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The Financial Well-Being of Detroit Residents: What Do We Know?

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Executive Summary

What is financial health? It is the ability to control your short-term finances and make choices to enjoy your life, such as supporting a family member or going back to school. A financially healthy individual can also absorb financial setbacks and meet their financial goals (Consumer Financial Protection Bureau [CFPB], 2015). Financial stability, however, comes first: in the short term, this means having money left over at the end of the month, manageable debt, a small pot of savings, and a trusted network to help bridge financial gaps (Siwicki, 2019).

For many low- and moderate- income Detroiters, the necessary ingredients for financial health and financial stability are out of reach. Indeed, just over half of Detroit residents are either financially insecure (32%) or in financial trouble (24%) (DMACS, 2019). Due to low and volatile incomes and disproportionately high costs, tens of thousands of Detroit households cannot maintain consistently positive cash flow, which makes it challenging to build savings, protect assets, or for some, maintain access to a bank account. Without sufficient savings, many households accrue unmanageable debt and have low credit scores. Together, these conditions make the average Detroit resident vulnerable to financial shocks and drive experiences of significant hardship, often above what people in peer Rust Belt cities experience. The COVID-19 pandemic is a financial shock experienced at massive scale, and will make it even more difficult for the average Detroit household to make ends meet.

56
% OF DETROITERS ARE
FINANCIALLY INSECURE OR IN
FINANCIAL TROUBLE

Financial insecurity stems from a set of interconnected processes: a father earning a low and unstable income might have trouble setting aside savings to deal with emergencies, and without the help of a friend, he may take on more credit card debt to fix a broken car. In the future, he sees even more demands on his limited income in the form of interest payments, and finds it more difficult to take advantage of opportunities that could help him move up the financial ladder. Critically, these processes in Detroit operate within a local environment shaped by racial discrimination and a legacy of neighborhood disinvestment, which restricts Detroiters' access to well-paying employment and affordable financial services. **This paper reviews the available data to understand how Detroiters operate in this financial world, including recent survey data on COVID-19's financial impact, and identifies a set of promising ideas for action at the state and local level to bolster financial health.**

Cash Flow: Low and volatile incomes confront high costs

With consistently positive cash flow, an individual can cover recurring expenses with room to spare – this is the foundation of financial well-being. But most households in Detroit lack sufficient income to consistently cover their costs, which is both a function of low and unsteady wages and disproportionately high expenses in the city.

Median household income in Detroit is \$33,965 per year, and a full 16.9% of households earn under \$10,000 per year (ACS, 2019). This is in part due to the city's depressed labor force participation rate: nearly 140,000 residents are not working or looking for work (Holzer & Rivera, 2019). Further, many residents work in lower-wage occupations, such as retail or food services, which often fail to offer sufficient and steady wages each pay period (Holzer & Rivera, 2019; Maag, et al. 2017). This comes with financial risk: a retail cashier making \$9.45 an hour who sees a cut in hours one week may not be able to trim her expenses enough to make ends meet at the end of the month.

While tens of thousands of Detroiters struggle to earn sufficient and steady income, they also confront a set of disproportionately high basic expenses, including property taxes, auto insurance and utilities:

- Compared with the largest cities in each state, Detroit has the second highest effective property tax rate in the nation (Lincoln Land Institute, 2015). For years, residents' property taxes were based on an over-assessment of their homes' true value (Hedman & Pendall, 2018; Atuahene & Berry, 2018). Further, many eligible homeowners are not aware of, or find it difficult to apply for the City's Homeowners Property Tax Assistance Program, which provides relief for current tax bills.
- Auto insurance premiums average 18% of the median income in Detroit, a much higher rate than in peer cities (Cooney et al., 2019). An estimated 60% of Detroit drivers stopped by police do not have insurance (Reindl, 2017).
- Detroit's aging infrastructure and population decline has contributed to unaffordable water prices, which have doubled over the last eight years (Zamudia & Craft, 2019; Rockowitz et al., 2018).

Banking is just another costly expense for some Detroiters. One in four Detroiters is unbanked, and owns neither a checking nor savings account (DMACS, 2019). Two-thirds of unbanked households in the metro area cite financial reasons for their status (Barr, 2012). Detroiters may also experience racial discrimination from the banking system that results in unequal access to financial services. A recent study of frontline financial services employees in Southeast Michigan found a pattern of racially and class-biased treatment in their interactions with customers (Friedline et al., 2020).

Given low incomes and high costs, many households struggle to reach the first step of financial stability: having extra income left over at the end of the month. In fact, 19% of Detroit households – or an estimated 50,000 – report that they do not have enough money to make ends meet, while 37% say they have just enough (DMACS, 2019). This reality drives serious fiscal and material hardships for many, and factor into Detroit's high rates of evictions, water shutoffs, and uninsured driving.

The COVID-19 pandemic may exacerbate this state of financial precarity. On average, Detroit residents surveyed in early April 2020 felt there was a 53% chance they would run out of money within the next three months, while residents with an annual household income of \$10,000 or less put their chances at 66% (DMACS, 2020). To help households in Detroit maintain consistently positive cash flow during this public health crisis and beyond, we should consider a set of collaborative actions to increase and stabilize income, enable wider access to bank accounts, and significantly reduce the cost of basic needs.

Savings & Asset Building: Difficulties setting aside resources, building wealth

Limited disposable income makes it difficult for many Detroit households to build savings for short-term needs or long-term goals. With liquid savings, families can cover short-term expense spikes or income drops, which may make the difference between stability and hardship. Families with even a small amount of non-retirement savings, between \$250 and \$749, are less likely than families with lower savings to be evicted or miss a housing or utility payment when income disruptions occur (McKernan, Ratcliffe, Braga & Kalish, 2016).

According to Prosperity Now, 6-in-10 Detroit households were liquid asset poor in 2014, meaning they did not have enough liquid assets to live at the poverty level for three months without income (Prosperity Now, 2018d). Residents value saving, but two-thirds of metro area survey respondents said it was hard to save because their money goes to necessities (Barr, 2012). In the months following the outbreak of COVID-19, many residents shifted their savings behaviors (DMACS, 2020). **Nearly a third of residents with incomes**

below \$30,000 said they are saving less following the outbreak, but it's encouraging that 40% of residents earning below \$30,000 said they are saving more due to the pandemic (DMACS, 2020).

Beyond saving for emergencies and short-term needs, saving for retirement proves a challenge for the average Detroiters. Nationally, **just 41% of Black families and 26% of Hispanic families have retirement account savings, compared to 65% of white non-Hispanic families** (Morrissey, 2016). Given lower median incomes in Detroit compared to the nation, the proportion of families with retirement savings in the city may be even lower than national averages. Workers of color or those with lower education and income levels are also more likely to work in jobs where their employers do not offer sponsored retirement benefits (Pew Charitable Trusts, 2016). In addition, income or expense swings can also significantly undermine household retirement savings. Locally, **1-in-10 Detroiters reported borrowing from or cashing out a pension, retirement or life insurance policy in the last year** (DMACS, 2019).

Similar to liquid savings, maintaining physical and financial assets can help families absorb financial shocks and secure a solid financial future. Insurance, for example, should smooth income following an unexpected situation, yet many Detroiters are not able to rely fully on insurance protections. Homeowner's insurance is difficult to purchase locally, leaving many homeowners to pay exorbitant rates for substandard coverage or take the significant risk of going without. As for unemployment insurance, in 2018, **13% of employed Michiganders worked in jobs not covered by unemployment insurance** (Michigan League of Public Policy, 2018). Compared to peer states, Michigan still provides both the fewest weeks of benefits and the lowest maximum benefit amount (MLPP, 2018). Further, some laid off low-wage and/or part-time workers do not make enough to meet the minimum threshold for wages earned.

Following the damage of the Great Recession and tax foreclosure crises, tens of thousands of Detroiters have lost their homes, which is typically a family's most valuable asset. In just over a decade, Detroit has shifted from majority homeowner to majority renter (ACS, 2006; ACS, 2018). Due to years of depressed property values, even current homeowners may not consider their homes a valuable asset. Further, the average Detroit home is aged and many need repair, yet current home repair loan products are inaccessible to many low income families due to credit constraints (Ruggiero, Rivera & Cooney, 2020). This means many homeowners are unable to make the improvements needed to bolster property values or maintain safe living conditions. Despite these conditions, property values have improved in recent years: 90% of neighborhoods in Detroit saw assessed property values increase between 2018 and 2019 (City of Detroit, 2018 January).

Many low and moderate income Detroiters struggle to build savings and maintain assets, which limits the possibilities for households trying to plan for the future or take advantage of business and education opportunities. In the short-term, lack of savings also leaves thousands of individuals exposed to financial risk from emergencies. As we explore in the next section, without savings cushions, too many Detroit households accrue unmanageable debts.

Borrowing: Crippling debts and low credit scores limit opportunity

Credit can be a useful tool to conveniently purchase household goods or pay upfront for investments, but many Detroiters cannot use credit this way. Instead, for households who lack emergency savings or are unable to receive help from their networks, **credit helps make ends meet between paychecks and covers unexpected costs, which drives unmanageable debt loads for many low-and moderate-income Detroiters.** Further, the traditional vehicles for investing in one's financial future – homeownership and higher education – also fuel debt in the form of unaffordable property taxes and tuition payments. Tens of thousands of residents live under the weight of these debts, and their harmful financial consequences: low credit scores, foreclosures, and bankruptcies.

A 2016 report from the Urban Institute found **66% of Detroiters have some form of debt in collections, including credit card debt, medical debt, and government fines and fees.** This figure puts Detroit ahead of the nation (35%), the metro area (31%), and even other peer cities (42%) (Elliott et al., 2016). Today, an estimated 57,518 taxpayers owe delinquent property taxes on homes in Detroit, though an unknown proportion of those taxpayers do not live in the city (Quicken, 2020). In addition, while we don't have detailed data on Detroiters' student loan debt, we do know that 1-in-4 Detroiters spent some time in college and did not earn a degree; nationally, the 12-year loan default rate for people who do not complete college is 24%, compared to just 6% for bachelor's graduates (ACS, 2018; Scott-Clayton, 2017). Debt places a tremendous burden on Detroit households with limited incomes, who must manage regular expenses, delinquent debt, plus interest payments and collection fees.

Outside the formal banking system, **many Detroit residents use friends and family as creditors – 34% borrowed money from family or other connections in 2018 (DMACS, 2019).** As expected, the outbreak of COVID-19 has likely made it more challenging for Detroiters to seek this kind of financial help, especially residents with the lowest incomes. Fifty-two percent of residents with incomes below \$10,000 said they could not ask anyone outside of their household for financial help during the pandemic (DMACS, 2020). Interestingly, two-thirds of Detroit residents have not changed their borrowing behavior in response to the pandemic, per a survey conducted in early April 2020 (DMACS, 2020). **However, it is worrying that 20% of residents earning less than \$30,000 reported borrowing more money due to the crisis (DMACS, 2020).**

For residents unable to keep up with the financial burdens of debt, filing for bankruptcy offers a chance to reset. According to our analysis of ProPublica data, **Detroit residents filed at least 43,020 consumer bankruptcy cases in court from 2008 to 2015,** which is higher than the number of cases in Cleveland (33,920) and Buffalo (12,231) (ProPublica, 2017). When considered as a proportion of adults over 25, Detroit's bankruptcy rate during this time (1.17%) was higher than the bankruptcy rate in Buffalo (0.92%) and lower than the rate in Cleveland (1.63%). Compared to filers in Cleveland and Buffalo, Detroit residents are less likely to have legal representation in court, and less likely to be released from debts via case discharge. Nationally, researchers argue racial disparities in discharge rates are due in part to disparate access to representation (Kiel & Fresques, 2017). In Detroit, as elsewhere, **for many filers with low and unstable incomes, bankruptcy alone does not sufficiently help achieve a financial “fresh start”** (Porter & Thorne, 2006; Seefeldt, 2016).

