% for Other).

**Table 5**

*Probability of Giving Specific Reasons for Using Nonbank Money Orders*
(Bold is statistically significant relative to base reason)

|  | More convenient (base) | Banks charge more | More comfortable | Other |
|---|---|---|---|---|
| Total share of respondents (weighted) | 0.6161 | 0.2223 | 0.0363 | 0.1254 |
| Has Bank Account | 0.6379 | **0.2115** | **0.0232** | 0.1274 |
| No Bank Account | 0.6227 | **0.1743** | **0.0597** | 0.1434 |
| **Highest level of education** | | | | |
| Less than high school (base) | 0.6229 | **0.2177** | **0.0317** | 0.1277 |
| High school graduate | 0.6369 | 0.2142 | 0.0238 | 0.1250 |
| Some college | 0.6458 | 0.2042 | **0.0199** | 0.1301 |
| College graduate | 0.6591 | **0.1857** | **0.0205** | 0.1346 |
| Postgraduate education | 0.6919 | **0.1322** | 0.0190 | 0.1568 |
| **Racial identity** | | | | |
| White (base) | 0.6477 | **0.1931** | **0.0250** | **0.1342** |
| Black | 0.5716 | **0.2953** | **0.0309** | **0.1021** |
| Hispanic | 0.6232 | 0.2189 | **0.0392** | 0.1187 |
| Other | 0.6049 | **0.2438** | 0.0280 | 0.1233 |
| **Age group** | | | | |
| 18-30 (base) | 0.6838 | **0.1857** | **0.0210** | 0.1095 |
| 31-45 | 0.5968 | **0.2358** | **0.0302** | 0.1372 |
| 46-60 | 0.5790 | **0.2366** | **0.0317** | 0.1527 |
| Over 60 | 0.5895 | 0.1977 | 0.0344 | 0.1784 |
| **Income** | | | | |
| Less than $20,000 (base) | 0.6231 | **0.2283** | 0.0259 | 0.1227 |
| $20,000 to $39,999 | 0.6333 | 0.2039 | 0.0275 | 0.1353 |
| $40,000 to $59,999 | 0.6497 | **0.1885** | 0.0246 | 0.1372 |
| $60,000 to $99,999 | 0.6564 | **0.1833** | 0.0262 | 0.1341 |
| Over $100,000 | 0.6774 | **0.1598** | 0.0242 | 0.1385 |
| **Marital status** | | | | |
| Single male | 0.6270 | 0.2091 | 0.0296 | 0.1344 |
| Single female | 0.6112 | **0.2280** | 0.0249 | **0.1360** |
| Married (base) | 0.6494 | **0.1995** | 0.0254 | **0.1257** |
| **Employment status** | | | | |
| Employed (base) | 0.6483 | **0.2004** | **0.0238** | **0.1275** |
| Unemployed | 0.5837 | **0.2433** | 0.0302 | **0.1428** |

| | | | | |
|---|---|---|---|---|
| Not in labor force | 0.6207 | **0.217** | **0.0310** | 0.1313 |
| **Household size** | | | | |
| 4 or fewer | 0.6408 | **0.2028** | **0.0252** | 0.1312 |
| 5 or more | 0.6177 | **0.2321** | **0.0302** | 0.1200 |
| **Metropolitan status** | | | | |
| Metropolitan | 0.6255 | **0.2158** | 0.0266 | **0.1322** |
| Non-metropolitan | 0.6718 | **0.1830** | 0.0241 | **0.1211** |
| **Citizenship status** | | | | |
| U.S. citizen | 0.6361 | 0.2090 | **0.0252** | 0.1296 |
| Non-citizen | 0.6513 | 0.1847 | **0.0374** | 0.1266 |
| **Homeownership status** | | | | |
| Homeowner | 0.6477 | **0.1983** | 0.0262 | 0.1278 |
| Non-homeowner | 0.6197 | **0.2228** | 0.0256 | 0.1320 |

