

Disaster Risk, Alternative Financial Services, and Community Economic Resilience

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This study examines the relationship between natural-disaster risk and households' contingency financial strategies and assesses whether financial capability moderates those relationships. Using the 2021 National Financial Capability Study (NFCS), matched geographically to FEMA's National Risk Index (NRI), this study tests whether residents in higher-risk areas are more likely to use short-term, high-cost borrowing (e.g., payday loans, cash advances) or maintain emergency savings, and whether perceived money management ability (PMMA) and objective financial knowledge moderate these financial behaviors.

Results indicate that residents of higher-risk counties are more likely to engage in repeated payday borrowing. Higher perceived money management ability and objective financial knowledge are associated with lower use of alternative financial services and greater emergency savings. Financial capability, particularly perceived money management ability, partially mitigates the relationship between disaster risk and costly borrowing behaviors.

Findings suggest that strengthening financial capability may enhance household resilience to disaster-related financial shocks. Policies promoting emergency savings, targeted financial education, and consumer protections against predatory lending could help reduce financial vulnerability in high-risk communities.

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