Adverse financial events such as bankruptcy and foreclosure have taken a toll on the credit outlook of Detroit's resident population. Here, we can also see the imprint of institutional racism. For example, Black and Latino Detroiters were disproportionately targeted for subprime loans in the mid-2010s, which led to many of the 70,000 mortgage foreclosures in the city between 2005 and 2013 (Ashton, 2010; Seymour, 2016). Further, the tax foreclosure crisis, fueled largely by inaccurate property tax assessments, hit Detroit much harder than many other cities, and likely still negatively affects many Detroiters' credit scores today.

Compared to residents of other cities, the average Detroit resident had a lower credit score, lower credit limits, and a higher utilization of available credit in August 2015 (Elliott et al., 2016). Subprime or no credit directly affects an individual's ability to gain financial stability, and dramatically limits opportunity in today's economy. Without readily accessible, affordable credit, an individual may not be able to cover an unexpected medical bill or car repair, and might dip into her retirement savings, sell a valued asset, or

take on a high-cost payday loan. Subprime credit also prevents entrepreneurs from accessing sufficient or affordable capital needed to start or grow their businesses.

In developing medium-term solutions to household debt and credit constraints, we must focus on helping Detroiters manage debt and repair damaged credit, while recognizing households still need to borrow affordably to cover expenses today.

Conclusion

Financial instability is a fact of life for many households in Detroit, which leaves tens of thousands struggling to build or maintain the financial cushions needed to move into financial well-being, including sufficient savings and manageable debt. The data show a pernicious cycle—for both residents in poverty and those with moderate incomes—that we must collectively act to address. The COVID-19 pandemic, with its attendant disruptions to income and employment, will only further impair residents' efforts to strive toward financial health.

There are a variety of interventions that public and private actors can take to promote financial health directly, such as creating income-based water rates, or encouraging private sector employers to reduce volatile scheduling practices. To help residents repair credit, non-profits could offer proven programs that build credit and offer affordable lending. To reduce debt burdens, legislators and administrators could cut government fines and fees and expand access to higher education funding. As public and philanthropic efforts rapidly change course to address financial emergencies, stakeholders must also continue to address systemic conditions that threaten financial security, such as low labor force participation and volatile wages. Lastly, we must ensure—through both intentional design and rigorous evaluation—that interventions fully reach Black and Latino Detroiters, and avoid perpetuating the racial discrimination that can cause financial instability and complicate the path to financial health.

Financial Health in Detroit, By the Numbers²

| | Detroit | Cleveland ³ | National | |
|---------------------------|---|------------------------|----------|-----------|
| CASH FLOW | Median household income | \$31,283 | \$29,953 | \$61,973 |
| | Households without bank accounts, 2017 | 18.5% | 17% | 6.5% |
| | Average annual car insurance premium | \$5,414 | \$1,277 | \$1,427 |
| | Median annual electricity costs, 2017 | \$1,800 | \$840 | \$1,272 |
| SAVINGS AND ASSETS | Households without enough savings to cover 3 months of basic expenses, 2014 | 61.5% | 58.6% | 40% |
| | Median home sale price, 2018 | \$35,000 | \$47,500 | \$316,700 |
| | Available weeks, state unemployment insurance ⁴ | 20 weeks | 26 weeks | 26 weeks |
| DEBT AND CREDIT | Residential tax foreclosures, 2012 | 18,000 | 961 | - |
| | Residents with subprime credit | 62% | 45% | 30% |
| | Residents who filed for bankruptcy without a lawyer, 2008-2015 | 18.8% | 5.9% | 8.8% |

² Sources: ACS 2018 1 Year Estimates; Prosperity Now, 2018a; Cooney & Rivera, 2019; Ruggles et al., 2019; Prosperity Now, 2018d; Realcomp, 2018; Exner, 2019; MLPP, 2018; Akers & Seymour, 2019; Northeast Ohio Community and Neighborhood Data for Organizing, n.d.; Elliott et al.; Author analysis of ProPublica data, 2017.

³ Cleveland has a similar median income and poverty rate to Detroit, yet Detroit residents confront dramatically different financial realities, including high auto insurance and limited access to credit.

⁴ The federal CARES Act extends state unemployment insurance to 26 weeks, but only until December 31, 2020.

Introduction

Since declaring bankruptcy in 2013, Detroit has seen some signs of recovery, though the overall picture of financial health for Detroit residents is bleak. On one hand, home equity values have increased, foreclosure rates have declined, and the region continues to add jobs. However, mortgage lending is scarce, tens of thousands of Detroit homes remain at risk of tax foreclosure, and too many Detroiters lack access to well-paying jobs (Bureau of Labor Statistics, 2019; Bai et al., 2016; Quicken Loans, 2019; Gallagher, 2018). Over the past decade Detroit has held the dubious distinction of being the poorest large city in the country, with a poverty rate today of 30% (ACS, 2019). Many residents living above this poverty line also face material hardship, experiencing food insecurity or living in substandard housing (Rodems, 2019). And recent data find many Detroit households in serious financial trouble as a result of the economic impacts of the COVID-19 crisis.

These markers of disadvantage - as well as many others we find in news articles and research papers - partially portray the difficulties many Detroiters face in making ends meet. **In this report, we seek to synthesize these disparate data points to paint a comprehensive picture of financial health among low- and moderate-income Detroiters, so as to chart a path toward greater financial well-being for all.**

We wrote most of this report in the months leading up to the COVID-19 pandemic, and it provides a snapshot of the average Detroiters' financial prospects before the outbreak's economic effects emerged. We also share early data from the Detroit Metro Area Communities Study on how Detroit residents perceive the pandemic's impacts on household finances. We do not yet fully know how COVID-19's rapid economic shifts will affect the financial health of low- and moderate-income Detroiters, but it is likely that the pandemic will only make it more difficult for households to achieve financial stability. As policymakers, funders, and others continue to develop responses to the crisis, it's clear that we cannot aim for the pre-pandemic status quo.

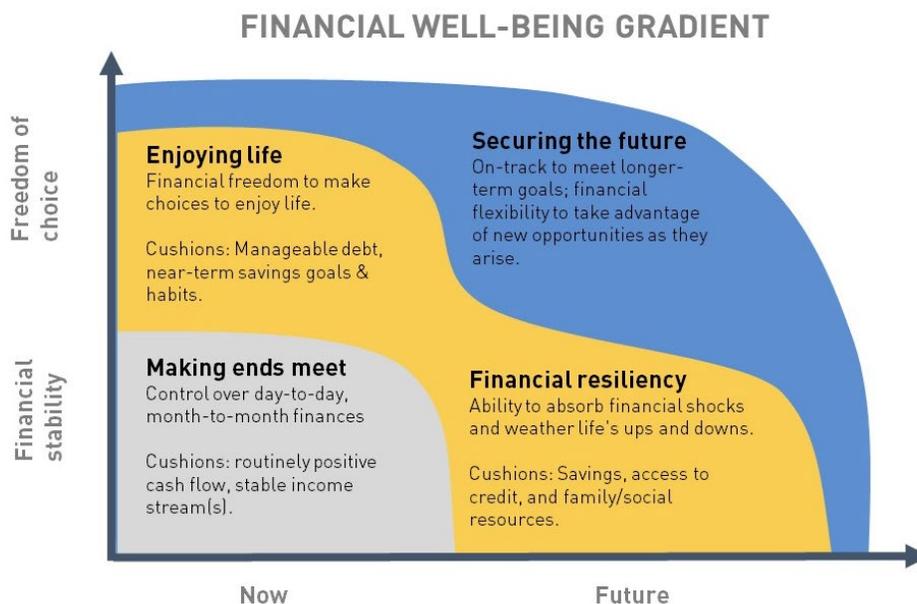
If an individual is financially stable, she has control over her short-term finances and can routinely make ends meet. Building from this foundation, she'll be able to absorb a financial setback without taking on unsustainable debt, can make financial choices to improve her life, such as investing in a new tablet or helping out a friend with a new business, and eventually may meet her long-term financial goals - key indicators of financial health (CFPB, 2015). **Both financial stability and financial health are linked with access to a set of financial cushions:** positive cash flow, sufficient savings, manageable debt, and a strong social network. These cushions enable households to live stably in the present and meet their financial goals in the future. (Figure 1) (Siwicki, 2019).

For many low-and moderate-income Detroiters, the necessary ingredients for financial stability and health are out of reach. Nearly a third of Detroit residents (32%) do not see themselves as financially secure, while nearly a quarter (24%) say they are in financial trouble (DMACS, 2019).⁵ Tens of thousands are unable to pay essential expenses on time or build savings, which leads to unsustainable debts, low credit scores, and difficulty maintaining assets and building wealth. This is related to the patterns of past and current racial discrimination and neighborhood disinvestment, which limit access to the very financial services and economic opportunities that influence financial stability, and in turn, well-being (CFPB, 2017b).

⁵ This survey was fielded in Spring/Summer 2019. By late July 2020, the proportion of residents reporting financial insecurity to DMACS increased by 6 percentage points, while the proportion reporting some financial trouble decreased by 3 percentage points.

This paper reviews available data to understand how Detroiters operate in this financial world and how they navigate spending, saving and borrowing. Our aim is to catalogue how financial stability and well-being elude the average Detroiters and identify preliminary state and local solutions to the issues we present.

Figure 1⁶



Cash Flow: Low and volatile incomes confront high costs

Low and unstable incomes plus high costs make it difficult to maintain the positive cash flow each month needed to ensure financial stability. For many families, it's just not possible to pay all bills on time and in full or cover basic living expenses, which can lead to serious hardship, such as living without running water or going without medical care. As one Detroit homeowner at risk of foreclosure put it, **“Right now, there are things I need just to live properly, but I can’t afford to pay to get things fixed or buy things I need.”** (Quicken, 2019: 22). In this section, we review recent data to show that low incomes, combined with the routine, and sometimes disproportionate costs of living in Detroit, precipitate financial instability for many Detroit households. We also offer ideas to boost incomes and reduce the high routine costs of living in the city.

Income: Wages, Benefits, and Self- Employment

Tens of thousands of Detroiters do not earn enough income to maintain positive cash flow each month. The United Way estimates that just 26% of households in the city earn enough to afford a basic household survival budget, which they set at \$74,796 for a family of four, and (United Way, 2019). Non-wage benefits also provide critical, but still insufficient income for many families. On average, Supplemental Security Income (SSI) benefits make up 76% of household income for the 36,000 Detroit households who receive them, yet these benefits do not provide a living wage (Ruggles et al., 2019). The maximum SSI benefit is \$783 a month for a single person, and in Detroit the median income for working age adults that receive

⁶ Framework adapted from: Consumer Financial Protection Bureau. (2015); Parker, S., Castillo, N., Garon, T., & Levy, R. (2016); Siwicki, J. (2019).