*Note: 30.8% of all respondents (or 34493 individuals) reported the use of nonbank money orders.*
N=21430

     People in the 18-30 age group are more likely to say they use nonbank money orders because of convenience compared with older age cohorts (68% vs. 57-59%); however, they are less likely than mid-age consumer to use nonbank money orders because of bank prices (19% vs. 24%). Unemployed people and those not in the labor force appear to be more sensitive to bank charges than employed people; 24% and 22%, respectively gave price reasons compared with 20% of employed consumers. Consumers in nonmetropolitan areas are more likely to give convenience reasons relative to pricing reason than their metropolitan counterparts (67% vs. 63%), perhaps an indication of financial access in nonmetropolitan areas.

     There were four reasons given for using nonbank check cashing services: "don't have a bank account," "to get money faster," "more convenient," and "other." Consumers who have not graduated high school were more likely to give the "don't have a bank account" response than those with higher levels of education (30% vs. 11-16%) while those with higher levels of education were more likely to say that nonbank check cashing was more convenient. Similarly, Blacks and Hispanics were more likely to say they did not have a bank account (22% and 21% vs. 19% for Whites) and were also more likely to say they used check cashers to get their money faster (19% and 16% vs. 12%). Consumers over 60 were less likely than the youngest consumers to use nonbank check cashing because they don't have a bank account (13% vs. 22%).

**Table 6**

*Probability of Giving Specific Reasons for Using Nonbank Check Cashing*
(Bold is statistically significant relative to base reason)

| | Don't have bank account | To get money faster | More convenient (base) | Other |
|---|---|---|---|---|
| **Highest level of education** | | | | |
| Less than high school (base) | **0.2955** | 0.1203 | 0.4631 | 0.1211 |
| High school graduate | **0.1631** | 0.1307 | 0.5442 | 0.1619 |
| Some college | **0.1332** | 0.1442 | 0.5383 | **0.1844** |
| College graduate | **0.1166** | 0.1334 | 0.5801 | 0.1699 |
| Postgraduate education | **0.1097** | 0.1101 | 0.5505 | **0.2297** |
| **Racial identity** | | | | |
| White (base) | **0.1861** | **0.1169** | 0.5521 | **0.1448** |
| Black | **0.2228** | **0.1913** | 0.4213 | 0.1646 |

| | | | | |
|---|---|---|---|---|
| Hispanic | **0.2124** | **0.1586** | 0.4805 | 0.1485 |
| Other | 0.191 | 0.1262 | 0.5288 | 0.1541 |
| **Age group** | | | | |
| 18-30 (base) | **0.2194** | 0.1345 | 0.5132 | 0.1329 |
| 31-45 | 0.1975 | 0.1235 | 0.5148 | 0.1642 |
| 46-60 | 0.1719 | 0.1172 | 0.5477 | 0.1632 |
| Over 60 | **0.1287** | 0.1168 | 0.5894 | 0.165 |
| **Income** | | | | |
| Less than $20,000 (base) | **0.3369** | 0.1071 | 0.4092 | **0.1468** |
| $20,000 to $39,999 | **0.1332** | 0.1421 | 0.5872 | **0.1375** |
| $40,000 to $59,999 | **0.0996** | 0.1367 | 0.6234 | **0.1403** |
| $60,000 to $99,999 | **0.0779** | 0.141 | 0.6578 | **0.1233** |
| Over $100,000 | **0.0581** | **0.1229** | 0.7062 | **0.1127** |
| **Marital status** | | | | |
| Single male | 0.2025 | 0.1265 | 0.5323 | 0.1386 |
| Single female | **0.2181** | 0.1146 | 0.5186 | 0.1487 |
| Married (base) | **0.1809** | 0.1313 | 0.5357 | 0.152 |
| **Employment status** | | | | |
| Employed (base) | **0.1904** | 0.1306 | 0.5322 | 0.1468 |
| Unemployed | **0.2195** | 0.117 | 0.5141 | 0.1493 |
| Not in labor force | 0.1874 | 0.1231 | 0.5332 | 0.1563 |
| **Household size** | | | | |
| 4 or fewer | **0.1794** | 0.1318 | 0.5328 | **0.156** |
| 5 or more | **0.2236** | 0.1142 | 0.5341 | **0.1281** |
| **Metropolitan status** | | | | |
| Metropolitan | **0.2031** | **0.1333** | 0.5057 | **0.1578** |
| Non-metropolitan | **0.1457** | **0.1121** | 0.6151 | **0.1271** |
| **Citizenship status** | | | | |
| U.S. citizen | **0.18** | 0.1286 | 0.5414 | 0.15 |
| Non-citizen | **0.2748** | 0.122 | 0.4548 | 0.1484 |
| **Homeownership status** | | | | |
| Homeowner | **0.1543** | 0.1276 | 0.5554 | 0.1627 |
| Non-homeowner | **0.2279** | 0.1277 | 0.5074 | 0.1369 |

*Note: 11.7% of all respondents (or 13122 individuals) reported the use of nonbank check cashing.*
N=7573

Consumers with incomes less than $20,000 were more likely to use nonbank check cashing because they didn't have a bank account than those in higher income groups (34% vs. 6-13%); conversely, consumers in higher income groups were more likely to say that using nonbank check cashing was more convenient (59-71% vs. 41%). The unemployed were also more likely than the employed to say they used check cashers because they didn't have a bank account (22% vs. 19%). Consumers living in nonmetropolitan areas were less likely to say they didn't have a bank account (15% vs. 20%) but more likely to say that using nonbank check cashing was more convenient (62% vs. 51%), perhaps another indication of financial access issues in nonmetropolitan areas.

## Discussion and Implications

Our goal was to explore the characteristics of consumers who use AFS products as well as their reasons for using the AFS with an eye toward helping policy makers and community educators understand the demand side of these AFS markets. From the logit models that we estimated, the general picture that emerges is that users of AFS products are less educated, minority, middle aged (31-45), lower income, unemployed, renters, from larger households, and unbanked. State policies that ban payday loans are effective in reducing the number of consumers who use payday loans in those states, although these bans may not stop the use of payday loans altogether.

When we look at the reasons why consumers use AFS products, no clear patterns of reasoning emerge. For example, Blacks are more likely than Whites to give reasons of convenience for payday loans, but they are less likely than Whites to say other AFS products are convenient. Compared with Whites, Blacks are more likely to say that pawn shops are easier to use than qualifying for a bank loan, that banks charge more for money orders, and that nonbank check cashing is faster.

Low-income consumers are clearly more liquidity constrained and price sensitive. They are more likely than other income groups to say they use both payday loans and pawn shops because these are easier than qualifying for a bank loan. They are more likely to say they use nonbank money orders because banks charge more and they are more likely to use nonbank check cashers because they don't have a bank account.

Labor force participation and attachment also seems to play a role in reasons given for using AFS products. Unemployed consumers and those not in the labor force have some liquidity constraints and price sensitivities, as well less connection with the financial main stream. Consumers not in the labor force were more likely than others to say they used payday loans because they thought it was easier than qualifying for a bank loan (note that those not in the labor force may have other income streams, such as retirement or pension deposits). Unemployed consumers were more likely to give cost reasons for using nonbank money orders and to indicate they used check cashers because they did not have a bank account.

Consumers in nonmetropolitan areas were more likely to say they used nonbank money orders and nonbank check cashers because these AFS products were more convenient. Convenience may be a proxy for financial access in some instances, in particular in rural areas, which speaks to the role of smaller community banks in providing financial services to nonmetropolitan populations.