SSI is just \$12,702 (Ruggles et al., 2019; Social Security Administration, 2020). As for cash welfare, only a small proportion (4%) of households in the city receive Temporary Assistance for Needy Families (TANF) benefits at all (ACS, 2018), and their median income is \$9,191, far less income than one needs to live stably in the city (Ruggles et al., 2019). Low use of cash welfare in Detroit is in part due to the State of Michigan's limited use of the TANF program to fund cash assistance instead of other programs (CBPP, 2020).⁷

Detroit's low labor force participation rate also negatively affects citywide income levels: **35%, or an estimated 140,000 working-age Detroit residents, were not working or looking for work in 2017**, a much higher rate than in other Rust Belt cities like Cleveland (28.8%) or Pittsburgh (20.2%) (Holzer & Rivera, 2019). In addition to barriers such as lack of transportation and disability, this low labor force participation rate is in part related to low educational attainment: 54% of residents have a high school degree or less, and 55% of those who did not graduate are out of the workforce (Holzer & Rivera, 2019). Observers of the local labor market find that compared to the metro area, Detroit's relative lack of entry-level jobs, combined with the lack of regional transit needed to reach suburban entry-level jobs, plays an added role in keeping residents without college degrees out of the labor force (Coxen et al., 2015).



In addition to low incomes, **many Detroit families with low and moderate income experience income volatility, such that they cannot count on the same level of income month to month or year to year.** Although there is little research on income volatility in Detroit specifically, we can look to national research to understand how this troubling phenomenon likely plays out in the city. National survey data shows low-income families and those with a high school diploma or less are particularly likely to experience income volatility (Pew, 2017). Unpredictable scheduling is a major contributor to this phenomenon for low-wage and hourly workers. A worker who earns \$9.45 an hour who is typically scheduled from 9 a.m. to 2 p.m. may be sent at home at noon if sales lag, which means she may come up short at the end of the month. One national survey of workers found that vast majorities of both full-time and part-time workers with low wages experience fluctuating work hours (Lambert, Fugiel & Henly, 2014).

Some Detroiters deal with unreliable work hours or cash flow issues by taking on side jobs or starting entrepreneurial ventures. One in four Detroit residents considered themselves self-employed in early 2019 (DMACS, 2019). When asked what motivated them to go into business, some entrepreneurs in the Detroit region cite the desire to control their own schedules and the need to rebound from an economic setback (New Economy Initiative, 2018; Hui et al., 2018). Others see starting up a business as a way to provide a cushion against a future layoff, or to overcome challenges to obtaining a job, like health problems or involvement with the criminal legal system (Hui et al., 2018).

While it is encouraging that thousands of Black, Latino and Asian entrepreneurs own businesses in the city, they are disproportionately more likely to own smaller businesses and pay more for access to capital, due in part to systemic conditions. **In 2012, just 2.8% of the estimated 50,000 Detroit firms owned by people of color had employees, compared to 45% of firms owned by whites** (U.S. Census, 2015). New businesses owned by Black and Latino owners are more likely to be discouraged from applying for loans and more likely to have their applications denied by banks, compared to white owners (Bates & Robb,

⁷ In 2017, the State of Michigan spent just 6% of its TANF budget on basic assistance, compared to the national average of 21%. (CBPP, 2020).

2015). And when they do get bank financing, Black and Latino owners pay more in interest and receive less capital than similarly situated white owners (Bates & Robb, 2013). Detroit entrepreneurs have increasingly fewer banks to approach in the first place, due to the closure of nearly 16% of banks in Wayne County over the past decade (NCRC, n.d.). Further, it's likely that local entrepreneurs have limited capital from personal networks or retained earnings to draw on when supporting a new or growing business (Hoffman, 2018).

Though self-employment and micro-entrepreneurship offer the potential for Detroit residents to better control their own wage-earning prospects, this form of income can also be a source of wage volatility. An analysis of national Survey of Income and Program Participation data found that over half of adults in low-income households with self-employment income experienced an income dip or spike in at least eight months of the year, compared to less than one-third of adults in low-income households without self-employment income (Maag et al., 2017).

Unstable earnings can also lead to inconsistent non-wage cash benefits, in both positive and negative ways. The Earned Income Tax Credit provides a surge of much needed income at tax-time for low income families, but because it is income-based, the amount received can change significantly year to year (Aspen Institute, 2016). In addition, the "benefit cliff phenomenon," which sees workers lose benefits for a marginal increase in income, is also a cause of non-wage income volatility (Aspen Institute, 2016). In Michigan, families experience this within the childcare subsidy system, where additional earnings can lead to an abrupt drop in benefits. Further, households who see an income increase in one month may see the reduction of critical Supplemental Nutrition Assistance Program (SNAP) benefits in the following month, even if the wage increase was a temporary spike. One study tracking families with young children in this situation found that reduced benefits were associated with greater odds of poor health and increased food insecurity (Ettinger de Cuba et al., 2019).

Expenses: Costly Basic Needs and Barriers to Bank Access

Positive cash flow is partly about having steady income in the door, but is also a function of how much money goes towards basic expenses. **Living in Detroit on a low or moderate income often means juggling unaffordable, unavoidable expenses, and dealing with the consequences of going without basic needs.**

Rent: Many renters spend an outsize percentage of their monthly income keeping a roof over their heads, and risk late fees or eviction if they cannot pay. Despite paying low rents compared to other cities, Detroit renters experience significant affordability challenges: **Half of the city's renter population (72,000 households) spends 30% or more of their income on rent, while 27% (38,500 households) spends 50% or more of their income on rent** (ACS, 2018). For the 17,600 residents who live in subsidized housing, rent costs on average just \$341 per month, due to HUD regulations limiting rent to 30% of income (U.S. HUD, 2019). In Detroit, as across the nation, demand for federal housing vouchers far outstrips supply. In 2015, 40,000 people entered the lottery for Section 8 housing vouchers, despite the availability of just 7,000 waitlist spots (Abbey-Lambertz, 2020).

Detroiters who cannot keep up with rent, or those who withhold payments to pressure negligent landlords, are threatened with evictions at high rates. According to analysis from The Detroit News, **1-in-5 Detroit rentals face eviction cases in court every year**, an average of 26,400 properties annually between 2009 and 2017 (MacDonald, 2017). An estimated 4 to 5% of renters have legal representation in these proceedings, which makes a favorable ruling extremely difficult to secure (MacDonald, 2019). Data from the Detroit Metro Area Communities Study finds that 13% of Detroit residents (nearly 35,000 households)

experienced an eviction in 2017 (DMACS, 2017). Women, particularly single mothers, are disproportionately evicted compared to men, due to a combination of factors, including their lower incomes and their need for larger, more costly apartments to house their children (Desmond, 2012). After eviction, renters have negative marks on both their credit scores and rental histories, and must pay costly storage fees or face the loss of valuable assets (Desmond & Kimbro, 2015).

Homeownership: While owning your own home may strengthen long-term financial stability, for thousands of low- and moderate-income Detroiters, **homeownership means facing constant and unaffordable costs, due to the high price of home repairs, loans, and property taxes.**

- **Home repairs:** The median Detroit home is 73 years old, and many need serious repairs (ACS, 2018). Per one estimate, 14,825 to 33,413 occupied homes in the city are moderately or severely inadequate, with common issues including weak foundations, roof leakage and inadequate heating (Ruggiero, Rivera, & Cooney, 2020). For many of these homes, costly repairs are necessary for household health and safety, not an investment for the sake of improved property value. In her study of 45 low- to moderate-income women in Metro Detroit, U-M Associate Professor Kristin Seefeldt notes, “Most of the homes owned by the women in the study were in some state of disrepair or in need of updates on important and expensive features like furnaces and roofs, so these families were pouring more money into homes that were already declining in value.” (Seefeldt, 2016, p. 96).
- **Property taxes:** Compared with the largest cities in each state, **Detroit has the second highest effective property tax rate** (Lincoln Land Institute, 2015). A Detroit resident with a home worth \$30,000 had to pay \$2,087 in property taxes based on 2017 rates (Michigan Dept. of Treasury, 2018). Until the City of Detroit completed a comprehensive reassessment of property values in 2017, many residents were paying taxes beyond the true value of their properties. Today, many low- and moderate-income homeowners are still paying back taxes assessed at these rates, though the Pay as You Stay Program, signed into law in March 2020, offers certain residents the opportunity to reduce their unpaid tax burdens. In 2019, an estimated 14,000 Detroiters were on tax payment plans with Wayne County (Cwiek, 2019).

To help reduce residents’ current tax obligations, the City of Detroit’s Homeowner Property Tax Assistance Program (HPTAP) allows eligible homeowners to either eliminate or reduce their property tax payments. Yet, as uncovered by recent Poverty Solutions research, this exemption program is too often inaccessible to homeowners due to challenges obtaining, completing, and submitting the application—or simply knowing it exists (Eisenberg et al., 2018). **In their survey of 105 Detroit homeowners who sought help at the United Community Housing Coalition, researchers found 70% had never applied for the exemption program before** (Eisenberg et al., 2018).

There are so many opportunities to mess up and get disqualified [for the exemption]...It’s just so difficult. I’m handicapped and poor—that just makes it more difficult. Every year they add something tricky [to the application].

A Detroit homeowner, as quoted in Eisenberg et al., 2018, p.9.

- Land contracts are agreements to purchase a house or building, paid in installments to the seller, plus interest or fees. **While billed as a tool for renters who cannot access mortgages in Detroit's depressed housing market, some land contracts come with hidden costs, leaving buyers in financial distress.** Land contracts can place a heavy financial weight on buyers, who must juggle down payments and interest rates as high as 11% (Akers & Seymour, 2019). In addition, buyers are responsible for maintenance, utilities, insurance, and repairs. Since state law does not require sellers to have homes appraised or disclose past debts, buyers may be walking into uninhabitable homes in need of costly repairs or that have thousands of dollars of debt in outstanding water or tax bills (Kurth, 2016; Atuahene & Berry, 2018). For a significant number of buyers, owing both current and back taxes on land contracts is untenable. A Bridge Magazine sample of 200 land contracts found that 20% were foreclosed in 2017 due to tax debt, while another 7.5% were tax delinquent (Kurth, May 2017).

Beyond taxes, if buyers miss a contract payment, they can be evicted and lose all the money spent on repairs, back bills, and installment payments (Akers & Seymour, 2019). Though some land contracts offered by non-profit organizations serve lower-income buyers well, contracts sold by for-profit entities too often don't work that way.