## Policy Implications

From time to time, consumers may need access to small dollar, short-term loans to cover emergencies or to supplement temporary losses in income. We found that people who live in states that ban payday loans are much less likely to use the product, although with the advent of internet payday loans, state bans may be less effective. We found that unemployed people are more likely to use payday loans than people who are employed. Because the question asks if anyone in the respondent's household has "ever" used a payday loan, it is possible that the payday loan use comes in response to the need to cover expenses in the wake of a job loss of a family member (in January 2009, when the survey was conducted, the unemployment rate stood at 7.6 percent, on its way up to 9.1 in September 2011; Bureau of Labor Statistics 2011). Because family dynamics affect consumption, access to short-term loans for workers who have a recently-unemployed family member may be important in helping to smooth consumption.

The difference between racial groups' reasons for using selected AFS products provides evidence for the claim that many people, especially minorities, feel uncomfortable patronizing banks. Instead, AFS operations are much less formal and intimidating to members of the minority community. Mainstream financial institutions and community educators could focus on outreach to reduce cultural issues associated with dealing with a bank. Financial institutions may want to consider how representative they are with respect to the communities they serve.

Across all six alternative financial services, increases in education are associated with a statistically significant decrease in use of AFS, holding all else constant. While this does not show a direct causation between education and AFS use, this result adds yet another reason for policy makers and community educators to promote school retention and completion at both the secondary and post-secondary levels, and may be subtle support for including financial education curriculum requirements.

Payday loans are essentially balloon loans – the loan principal is due all at once. While there is no evidence in this study that points to rollovers of payday lending, one policy option that has often been discussed is to allow for a series of installment or partial pay-backs on payday loans. Paying back smaller amounts on the principal would allow consumers to get back on their financial feet more gradually.

Finally, while relatively low proportions of consumers use AFS products, it is clear that these products fill an important niche in the consumer financial services marketplace.  The key issue to monitor and address is how to make these products safe and effective for the consumers and households that use them.

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**Appendix 1**
**Creation of Dependent Variables for Multinomial Logit Models**

For non-bank check cashing, the CPS question reads:
What is the main reason for cashing a check that you receive from someone else, at a place other than a bank?
1. Don't have a bank account
2. To get money faster
3. The place is more convenient
4. A bank charges more to cash checks
5. The place to cash checks asks for fewer id's
6. Feel more comfortable than at a bank
7. Other

We group responses 4-7 together and label them "other." Categories 1-3 remain the same. Category 3, "the place is more convenient," is specified as our base group for comparison. To facilitate analysis, we wanted to use the same dependent variables in the logit and multinomial logit equations; we omitted the bank account variable from the logit estimate of check cashing because it is perfectly collinear with the response "Don't have a bank account" in the multinomial model.

For non-bank money orders, the question reads:
What is the main reason for purchasing money orders at a place other than a bank?
1. Banks do not sell money orders
2. The place to purchase money orders is more convenient than a bank
3. Banks charge more for money orders
4. The place feels more comfortable than a bank
5. Other

We group responses one and five together and label them as "other." All other categories remain the same as specified in the question. Category 2, "The place to purchase money orders is more convenient than a bank" is our base category for comparison.

For payday loans, the question reads:
What is the main reason for using payday loan or payday advance services rather than a  bank?
1. The payday loan service is more convenient
2. It is easier to get a payday loan than to qualify for a bank loan
3. A payday loan service feels more comfortable than using a bank
4. Don't qualify for a bank loan
5. Other

We grouped responses 2 and 4 under the label "easier than qualifying for a bank loan." We grouped responses 3 and 5 as "other." In all, we have three separate response categories for payday loans. We specify "easier than qualifying for a bank loan" as our base group.

For pawn shops, the question reads:
What is the main reason for doing business at pawn shops as opposed to a bank, a savings and loan or a credit union?
1. Banks don't have small loans
2. The pawn shop service is more convenient
3. It is easier to get money from a pawn shop than to qualify for a bank loan
4. More comfortable at a pawn shop than at a bank
5. Don't qualify for a bank loan
6. Other

We grouped responses 3 and 5 together and labeled them "easier than qualifying for a bank loan." We grouped responses 1, 4 and 6 together and labeled them as "other." "Easier than qualifying for a bank loan" is our base category for comparison. In all, we have three separate response categories for pawn shop usage.