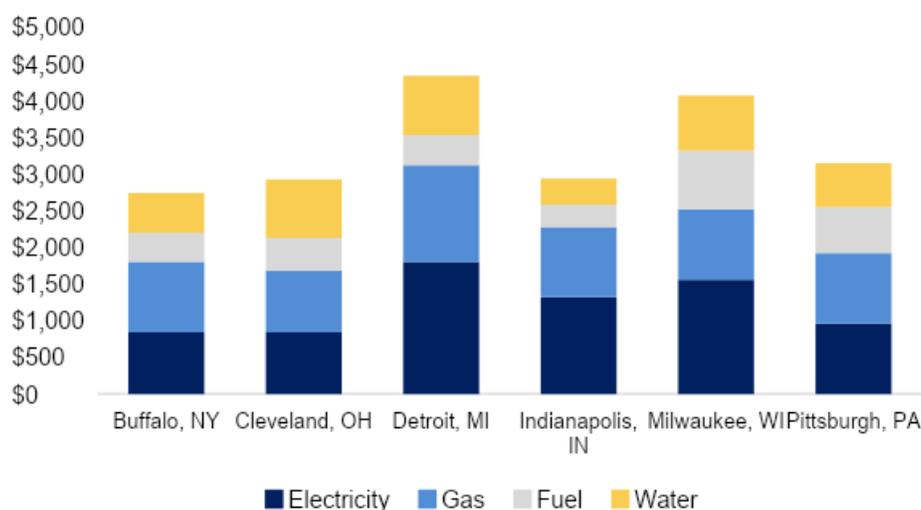
- Mortgages: Most Detroit homeowners do not have mortgages, but for a significant portion of mortgage holders, monthly payments are not affordable. When combined with property taxes and insurance, 4-in-10 Detroit homeowners with mortgages must spend 30% or more of their income on owner costs (ACS, 2018). In addition to low incomes, this high cost burden may stem from racial disparities in access to financial products. In their 2005-6 study of low and moderate income households in the Detroit metropolitan area,⁸ Michael S. Barr, Jane Dokko, and Benjamin J. Keys found that within similar low-income neighborhoods, Black homeowners paid higher interest rates and were more than twice as likely to have prepayment penalties or balloon payments than non-Black owners (Barr, Dokko, & Keys, 2012c).

Utilities: For both owners and renters, the high cost of utilities makes it challenging for low-and moderate-income Detroiters to stay in the black each month. **The median resident pays over \$1,000 more in annual costs than residents in Buffalo, Cleveland, and Indianapolis** (Figure 2), in part because electricity and water rates are higher in Detroit than these peer cities. DTE, for example, charges customers 15.63 cents per kilowatt hour, which is higher than the price of electricity in Buffalo, Cleveland, Indianapolis, and Milwaukee (U.S. Energy Information Administration, 2018). While water prices have remained mostly flat in Buffalo, Detroit's water prices have doubled over the last eight years, in large part due to the need to maintain aging infrastructure despite a shrinking customer base (Zamudia & Craft, 2019). **On average, low-income metro area residents pay 10% of their income for water, which is more than double what is considered an affordable rate (4.5%)** (Rockowitz et al., 2018).

⁸ We refer to this survey as the Detroit Area Household Financial Services study (DAHFS) throughout. Though the geography and time period of the DAHFS study differs somewhat from Detroit as of the latest ACS data, key demographic indicators of the study align with Detroit today. The poverty rate of households in the sample (33%) is the same as Detroit's 2018 poverty rate, per the American Community Survey. The percentage of DAHFS respondents with less than a high school diploma (29.6%) is slightly higher than in Detroit (22%, ACS, 2018), and the unbanked rate in the study is 23%, nearly equal to rate reported by DMACS in 2019 (24%) (DMACS, 2019). For a full description of the study design and respondent demographics, see Barr, M. (2012).

Figure 2

Median Annual Utility Costs, 2017



Source: Ruggles, et al., 2017

Facing high prices and low incomes, thousands of Detroit households have lived through the disruption of utility shutoffs. According to the Detroit Metro Area Communities Study (DMACS), a representative survey of Detroit residents, 10% of Detroiters reported an electricity shutoff in the past year because they could not afford to pay the bill, and 6% reported a gas or heat shutoff (DMACS, 2018). And from 2014 to 2017, the city saw more than 101,000 residential water shutoffs (Kurth, December 2017), though shutoffs are on the decline and have been temporarily halted due to the COVID-19 pandemic. Detroiters are seeking help by the thousands, taking advantage of programs like the Wayne Residential Water Assistance Program (WRAP) and the Human Utility Project. Yet these programs do not fully address the affordability gap. The vast majority of households on WRAP still reported paying unaffordable rates for water service, with bills as high as 20% of monthly income (Rockowitz et al., 2018).

Due to 2018 changes to the Detroit Water and Sewerage Department’s drainage fee calculation process, some homeowners will see smaller water bills, but others with “larger than average roofs and longer driveways” will end up further burdened by water costs (City of Detroit, 2019). As for electricity bills, recent news that DTE Energy plans to increase its rates yearly through 2022 means that—holding incomes constant—Detroiters’ energy bill obligations could get worse, not better (Matheny, 2019).

Transportation: On average, car insurance premiums in the city cost \$5,414 per year, which represents 18% of the median household’s pre-tax income.⁹ In Cleveland, auto insurance costs residents just 4% of pre-tax income (Cooney et al., 2019). Detroit police estimate that 60% of Detroit drivers they stop make do without insurance, risking license suspensions, fines, and even jail time (Reindl, 2017). Further, poor road conditions cost city residents an average of \$824 a year in vehicle operating costs including repairs and tire wear (TRIP, 2019). As for public transit, the cost of getting around just

⁹ On July 2, 2020, new state legislation expanding auto insurance options went into effect, which offers residents the opportunity to opt-in to lower cost coverage.

increased significantly for some riders. New DDOT fares instituted in May 2019 increased the cost of a base fare by 33% for single-trip riders. For riders who transfer from DDOT to the regional bus line, however, the new system saves \$2.50 per work week.

60

% OF DETROIT DRIVERS STOPPED BY POLICE LACK AUTO INSURANCE

Child Care: Child care represents yet another high, recurring cost that strains family budgets each month. 30% of families with children ages five and under surveyed by Hope Starts Here reported financial stress due to childcare access challenges, while 23% of respondents said they cut hours or turned down a job due to child care costs (Hope Starts Here, 2017). **Center care for an infant and 4-year-old in Michigan costs, on average, \$19,281 a year, just over 2.5 times average annual rent in the city (Sorenson, 2019; ACS, 2018).** To initially qualify for child care assistance, a family cannot make more than 130% of the federal poverty level, which equates to no more than \$26,556 a year for a family of three (MDHHS, 2017). Although Michigan’s eligibility threshold has increased since 2016, it is still low enough to exclude nearly half of families with young children at home in Detroit (ACS, 2018). Of course, not all families who qualify for subsidized child care can access it. According to recent interviews with parents and informal caregivers in the city, many are unaware of state child care assistance options, and some hesitate to apply due to fear of government interference or a perception that the application is too difficult to be worth it (Hossain, et al. 2017a).

“My overhead is just, well last month, when I didn’t pay the mortgage, we have exactly \$104 left over. And that’s because I didn’t pay the mortgage. Usually I’ll have about \$18 left for the whole month. That’s for the toilet paper, that’s for the gas, that’s for anything that the food stamps don’t cover.”

Geneva, a Detroit homeowner with an average annual income of \$17,000, as quoted in *Abandoned Families* (Seefeldt, 2016, p. 161.)

Banking: Owning a bank account is a critical indicator of overall financial health, but with low and volatile incomes, thousands of Detroit households opt out of mainstream banking. According to a Prosperity Now analysis of national FDIC data, **nearly 1-in-5 Detroit households are unbanked (18.3%), having neither checking or savings accounts**, more than double the unbanked rate in Warren (7.4%) and three percentage points higher than high-poverty Flint (15.8%) (Prosperity Now, 2018a).¹⁰

Two-thirds of households without bank accounts in the Detroit Area Household Financial Services study cited primarily financial reasons for their situation, including lack of funds to start or maintain a bank account, high fees, bad credit, or unemployment (Barr, 2012). Metro Detroit area residents without bank accounts were less likely to be employed, had lower household incomes and were more likely to live in poverty than residents with bank accounts (Barr, 2012). In addition, even households that can afford to bank may not qualify for mainstream bank accounts due to a history of inactivity or bounced checks – all factors related to income. Nationally, one-quarter of banks will automatically reject a client’s application to open a bank account if they have a negative mark in ChexSystems, a screening tool used by banks to select potential customers (Dove Consulting, 2008).

¹⁰ DMACS data puts this figure slightly higher, at 24% of the adult population (DMACS, 2019). For low-income families, being banked or unbanked is not a fixed, lifelong financial state; it is likely that Detroiters move between having and not having a bank account depending on their financial situations.

Income plays a major role in the unbanked rate, but Detroiters may also experience racial discrimination within the banking system that results in unequal access to financial products. A recent national analysis found that **in white neighborhoods, the minimum balance required to avoid fees was \$625.50, compared to \$748.80 in majority-Latino census tracts and \$870.50 in majority-Black census tracts** (Faber & Friedline, 2018). Further, a recent study of financial services employees in Southeast Michigan found that their banking interactions displayed a pattern of racially and class-biased decision-making, such as refusing to reverse overdraft fees for poorer customers, or asking non-whites for additional forms of identification (Friedline et al., 2020). Per the authors, “Frontline financial service employees wielded discretionary power in these customer interactions in ways that discouraged or prevented poor and/or non-white customers from equal banking access” (Friedline et al., 2020).

Instead of using mainstream banks or credit unions, many households use alternative financial services (AFS) like check cashing and money orders, which do not offer much to help consumers accumulate assets and establish a documented credit history (Sawyer & Temkin, 2004). Although AFS are well known for their high costs, these services may not cost the median user a large amount of money in absolute terms. According to estimates from the DAHFS survey, the median total annual dollars spent on AFS was \$130 in 2019 dollars (Barr et al., 2012a). Check cashers, for example, charge from 1 to 4% of the value of the check (FDIC, 2009), which for someone earning \$15,000 equates to spending between \$5.75 and \$23 per check cashed. Paying check cashing fees may be a better deal for some than incurring balance maintenance fees at a mainstream bank, which can cost up to \$12 a month, plus overdraft fees which are typically \$35 per transaction. Overall, neither alternative financial services nor mainstream banking system offer sufficient options to low- and moderate-income families dealing with low and volatile incomes.

For many Detroit households, living in the city means facing unaffordable costs, from auto insurance to the price of homeownership. Many residents spend to the edge of their limited incomes on basic needs, while paying bills partially or too late, and thus cannot maintain financial stability in the short term. **19% of households, an estimated 50,000, said they do not have enough money to make ends meet at the end of the month, while 37% said they have just enough.** (DMACS, 2019). The COVID-19 pandemic exacerbates this financial precarity: in early April 2020, when asked to rate their chances of running out of money in the next three months, residents on average put their chances at 53%, yet residents earning \$10,000 or less put their chances at 66%. In the next two sections, we explore how difficulties making ends meet limits the average household’s ability to save, while fueling unsustainable consumer debt throughout the city.

Ideas for Action: Promoting Positive Cash Flow and Affordable Banking

Boosting Income

- A municipal subsidized jobs program designed to rapidly connect disadvantaged workers with low-barrier to entry jobs and wraparound supports. For a full discussion of subsidized jobs, see Warland and Young, 2019.
- Work with large employers to promote core hours, wherein part-time workers are guaranteed pay for a minimum number of hours a week, even if they are sent home for lack of sales. Some states, including Rhode Island and New Jersey, mandate show up pay for certain industries (CLASP et al. 2014).
- Increase the state Earned Income Tax Credit rate to 2011 levels, or 20% of the federal rate. This measure could give eligible families in Wayne County an additional \$500 a year (Betz, 2020).
- Grow programs like the Family Independence Initiative, which connects residents with peer support and no-strings-attached grants to help maintain positive cash flow and invest in their economic mobility goals.
- Develop new programs, or better target existing programs, to help residents build more stable and profitable side businesses. Upcoming research supported by Poverty Solutions will evaluate to what extent existing microenterprise development programs drive wealth creation and upward economic mobility in the city.