**Appendix 2**
**Multinomial Regression Coefficients**

Table 2.1

| Variable | Reason for payday loan (base category = easier than qualifying for bank loan) | |
| --- | --- | --- |
| | More convenient than bank | Other |
| Payday loans banned | -0.124 | -0.052 |
| | (-0.836) | (-0.264) |
| High school degree | 0.221 | -0.013 |
| | (1.506) | (-0.064) |
| Some college | 0.090 | 0.234 |
| | (0.560) | (1.112) |
| Completed college | 0.165 | 0.187 |
| | (0.966) | (0.825) |
| Postgraduate education | 0.218 | 0.131 |
| | (0.645) | (0.284) |
| Black | 0.457*** | -0.176 |
| | (3.850) | (-0.972) |
| Hispanic | -0.200 | 0.018 |
| | (-1.198) | (0.084) |
| Other race | 0.019 | 0.427 |
| | (0.096) | (1.836) |
| Age 30-45 | -0.158 | 0.078 |
| | (-1.342) | (0.478) |
| Age 45-60 | -0.121 | 0.317 |
| | (-0.922) | (1.825) |
| Age 60+ | 0.202 | 0.331 |
| | (1.036) | (1.210) |
| Between $20000 and $40000 | -0.300* | 0.269 |
| | (-2.197) | (1.445) |
| Between $40000 and $60000 | 0.210 | 0.294 |
| | (1.362) | (1.355) |
| Between $60000 and $100000 | 0.151 | 0.087 |
| | (0.959) | (0.373) |
| Greater than $100000 | 0.918*** | 0.685* |
| | (4.195) | (2.162) |
| Single male | 0.014 | -0.051 |
| | (0.109) | (-0.295) |
| Single female | 0.024 | 0.174 |
| | (0.209) | (1.134) |
| Unemployed | -0.040 | 0.095 |
| | (-0.270) | (0.484) |

| | | |
|---|---|---|
| Not in labor force | -0.165 | -0.349* |
| | (-1.327) | (-1.985) |
| Metropolitan status | -0.096 | -0.072 |
| | (-0.833) | (-0.471) |
| U.S. citizen | 0.279 | -0.028 |
| | (1.068) | (-0.090) |
| Homeownership status | 0.126 | 0.025 |
| | (1.248) | (0.181) |
| Household greater than 4 | 0.137 | -0.281 |
| | (1.191) | (-1.651) |
| Constant | -1.299*** | -1.959*** |
| | (-3.974) | (-4.732) |
| N | 2598.000 | |

t statistics in parentheses

* p<0.05  ** p<0.01  *** p<0.001

Table 2.2

| Variable | Reason for pawn shop (base category = easier than qualifying for bank loan) | |
| --- | --- | --- |
|  | **More convenient that bank** | **Other** |
| Bank account | -0.002 | 0.470*** |
|  | (-0.015) | (3.930) |
| high school degree | 0.063 | 0.010 |
|  | (0.515) | (0.086) |
| some college | 0.281* | 0.359** |
|  | (2.074) | (3.008) |
| completed college | 0.372* | 0.544*** |
|  | (2.533) | (4.284) |
| postgraduate education | 0.184 | 0.617** |
|  | (0.713) | (3.059) |
| Black | -0.081 | -0.582*** |
|  | (-0.621) | (-4.690) |
| Hispanic | 0.106 | -0.067 |
|  | (0.702) | (-0.497) |
| Other race | 0.696*** | 0.141 |
|  | (4.322) | (0.888) |
| Age 30-45 | -0.235* | -0.182* |
|  | (-2.264) | (-2.002) |
| Age 45-60 | -0.379*** | -0.300** |
|  | (-3.315) | (-3.054) |
| Age 60+ | -0.043 | 0.043 |
|  | (-0.249) | (0.290) |
| Between $20000 and $40000 | -0.148 | 0.129 |
|  | (-1.315) | (1.283) |
| Between $40000 and $60000 | 0.179 | 0.338** |
|  | (1.306) | (2.773) |
| Between $60000 and $100000 | 0.015 | 0.365** |
|  | (0.101) | (2.895) |
| Greater than $100000 | 0.311 | 0.868*** |
|  | (1.586) | (5.330) |
| single male | -0.163 | -0.140 |
|  | (-1.562) | (-1.534) |
| single female | -0.395*** | -0.254** |
|  | (-3.671) | (-2.792) |
| unemployed | -0.017 | -0.205 |
|  | (-0.138) | (-1.777) |
| Not in labor force | 0.023 | 0.053 |
|  | (0.215) | (0.581) |

| | | |
|---|---|---|
| Metropolitan status | 0.019 | -0.001 |
| | (0.187) | (-0.015) |
| U.S. citizen | 0.108 | 0.390 |
| | (0.465) | (1.697) |
| Homeownership status | 0.258** | 0.308*** |
| | (2.771) | (3.860) |
| Household greater than 4 | -0.218* | -0.437*** |
| | (-2.007) | (-4.501) |
| Constant | -0.894** | -1.251*** |
| | (-3.108) | (-4.470) |
| N | 4453.000 | |

t statistics in parentheses

* p<0.05  ** p<0.01  *** p<0.001

Table 2.3

| Variable | Reason for nonbank money order (base category = more convenient) | | |
| --- | --- | --- | --- |
| | Banks charge more | More comfortable than bank | Other |
| Bank account | 0.169** | -0.967*** | -0.142 |
| | (2.830) | (-8.879) | (-1.874) |
| high school degree | 0.051 | -0.128 | -0.051 |
| | (0.943) | (-1.146) | (-0.749) |
| some college | -0.035 | -0.349* | -0.010 |
| | (-0.572) | (-2.485) | (-0.136) |
| completed college | -0.185** | -0.347* | 0.008 |
| | (-2.908) | (-2.382) | (0.101) |
| postgraduate education | -0.572*** | -0.426 | 0.119 |
| | (-5.884) | (-1.909) | (1.210) |
| Black | 0.537*** | 0.329** | -0.148* |
| | (10.975) | (2.736) | (-2.138) |
| Hispanic | 0.089 | 0.497*** | -0.073 |
| | (1.425) | (3.819) | (-0.927) |
| Other race | 0.227** | 0.136 | 0.004 |
| | (3.005) | (0.734) | (0.046) |
| Age 30-45 | 0.275*** | 0.304** | 0.176** |
| | (5.637) | (2.657) | (2.819) |
| Age 45-60 | 0.323*** | 0.416*** | 0.369*** |
| | (6.398) | (3.450) | (5.899) |
| Age 60+ | 0.037 | 0.432** | 0.479*** |
| | (0.574) | (2.966) | (6.428) |
| Between $20000 and $40000 | -0.013 | 0.086 | 0.070 |
| | (-0.256) | (0.772) | (1.053) |
| Between $40000 and $60000 | -0.140* | -0.091 | 0.048 |
| | (-2.293) | (-0.628) | (0.630) |
| Between $60000 and $100000 | -0.191** | -0.025 | 0.008 |
| | (-2.991) | (-0.163) | (0.095) |
| Greater than $100000 | -0.371*** | -0.150 | 0.008 |
| | (-4.864) | (-0.800) | (0.093) |
| single male | 0.033 | 0.189 | 0.069 |
| | (0.684) | (1.787) | (1.206) |
| single female | 0.187*** | -0.002 | 0.124* |
| | (4.175) | (-0.014) | (2.265) |
| unemployed | 0.269*** | 0.259 | 0.202* |
| | (4.188) | (1.767) | (2.464) |
| Not in labor force | 0.102* | 0.288** | 0.057 |
| | (2.293) | (2.878) | (1.055) |