Reducing Expenses

- Increase affordable housing units for low and very low-income households. Washington D.C.'s locally-led program offers rent subsidies to families who earn below 30% of area median income; Boston plans to implement a similar program.
- Ensure residents know how to take advantage of expanded auto insurance options, which went into effect July 2, 2020.
- Establish income-based water rates, following the example of the City of Philadelphia. Guarantee water shutoff protection for households with seniors, children, and those with serious health conditions (Rockowitz et al., 2018). Make permanent the water repair programs, created during the pandemic, which cover plumbing repairs for low-income residents without water.
- Consider expanding reduced DDOT fares for low-income bus riders, similar to existing programs in Kansas City, Cincinnati, and Chicago.
- Fully fund eviction diversion programs and provide renters facing evictions with legal representation. Only 3 to 5% of Detroit tenants with eviction cases were represented by lawyers in 2017 (Kurth, 2019). Another model, implemented in Boston by the non-profit HomeStart, pairs renters with housing advocates, who provide case management services and negotiate directly with property owners to work out agreements.
- Increase regulatory framework around land contracts, by for example, requiring land contract sellers to disclose past due debts and inspection results to buyers (Hedman & Pendall, 2018).

Ideas for Action: Promoting Positive Cash Flow and Affordable Banking, continued

Promoting Affordable Banking

- Design better financial products with low-income customers' needs in mind: when asked what would entice them to open a bank account, unbanked respondents wanted lower fees (29%), less confusing fees (16%), and more convenience (20%). (Barr, 2012).
- Publicize which banks in Detroit meet Bank On National Account Standards, which prioritize offering low minimum opening deposits, low maintenance fees, and zero inactivity fees (CFE, 2019). Encourage local banks to follow San Francisco's model, which mandates that Bank On participants must open accounts for those with ChexSystems histories that are over 1 year old (Bank of San Francisco, n.d.).
- Banks and credit unions could limit denying a bank account only to individuals with a history of fraud, instead of those with a history of overdrafting. After denying an account opening, financial institutions should also provide consumers with a ChexSystems report so consumers can scan for inaccuracies (Wu & Plat, 2015).

Savings and Assets: Difficulties setting aside limited resources and building wealth

On the road to financial well-being, households need to leverage savings to absorb financial shocks and make investment purchases. But as we explore in this section, limited disposable income leaves many Detroiters unable to save significant amounts each month for either short- or long-term needs. Assets also protect and strengthen household financial prospects, yet flawed markets and systemic roadblocks limit the average resident's ability to fully benefit from the promise of these financial tools.

Saving struggles, despite desires to build a cushion

Liquid savings provides individuals a reserve to cover short-term expense spikes and helps them avoid taking on further debt. According to the Urban Institute, families with even a small amount of non-retirement savings, between \$250 and \$749, are less likely to be evicted or miss a housing or utility payment after income disruptions than families with lower savings (McKernan et. al, 2016). Savings matter, regardless of one's income level: the authors found that low-income families with savings of \$2,000-4,999 were less likely to experience a serious hardship after an income drop than middle-income families without savings (McKernan et al., 2016).

Yet considering the pressures of keeping up with expenses and debts on low incomes, many low- and moderate-income Detroiters lack sufficient savings cushions. According to Prosperity Now, 6-in-10 Detroit households did not have enough liquid assets to sustain themselves at the poverty level for three months without income (Prosperity Now, 2018d). **The vast majority (85%) of low- and moderate-income families in the DAHFS survey said it was hard to save because their money goes to necessities**, while a smaller, but significant proportion (64%) said temptation to spend made it hard to save (Barr, 2012). Almost half of all DAHFS respondents reported never contributing to savings (Barr, 2012). Bank availability also affects how families perceive savings.

45.9
% OF METRO DETROIT
RESIDENTS NEVER
CONTRIBUTE TO SAVINGS

Researchers Terri Friedline, Mathieu R. Despard and Stacia West find that for the lowest-income families, living in communities with a higher concentration of banks versus alternative financial services is associated with a 16% increase in one's self-perceived ability to meet long-term savings goals (Friedline et al., 2017a).

In spite of these barriers, we know some households in Detroit area do manage to save, though there are clear income differences. When asked how they would pay for an emergency \$400 expense, 35% of Detroiters who earn \$30,000 or less annually said they would use funds in their checking or savings account; by contrast, two-thirds of Detroiters earning \$50,000 or more annually provided the same response (DMACS, 2020). **The savings behaviors of most lower-income Detroiters have shifted in response to the COVID-19 pandemic. In April 2020, nearly one-third of residents with incomes below \$30,000 reported that they are saving less money, while 40% of these residents said they were saving more money,** perhaps in anticipation of future income shocks (DMACS, 2020).

Households without bank accounts save too, of course, but because they have lower incomes than banked households, save lower amounts and at lower rates. On average, metro area households without bank accounts managed to save \$1,263¹¹ in 2005, compared to \$3,760 for banked households (Barr, 2012).¹² Nationally, the majority (66%) of individuals without bank accounts save by keeping money at home or giving it to family and friends (FDIC, 2017). This is a risky strategy, according to researchers: "Without the help of a financial institution, their savings are at risk (including from theft, impulse spending, and the needs of other households members), will grow more slowly, and may not be readily available as an emergency cushion or to support access to reasonably priced credit in times of need." (Barr, Mullainathan and Shafir, 2012).

Limited retirement savings point to importance of Social Security

Based on national trends, the average Detroit worker may not be saving enough for retirement, and as a senior will rely heavily on Social Security income earned while working. Across the country, people of color typically have lower earnings, less inherited wealth, and fewer assets to rely on in building retirement wealth when compared to non-Hispanic whites (Veghte, Schreur & Waid, 2016). Nationally, **just 41% of Black families and 26% of Hispanic families have retirement account savings, compared to 65% of non-Hispanic white families** (Morrissey, 2016). Given lower median incomes in Detroit compared to the nation, the proportion of families with retirement savings in the city may be even lower than national averages. Only one-third of workers earning less than \$25,000 a year have access to an employer-based retirement plan, while just under one-third of workers nationally with less than a high school education had access to these benefits at work (Pew Charitable Trusts, 2016).

Structural conditions have also hurt retirement prospects for thousands of former City workers. In 2013, Detroit's unprecedented municipal bankruptcy took a major toll on city workers' retirement savings. The bankruptcy plan cut base pension benefits by 4.5% on average for workers in the general retirement system, eliminated cost-of-living adjustments, and required retirees under 65 to pay for their own health care (Tompson, 2018).

¹¹ Both estimates are provided in 2019 dollars.

¹² Per The U.S. Financial Diaries, which tracked account data from 235 low- and moderate -income households nationally, measuring annual savings at a point in time might miss the significant deposit and withdrawal activity that goes on in households' savings accounts throughout the year, and undercount just how much low- and moderate-income families save on a regular basis. (Morduch et al., 2015).

Income or expense swings can also significantly undermine household retirement savings. Having a savings buffer of \$400 makes people of all income levels less likely to tap into their retirement accounts, but as discussed previously, this is difficult for low-income individuals (Stark, 2018). **Nearly 1 in 10 Detroiters reported borrowing from or cashing out a pension, retirement or life insurance policy in the last year** (DMACS, 2019). Some Detroit households use retirement as a form of savings account, drawing down their reserves to fund home repairs or business ventures (Poethig et al., 2017; Seefeldt, 2016), yet using retirement assets this way is more costly than drawing on a typical savings account, since a worker may be withdrawing her funds at a market loss, or have to pay early withdrawal fees.

Among workers without access to employer-sponsored retirement benefits, most retirement savings is done through mandatory Social Security contributions (Barr, 2012; Veghte et al., 2016), which unlike other forms of retirement saving is not vulnerable to early withdrawal. As such, researchers point out that the racial wealth gap for Social Security contributions is much smaller than the gap in individual retirement accounts and pensions (Veghte et al., 2016). Today in Detroit, thousands of seniors rely on this crucial benefit accrued after years of hard work. According to our analysis of American Community Survey data, **on average, Social Security provides 57% of Detroit seniors' income, while retirement savings provides only 21%** (Ruggles et al., 2019).

Insurance: Protections cannot fully mitigate financial shocks

Although insurance is an essential financial cushion, many Detroiters are not able to fully rely on appropriate protections, which can be risky, and undermine overall household financial health.

- *Homeowner's insurance* is difficult to purchase locally, leaving many homeowners to pay exorbitant rates for substandard coverage or take the significant risk of going without. Insurers will not provide coverage to homes in need of significant repair, which means a large share of Detroit's aged housing stock may be uninsured. In addition, the City's anemic mortgage market likely affects the insurance market, since with few buyers of mortgage and insurance bundles, sellers lack incentives to offer affordable products.
- *Unemployment Insurance* is designed to help smooth consumption after a layoff, but Michigan's UI system provides much less than Detroiters may need. **Thirteen percent of employed workers in Michigan work in jobs not covered by unemployment insurance**, which is the highest coverage gap among Midwestern states (Michigan League of Public Policy, 2018). Compared to peer states, Michigan provides both the fewest weeks of benefits and the lowest maximum benefit (MLPP, 2018).¹³

Further, some low-wage and/or part-time workers who have been laid off do not make enough to meet the minimum threshold for wages earned. In Michigan, workers must have earned at least \$3,589 in a previous quarter of their claim period, while also having wages in two quarters (Michigan Unemployment Insurance Agency, n.d.). Per Michigan's requirements, if you worked at the state's \$9.45 minimum wage for 20 hours a week, for one quarter, you would likely not be eligible for UI. By contrast, in Iowa, part-time, minimum-wage workers have a better shot at qualifying for UI, where the qualifying requirement is \$2,490 over two quarters (Iowa Workforce Development, 2019).

Even if you are a covered worker, the benefits from unemployment insurance are never guaranteed, since benefits hinge on employer cooperation, which may not come quickly, or at all (Seefeldt, 2017).

¹³ While the CARES Act passed in response to the COVID-19 pandemic expanded unemployment benefits for many workers, including adding extra weeks of coverage, these changes are not permanent.

Upon applying for UI, some workers also experience delays for other reasons, including clerical errors or fraud investigations, that amount to significant barriers to benefits receipt. In addition, Black workers and workers with a high school diploma or less are more likely than other groups to think they are ineligible for UI, and thus apply at lower rates (Shaefer & Gould-Werth, 2012).

- Health insurance is one major asset the vast majority—92%—of Detroit households have access to, due in large part to Michigan’s Medicaid expansion (ACS, 2018). This widespread coverage, however, does not seem to provide needed financial security. Thirty-two percent of Detroit residents have medical debt in collections, compared to only 22% of Cleveland residents and 19% of Buffalo residents (Elliott et al., 2016). Nearly one-third of Detroiters say they are worried they would not be able to pay for medical bills after sickness or an accident (DMACS, 2018).

At its best, insurance should enable individuals to afford basic expenses and “protect asset accumulation while also preventing or minimizing cascading shocks” (Barr, 2012: p.6). But flawed insurance markets and insufficient coverage make it difficult for households to fully benefit from insurance products, and can put Detroiters in risky financial situations, as one woman’s story following a job loss highlights:

While Sharon was waiting for her dispute with the unemployment office to be settled, she spent all but \$300 of her once-flush savings account. She sold off some of her possessions and eventually cashed out her 401K retirement fund when her unemployment benefits ran out. When those funds were exhausted, her parents liquidated part of their retirement investments and loaned the money to her (Seefeldt, 2016, p. 142).