| | | | |
|---|---|---|---|
| Metropolitan status | 0.236*** | 0.168 | 0.159** |
| | (5.498) | (1.636) | (3.141) |
| Citizenship status | 0.147 | -0.370** | 0.047 |
| | (1.880) | (-2.599) | (0.479) |
| Homeownership status | -0.161*** | -0.020 | -0.076 |
| | (-3.912) | (-0.203) | (-1.498) |
| Household greater than 4 | 0.172*** | 0.217* | -0.053 |
| | (3.541) | (2.040) | (-0.829) |
| Constant | -1.707*** | -2.449*** | -1.885*** |
| | (-14.984) | (-10.952) | (-13.368) |
| | | | |
| N | 21430 | | |

t statistics in parentheses

* p<0.05  ** p<0.01  *** p<0.001

Table 2.4

| Variable | Reason for nonbank check-cashing (base category = more convenient) | | |
| --- | --- | --- | --- |
| | Don't have a bank account | To get money faster | Other |
| high school degree | -0.248** | -0.001 | 0.087 |
| | (-2.915) | (-0.005) | (0.791) |
| some college | -0.444*** | 0.137 | 0.248* |
| | (-4.379) | (1.099) | (2.068) |
| completed college | -0.692*** | -0.054 | 0.049 |
| | (-6.035) | (-0.409) | (0.391) |
| postgraduate education | -0.593** | -0.192 | 0.412* |
| | (-2.628) | (-0.850) | (2.271) |
| Black | 0.482*** | 0.753*** | 0.388*** |
| | (5.407) | (7.342) | (3.792) |
| Hispanic | 0.273** | 0.380** | 0.112 |
| | (2.644) | (3.022) | (0.900) |
| Other race | 0.028 | -0.007 | 0.037 |
| | (0.198) | (-0.042) | (0.236) |
| Age 30-45 | 0.126 | -0.003 | 0.181 |
| | (1.582) | (-0.026) | (1.908) |
| Age 45-60 | -0.153 | -0.157 | 0.077 |
| | (-1.717) | (-1.488) | (0.771) |
| Age 60+ | -0.540*** | -0.219 | -0.006 |
| | (-4.174) | (-1.539) | (-0.043) |
| Between $20000 and $40000 | -0.628*** | 0.010 | -0.263** |
| | (-7.899) | (0.096) | (-2.630) |
| Between $40000 and $60000 | -0.965*** | -0.112 | -0.273* |
| | (-9.342) | (-0.888) | (-2.373) |
| Between $60000 and $100000 | -1.304*** | -0.137 | -0.487*** |
| | (-10.641) | (-1.025) | (-3.887) |
| Greater than $100000 | -1.601*** | -0.356* | -0.625*** |
| | (-9.318) | (-2.150) | (-4.115) |
| single male | 0.108 | -0.015 | -0.106 |
| | (1.305) | (-0.151) | (-1.137) |
| single female | 0.248** | -0.116 | 0.026 |
| | (3.043) | (-1.175) | (0.286) |
| unemployed | 0.215* | -0.060 | 0.035 |
| | (2.108) | (-0.442) | (0.275) |
| Not in labor force | -0.001 | -0.055 | 0.056 |
| | (-0.013) | (-0.580) | (0.638) |
| Metropolitan status | 0.528*** | 0.369*** | 0.412*** |
| | (6.510) | (3.984) | (4.845) |

| | | | |
|---|---|---|---|
| U.S. citizen | -0.597*** | -0.121 | -0.164 |
| | (-4.893) | (-0.752) | (-1.018) |
| Homeownership status | -0.480*** | -0.092 | 0.082 |
| | (-6.562) | (-1.071) | (1.007) |
| Household greater than 4 | 0.218** | -0.146 | -0.200* |
| | (2.722) | (-1.454) | (-2.048) |
| Constant | 0.197 | -1.506*** | -1.424*** |
| | (1.134) | (-6.727) | (-6.522) |
| N | 7573 | | |

t statistics in parentheses
* p<0.05  ** p<0.01  *** p<0.001