Asset building proves difficult, but not impossible for Detroiters

In addition to building financial assets like savings and insurance, the ability to maintain material assets is central to household financial health. In 2017, between 63 and 76% of Detroit households had access to at least one vehicle at home (DMACS, 2017; ACS, 2017)¹⁴. Due to the vast dispersion of jobs throughout the region, cars are not only an asset but also serve as a “financial lifeline” for working families (Seefeldt, 2016). As for other assets, some households surveyed by the DAHFS maintained investment assets (17%) and jewelry or electronics (15%), while 30% had life insurance (Barr, 2012). Yet for the thousands of households who are evicted in Detroit each year, it is extremely difficult to hold on to large assets like furniture or electronics, since they may be lost, left behind or stuck in storage amid the rapid disruptions of housing instability (Desmond & Kimbro, 2015).

Due to the systemic and racially-biased failures of the home lending and property tax systems, tens of thousands of residents have lost their homes (Ashton, 2010; Akers & Seymour, 2019). Between 2005 and 2018, the County foreclosed on an estimated 135,000 Detroit properties due to unpaid taxes (Quicken, 2019), while firms completed more than 70,000 mortgage foreclosures between 2005 and 2013 (Seymour, 2016). **From 2007 to 2018, Detroit shifted from majority-homeowner (56%) to majority-renter (47%)** (ACS, 2007; ACS, 2018).

Many homeowners in Detroit may not consider their homes a valuable asset, due to years of depressed property values. Among homeowners with high debts and low credit scores, current home repair grant and loan options are often inaccessible, which leaves owners unable to make needed improvements that could bolster property values (Ruggiero & Rivera, 2020). Despite these continuing challenges, property values and home sales have increased in recent years, improving the financial prospects of Detroit’s homeowners:

¹⁴ Both surveys ask this question slightly differently.

- After hitting a low of \$9,575 during the Great Recession, the median home sale price in Detroit has increased for most of the last decade, reaching \$43,063 in 2019 (MacDonald & Betancourt, 2020; Reindl, 2020).
- 90% of neighborhoods in Detroit saw assessed property values increase between 2018 and 2019 (City of Detroit, 2018 January). The share of households for which the property value is less than the amount owed has continued to decline after peaking in 2012 (Bai et al., 2016). While increased property values are positive for some homeowners, including those who want to sell or get a loan, increased property values also lead to higher property taxes.
- In 2018, Detroit saw 1,300 mortgage originations, an increase of 432% since 2012 (Noble, 2019). Most buyers continue to purchase homes in cash, however, which indicates in part that many Detroiters still cannot qualify for typical home loans (Bai et al., 2015).

According to analysis from Bridge Magazine, there are troubling racial disparities in how Detroiters have been able to build housing assets in recent years. In 2017, Black homebuyers received 48% of all mortgages, though Black residents comprised 80% of the city's population in that year. Yet white home buyers received 44% of all mortgages in 2017, despite representing 15% of the city's population (Wilkinson, 2019; ACS, 2017). However, more than two-thirds of recent land bank sales have been to Black buyers, an indication that lack of access to loans, rather than a lack of interest in homeownership, may keep many Black Detroiters out of the traditional housing market (Wilkinson, 2019). Thus, it is encouraging that many stakeholders in Detroit are aligning efforts toward homeownership promotion, offering counseling, land contracts, and other tools to residents interested in building wealth through homeownership.

Due to limited incomes and market conditions, low- and moderate-income Detroiters struggle to maintain savings and build assets, which limit the possibilities for households trying to plan for the future or take advantage of business and education opportunities. In the short-term, lack of savings leaves thousands of individuals at risk of financial trouble if faced with an emergency car repair or an unexpected medical bill. As discussed, this can further undermine a worker's ability to protect her retirement savings, and can take a toll on her extended network's finances. In the next section, we explore to what extent households, lacking surplus income or savings, use credit and take on debt to make ends meet.

Ideas for Action: Promoting Savings and Asset Building

Savings and Retirement

- New financial technology tools are available to help individuals manage savings: *Digit* and *Albert*, for example, automatically move small amounts of money into savings while allowing users to transfer funds back to checking in one business day (McKay, 2017). *Albert* also allows individuals to borrow \$100 from their next paycheck, with no interest charged. Promoting these tools locally may help families find new ways to save.
- Larger employers should explore creating new earmarked savings tools for workers, such as automatically moving forfeited paid time off into emergency savings, or developing an employee hardship fund, which offers easy access to funds and helps employees protect retirement assets (Bahl, 2020).
- Matching programs and savings incentives encourage families to save while directly contributing to asset building. Compass FSS offers financial coaching and savings matching to housing voucher recipients, resulting in increased earnings and debt reduction (Dastrup, S., et al., 2017). Locally, Wayne Metro offers an Individual Development Account to clients; a funded expansion would broaden the impact of the program.
- Detroit could follow a model created by Seattle, which has a “city-facilitated, privately-administered” retirement savings plan for workers without access to employer-based benefits (SCERS, n.d.) At the state level, Michigan could create a statewide program, or partner with other states in the region to create a retirement-savings account consortium, similar to what’s already in place to offer savings account to individuals with disabilities through the ABLE Act (Antonelli, Iwry & John, 2019).

Insurance and Asset Building

- The COVID-19 pandemic sparked several needed changes to Michigan’s unemployment insurance system, such as the inclusion of gig and self-employed workers for the first time. Lawmakers are working on making these and other critical changes permanent, including an extension of weekly benefits to 26 weeks and an increase of the weekly maximum benefit (Roberts, 2020).
- To help homeowners boost property values, expand home repair options for homeowners with low credit scores and high debt. Other cities, including Cleveland and Louisville, offer repair programs for individuals with low credit scores, as well as deferred loans for health and safety repairs. With accessible home repair options, more homeowners may be able to access insurance and rebuild property values.
- Utilize subsidies or incentives to encourage non-standard insurance companies to enter Detroit’s homeowner’s insurance market.
- Increase investments in shared equity homeownership models, including community land trusts and housing co-operatives, through public and private investment and technical assistance.

Borrowing: Crippling debts and low credit scores limit opportunity

Credit can be a useful tool to conveniently purchase household goods or pay upfront for investments, but many Detroiters cannot use credit this way. Instead, credit helps to make ends meet between paychecks for households who lack emergency savings, available cash, or are unable to receive help from their network. This drives unmanageable debt loads for many low- and moderate-income Detroiters, as do structural conditions, including unaffordable property taxes and the costs of higher education. In this section, we explore the financial realities of residents under the weight of excess debt, and propose ideas to reduce debt and improve access to credit.

Low- and moderate-income Detroiters use mainstream, alternative, and social methods to access credit, which each come with associated costs. Detroit Area Household Financial Services study respondents most often took out refund anticipation loans to borrow money, followed by overdrawing a bank account, using pawnshops, and taking credit card cash advances. **Nearly 60% of the low- and moderate-income households in the DAHFS study did not use credit cards** (Barr, Dokko, & Keys 2012b); for some, this meant not owning a credit card at all, for others it may mean having a maxed out credit card that was no longer used.

Despite public discourse around the prevalence of payday loans, **only 4.4% of respondents in the DAHFS survey recently sought payday loans**. Barr theorizes that payday loans are not as widely used compared to other alternative financial services (AFS) because these loans require both proof of income and a bank account, which some Metro Detroiters do not have (Barr, 2012). This mirrors more recent national data which show only 2.9% of households that use AFS choose payday lenders (FDIC, 2018). Some residents who seek payday loans do not always see them as inferior or predatory, but they may think of them as a quick and easy way to access their next paycheck (Seefeldt, 2016). But payday loans are costly: in Michigan, fees add up to 15% of the first \$100 borrowed, 14% of the second \$100, and so on, up to \$600 (MI Comp L § 487.2153 (2018)). This means a worker borrowing \$300 would have to pay \$42 in extra fees, even before interest is charged. A 2018 report from the Center for Responsible Lending estimated that Detroit residents lost a collective \$5 million in fees to payday lenders in 2016 (Davis and Stifler, 2018). As for interest rates, the typical method used to calculate interest is the annual percentage rate, which is a staggering 341% for a two-week payday loan (Davis and Stifler, 2018). In some ways, citing the annualized rate obscures the fact that these loans do not have a repayment period of a year (Servon, 2013). Yet 70% of payday customers in Michigan re-borrow the full amount of their outstanding loans on the due date, and in doing so, must pay interest on a longer borrowing period than two weeks (FDIC, 2016).

In addition to formal alternative financial services, many Detroiters without savings or extra cash lean on family and friends as creditors. According to the 2018 DMACS survey, **more than half of Detroiters (57%) said they had someone to loan them a small amount of money if needed** (DMACS, 2018), while 34% actually did borrow money from social networks in the previous year (DMACS, 2019). Borrowing from family members or friends is a critical resource in times of need, but it can prove to be another crippling expense when it's your turn to pay it forward. Nationally, a significant majority of families making less than \$40,000 a year said giving money to friends or family was a burden (Pew Charitable Trusts, 2016a).

As expected, the outbreak of COVID-19 has made it more challenging for some Detroiters to seek financial help from friends and family, especially residents with the lowest incomes. Per an April 2020 survey, 52% of residents with incomes below \$10,000 said they could not ask anyone outside of their household for financial help during the pandemic, compared to 31% of higher income residents with incomes between \$50,000 and \$99,999 (DMACS, 2020).

In a healthy economy, peer lending can be a powerful tool to support low- and moderate-income households seeking low-cost credit. In 2016, to help residents build credit and capitalize on the power of social networks, Southwest Solutions partnered with Mission Asset Fund to offer a lending circle, an innovative product targeted to low- and moderate-income individuals. Lending circles bring together a small group of people, who each contribute a set amount of money a month to an account, from \$50 to \$200. Each month, one person gets the full balance, which for a 10-person group would range from \$500 to \$2000. For the earlier participants, the group offers a no-interest, no-fee loan, while for the later participants, a lending circle functions similar to a savings product. Lending circles' built-in peer accountability encourages the majority of participants to pay in full each month (Wherry, Seefeldt & Alvarez, 2019). Lending circles have proven success in reducing debt and boosting credit. According to an evaluation of Mission Asset Fund's program, on average participants reduced their outstanding debt by \$1,000 and increased their credit scores by 168 points (Reyes et al., 2013).

Cycles of credit and debt

The lack of financial "slack" in their lives leads many low- and moderate-income households in the region to use short-term credit to cover basic needs when income has run out, but the inability to catch up leads to debt (Barr, Dokko & Keys, 2012: 37). In *Abandoned Families*, Kristin Seefeldt interviewed 45 Metro Detroit women and found that they accrued debt while keeping up with the cost of living, grappling with unexpected emergency expenses, and trying to invest in economic mobility via school or entrepreneurship (Seefeldt, 2016). Women in the study most often owed utility debt, followed by credit card, medical, and student loan debt, ranging widely from \$270 owed to \$80,000 (Seefeldt, 2016). Fines and late fees also played a role, in the form of parking tickets, court fees, and banking fees (Seefeldt, 2016).¹⁵ According to Seefeldt, women at all income levels in the study often left one current bill unpaid to put money toward another, while some also had "back debt," or past due bills from years ago that go unpaid (Seefeldt, 2016). Debt is both a consequence of and a contributor to financial instability, since borrowers face significant demands on limited income in the form of high interest payments and collection fees.

"It seem like the more and more I pay, it seem like my gas bill just keep going up higher. Don't matter how much I pay, it still just never seems to go down. . . . It seem like when I make a payment, they send me a bill, and it's just like right where [it was]."

Tamara, interviewed in *Abandoned Families*, who owed \$1,800 in utilities despite an annual income of \$8,000 (Seefeldt, 2016, p. 166).

On average, Detroit residents have higher debt levels than residents in other areas, according to a 2016 report examining individual-level credit bureau data. **Sixty-six percent of Detroiters have some form of debt in collections, including credit card debt, medical debt, and government fines and fees**, much higher than the debts observed nationally (35%), in the metro area (31%), and even other peer cities (42%) (Elliott et al., 2016). Detroit residents with past due debt owed collectors a median amount of \$1,847 in 2015, \$445 above the regional median and \$514 above the aggregated median of other Rust Belt cities (Elliott et al., 2016).

¹⁵ Recent state and local legislative action to waive driver's responsibility fees and reduce the cost of parking tickets for Detroit residents may offer critical relief to thousands of residents.

Debt collectors attempt to recoup their losses by using wage or tax refund garnishment, which saps household income even further, and takes away a worker's ability to choose how to use her paycheck. Michigan's debt collection laws offer notably weak protections to workers. For example, current regulations only uphold the federal minimum standards, which shields 75% of a worker's paycheck, or allows them to keep up to \$217.50 a week, whichever is greater (NCLC, 2019). A Detroit worker earning a full-time minimum wage could see her wages garnished to just \$283.50 a week. In addition to wages, a creditor can seize a worker's entire bank account balance, which is also subject to garnishment, and unprotected by Michigan law (NCLC, 2019). Overall, **the National Consumer Law Center gave Michigan an "F" grade in terms of how well state law protects wages, bank accounts, and essential property from debt collectors** (NCLC, 2019).

A significant number of Detroit residents owe government debt in the form of delinquent property taxes, following years of economic decline, high tax rates, and artificially high property tax assessments (Lincoln Land Institute, 2015; Hedman & Pendall, 2018; Atuahene & Berry, 2018). **Of the 57,518 tax delinquent homes visited by Quicken researchers in 2019, just under three-quarters (74%) were occupied** (Quicken, 2020). While many homeowners have had their property taxes reassessed to correct for inflated property values, according to one analysis, at least 59,000 homeowners who were overtaxed are still in debt today, and owe a total of \$153 million, including interest and fees (MacDonald & Betancourt, 2020).

The new Pay As You Stay (PAYS) program waives interest, penalties, and fees, and limits back taxes for low income households – if widely used, PAYS could offer critical debt relief to families. But the program requires a homeowner to apply for the Poverty Tax Exemption, which a significant portion of eligible families do not apply for each year. In 2016, for example, just 12% of eligible owners applied for the full exemption (Eisenberg et al., 2018).

Foreclosure is perhaps the worst financial outcome for homeowners with delinquent property taxes. Between 2005 and 2018, the County foreclosed on an estimated 135,000 Detroit properties (Quicken, 2019), while banks completed 70,000 mortgage foreclosures between 2005 and 2013 (Seymour, 2016). According to the City of Detroit assessor, the number of foreclosed owner-occupied properties has decreased by nearly 90% in the past few years (MacDonald, 2018). Although this represents welcome progress, tax delinquency only decreased by 13% between 2014 and 2018 (Quicken, 2019), which indicates that thousands of homeowners are still behind on their taxes, and risk foreclosure if they cannot pay. Further, **households who have experienced foreclosures in the past still grapple with negative financial consequences today, since homeowners going through foreclosure bear a mark on their credit report for at least seven years**. In fact, a recent national study found that of consumers who experienced foreclosure between 2004 and 2014, 54% still had subprime VantageScore credit scores as of 2015 (Li, Goodman, & Bonsu, 2016).

In addition to its high foreclosure rate, Detroit also has the highest number of reverse mortgage foreclosures in the nation, with 1,884 recorded between 2013 and 2017. Reverse mortgages allow seniors to convert their home equity into cash and stop making mortgage payments, as long as they keep up with property taxes. This loan leads to foreclosure through two pathways: first, borrowers can fall behind on tax payments. Second, when borrowers pass away, the loan comes due and sometimes leaves descendants unable to pay (Gullen, 2019). Though useful for some households seeking to pay for home repairs or medical bills, reverse mortgages can also rob families of the opportunity to pass on generational wealth accumulated through home equity.

In addition to housing debt, educational debt threatens the long-term financial prospects of thousands of Detroit households. Many borrowers who attend community colleges and for-profit schools find it difficult to secure well-paying jobs to repay their loans, which leads to default. Student loan defaults negatively affect borrowers' credit scores and may also lead to wage or tax return garnishment. Nationally, the 12-year loan default rate for borrowers who earn a bachelor's degree is just 6%, compared to 14% for those who earn an associate degree, and 24% for those who attend college for some time but never earn a degree (Scott-Clayton, 2017). In Detroit, 32% of adults either have an associate degree or spent some time in college, but did not earn a bachelor's degree, and in 2018, the median income for this population was \$28,000 (ACS, 2018). This suggests **nearly one-third of adult Detroiters may find it difficult to manage their student loan debt, and are at higher risk of loan default** (ACS, 2018).

Within the population of at-risk borrowers, students who attended for-profit institutions are particularly vulnerable to financial instability. Borrowers who attended for-profit colleges default on their loans at twice the rate of those who attend public two-year colleges (Scott-Clayton, 2017). Although we don't know just how many Detroit residents attend for-profit colleges, we do know that in general, young Black adults attend for-profit institutions at five times the rate of young white adults, and other research has found these institutions intentionally market their offerings to economically distressed communities (SHED, 2019; McMillan Cottom, 2017).

"I really didn't want to go to an online program because, like that degree [I have from an online institution] is worthless. It's so worthless. So that's like I'm paying \$30,000 on this student loan for something that is giving me a job one step above McDonald's."

Yvette, interviewed in *Abandoned Families*, (Seefeldt, 2016, p. 89).

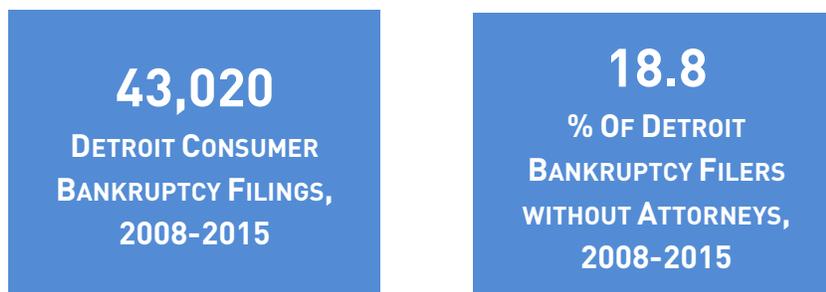
Bankruptcy offers unreliable lifeline from debt

The emotional and financial burden of debt fuels high numbers of bankruptcy cases in Detroit. Filers hope to use bankruptcy to clear arrears and repair credit, yet the path from bankruptcy to greater financial health is not straightforward. Nonetheless, thousands of Detroiters each year file for Chapter 7 or Chapter 13 bankruptcy¹⁶, hoping to improve their financial situations. Kendra, a Detroit bankruptcy filer quoted in *Abandoned Families*, owed car, utility, and phone debt, and summed up her reasoning this way: "[The dealership] also took - not like I had a lot of money in the bank - but they took everything I had in the bank, garnishing it. And I just had no other way to go...I couldn't have my wages garnishing and, you know, then trying to deal with the lights and gas situation. So there was no other way for me...at that point." (Seefeldt, 2016: 177).

From 2008 to 2015, Detroit residents filed at least 43,020 consumer bankruptcy cases in court, according to our analysis of a ProPublica dataset (ProPublica, 2017). This is significantly higher than the number of consumer filings in Cleveland (34,300) and Buffalo (12,600) over the same time period. However, when considered as a proportion of adults over 25, Detroit's bankruptcy rate during this time

¹⁶ The majority of Detroit residents (85.9%) file under Chapter 7, which, if successful, offers the option to discharge debt after a few months, while trustees sell off any assets you own above the legal threshold. Chapter 13 functions more like a repayment plan, wherein debts are combined into one income-based payment, payable over three to five years (ProPublica, 2017). One major benefit to filing for Chapter 13 is that filers can keep their homes if they make mandated payments.

(1.10%) was lower than the bankruptcy rate in Cleveland (1.65%), but higher than the rate in Buffalo (0.95%).



Who filed for bankruptcy? The differences between individuals who file for bankruptcy and non-filers are not clear cut. In 2005-2006, metro area filers had a higher median asset level (\$52,900) versus non-filers (\$31,600), but they also had a higher median debt level - \$11,500 compared to \$3,000 (Barr & Dokko, 2012). Yet researchers found many households who would benefit from filing did not, even following a job loss or major spike in medical expenses (Barr & Dokko, 2012). Other Metro area residents interviewed felt that their debts weren't large enough to file, while some simply said they did not have enough money to file, since Chapter 7 bankruptcy costs an average of \$1,078 in legal fees (Seefeldt, 2016; GAO, 2008).

How did Detroit bankruptcy filers fare in court? **Compared to filers in Cleveland and Buffalo, Detroit residents were much more likely to file without the assistance of a lawyer** (known as pro se filing), perhaps due to cost. Among Detroit filers, 18.8% represented themselves in court, versus 5.9% of Cleveland filers and 2.1% of Buffalo filers, according to author analysis of the ProPublica data set.

The majority (77%) of Detroit filers had their debts discharged, which releases the burden of debt and paycheck garnishment within months. Yet Detroit filers secured debt relief at a lower rate than filers in our comparison cities: 84% of Cleveland cases were discharged and 83% of cases in Buffalo received a discharge judgement. Most cases not discharged are dismissed, which means debts are not cleared; dismissals occur for a range of reasons, including failure to keep up with payments or file correct information, but sometimes for more positive reasons, such as making an arrangement with your mortgage servicer. Dismissal rates were higher in Detroit compared to peer cities: 18.7% of Detroit's bankruptcy cases were dismissed, compared to 13.3% of cases in Cleveland and 14.3% of cases in Buffalo. Racial disparities in pro se filings between Detroit and peer cities may explain differences in bankruptcy discharge and dismissal rates. According to a national study of bankruptcy proceedings, debtors in majority-Black zip codes like Detroit were twice as likely to have a case dismissed than debtors in majority white areas, in part due to disparate access to legal representation (Kiel & Fresques, 2017).

How does bankruptcy affect debt and credit scores? The majority of Detroiters (83%) filed for bankruptcy under Chapter 7, which leaves a lasting mark on one's credit history for an average of 10 years and requires the sale of most assets in exchange for debt discharge. By contrast, 16.6% of residents filed under Chapter 13, which costs more to file, but if successful, results in fewer years of credit damage and allows filers to keep assets (Goldsmith-Pinkham, 2017). Even successful filers see only some of their debt removed, since child support, taxes, and student loan obligations are not automatically expunged. **Overall, for many filers with persistently low and unstable incomes, bankruptcy alone fails to offer a financial "fresh start"** and does not leave them better off financially than non-filers (Porter & Thorne, 2006; Seefeldt, 2016).

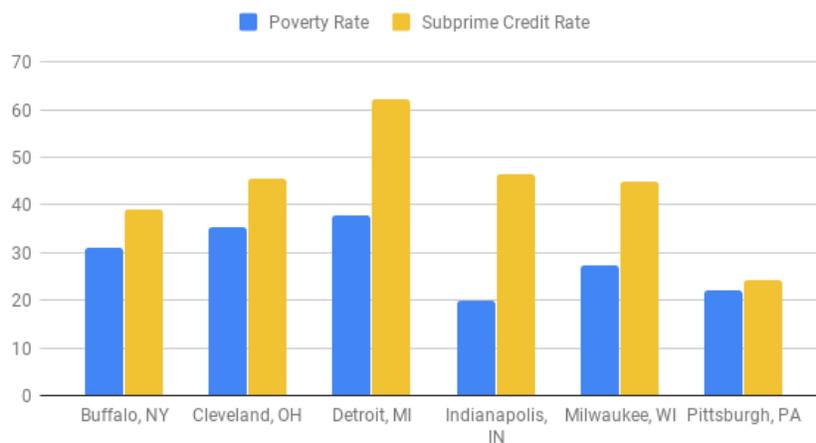
Credit constraints limit financial stability

Debt and its adverse consequences – defaults, bankruptcies, delinquencies and foreclosures – all factor into credit scores. **Though conversations around consumer debt and credit use often center on individual behavior, a combination of structural factors also greatly influences today’s uncertain credit outlook for Detroit residents.** First, Black and Latino Detroiters were disproportionately targeted for subprime loans in the mid-2010s, which led to many of the mortgage foreclosures that occurred in the city between 2005 and 2014 (Ashton, 2010; Akers & Seymour, 2019). Nearly 70% of mortgages in Detroit were subprime in 2005, compared to 24% nationwide (MacDonald & Kurth, 2015). Second, the tax foreclosure crisis hit Detroit much harder than other Rust Belt cities,¹⁷ and still negatively affects many Detroiters’ credit scores today. Lastly, as we have seen, Detroit residents have disproportionately low income and high costs compared to other cities, which means that households are more likely to lean on credit to make ends meet, rather than using savings.

According to an Urban Institute report, the median credit score for Detroit credit card users in August 2015 was 552, and **just 21% of Detroiters had prime credit (above 660)** (Elliott et al., 2016). The subprime credit rate in Detroit (62 percent) is particularly striking when compared to peer Rust Belt cities that have also experienced financial distress over the past half-century (Elliott et al., 2016). While Detroit’s poverty rate is somewhat higher than this group of peer cities, the share of Detroiters with subprime credit scores is significantly higher than that of other financially distressed cities (Figure 3).

Figure 3

Poverty and Subprime Credit Rates, 2015



Source: Elliott et al., 2016; American Community Survey 5-Year Estimates 2013-2017

Subprime or no credit directly affects an individual’s ability to attain financial stability, and dramatically limits opportunity in today’s economy, in which access to financing is key. Without prime credit, residents cannot borrow at affordable rates to make home improvements, access the full range of personal loan options, or otherwise pursue opportunities to improve their quality of life. Further, low credit scores can hinder access to housing and employment, since potential landlords and employers are allowed to use

¹⁷ In 2012, near the height of its foreclosure crisis, Detroit recorded an estimated 18,000 residential tax foreclosures, at a rate of around 7 per 100 residential parcels, compared to 961 tax foreclosures in Cleveland (.70%), 1,600 overall foreclosures in Buffalo (2.3%), and 1,152 tax foreclosures in Milwaukee (.5%). Sources: Akers & Seymour, 2019; Motor City Mapping, 2014; Western Reserve Land Conservancy, 2015; Northeast Ohio Community and Neighborhood Data for Organizing, n.d.; Western New York Law Center, 2013; New York State Data Portal; Mette, et al. 2013.

credit reports when screening potential applicants. Until recently, auto insurers could also use low credit to justify higher quoted rates of auto insurance (Cooney et al., 2019).

In addition to low credit scores, the median credit card user in the city also has less access to liquid capital compared to residents in other areas. **In 2015, the median credit limit for a Detroit credit card user was \$5,500, significantly less than the \$20,000 available to the median credit card user in the rest of the metro area** (Elliott et al., 2016). Moreover, 27% of Detroiters in the study had access to revolving credit, compared to 64% of metro area residents and 50% of residents in peer cities (Elliott, et al., 2016). These credit realities likely encumber Detroit entrepreneurs seeking capital needed to start or grow their businesses. Further, without enough readily accessible, affordable credit, an individual may not be able to cover an unexpected expense, and might dip into her retirement savings, sell a valued asset, or resort to a high-interest, predatory loan. The cycle of debt also gets in the way of an individual's ability to maintain financial stability in the short term, as she is forced to spend precious resources paying off creditors, rather than building emergency savings or family assets. All of the above challenges can be particularly acute for returning citizens, many of whom exit prisons with no or low credit scores, plus accumulated debt from fines and fees (Credit Builders Alliance, 2018). Urban Institute researchers found one bright spot in the data: 19% of Detroiters had no delinquencies or collections and 47% of Detroiters had at least one line of healthy credit, which suggests efforts to improve the credit of Detroit residents could indeed be successful (Elliott et al., 2016).

Early data on COVID-19's impact on credit and borrowing indicates that across the income distribution, the majority of Detroit residents (68%) have not changed their borrowing behavior in response to the pandemic (DMACS, 2020). **However, it is worrying that 20% of residents earning less than \$30,000 reported borrowing more money due to the crisis (DMACS, 2020).** Further, when asked how they would cover a \$400 emergency expense, half of residents in this income bracket said they wouldn't be able to pay for it (DMACS, 2020). As we have seen, lower-income residents are less likely to have extra cash, savings, or room on their credit cards to cover the unexpected. In developing medium-term solutions to household debt and credit constraints, we must focus on helping Detroiters manage debt and repair damaged credit, while recognizing that households still need to borrow affordably to cover expenses today.

Ideas for Action: Reducing Debt and Improving Access to Credit

Credit

- Expand and promote lending circles, as administered by Mission Asset Fund or new fintech company Esusu, as method for individuals to access low- or no-cost credit and build credit scores. Proven microfinance lending programs like Grameen America also provide access to affordable capital for micro-entrepreneurs.
- Promote the availability of innovative credit products such as Petal, a lender that offers borrowers the option to use cash-flow to demonstrate creditworthiness. For more detailed recommendations, see Aspen Institute, 2018, and Aspen Institute, 2019.
- Affordable and public housing providers could implement rent reporting, which builds tenant credit history by reporting monthly payments to a credit bureau. A multi-state pilot of this program found increases in credit scores for 79% of renters (Kahn-Kravis, 2019).
- When seeking to regulate credit tools, it's important to remember that borrowers use multiple credit products, often at once. Regulating payday loans alone to improve financial health may be counterproductive due to simultaneous use of other products in both the AFS and mainstream sectors (Barr, Dokko, & Keys, 2012b). Further, tightening rules without also improving mainstream banking products may leave residents with fewer, not better options.

Education Debt

- Increase state appropriations to higher education institutions to mitigate rising tuition costs and increase support services to students to boost 4-year graduation rates. State appropriations have declined 56% between 2000 and 2012, and have yet to reach pre-recession levels, while tuition and fees have doubled at the median Michigan university (Granville, Miller and Mishory 2019).
- Institute a wider need-based aid program for Michigan students who want to pursue post-secondary education. Currently, Michigan does not offer a need-based program based on family income alone, but rather a reimbursement program based on Medicaid receipt, which is difficult to apply for and not universally accepted by colleges and universities (Education Commission, 2019).
- Fully fund Michigan Reconnect, the state's new program that would provide tuition-free access to industry certificates or associates degrees for adults over the age of 25.

Consumer and Government Debt

- Improve access to legal representation or legal advice for bankruptcy and consumer debt cases. Nationally, debtors are more likely to have debts discharged when filing with an attorney versus on their own (Kiel & Fresques, 2017). In Michigan's 43rd District Court, the court invites legal aid attorneys to provide advice and limited representation to defendants in debt buyer cases; the 36th District Court could implement a similar model in Detroit (Human Rights Watch, 2016).
- Increase consumer protections against debt collection and predatory small-dollar lending. Michigan has already banned car-title lending, but state legislators could also join other states in capping the APRs for installment and payday loans at 36% (Prosperity Now, n.d). As for payday loans, Ohio recently passed an innovative law which caps monthly fees, interest and requires payments that reduce the principal owed (Bourke, 2018).

Ideas for Action: Reducing Debt and Improving Access to Credit, continued

Consumer and Government Debt

- Conduct comprehensive city and county assessment of fines and fees and explore income-based repayments. San Francisco, a national leader in this area, eliminated fees for people exiting jail, and reduced towing fees and traffic fines for low-income drivers, among other changes (SF Treasurer, 2019).
- State legislation could amend current law to issue a multi-year property tax exemption to long-term applicants (e.g., seniors, residents with long-term disability). For more, see Eisenberg et al. (2019) and Akers & Seymour (2019).
- Raise awareness among seniors and their families about the risks of reverse mortgages, while providing information on where to find support with home repair or debt relief.

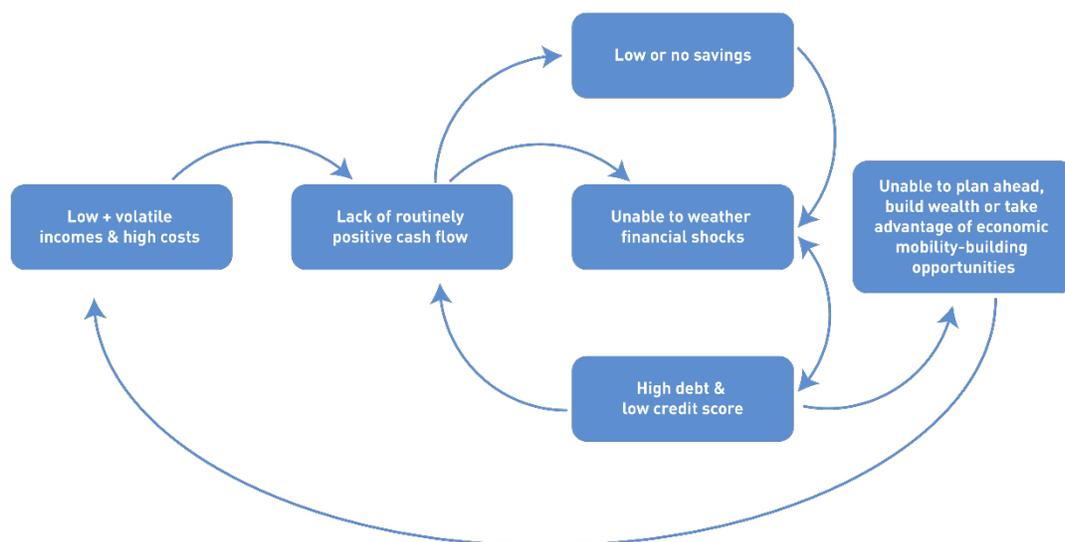
Conclusion

Financial instability is a fact of life for many low- and moderate-income households in Detroit. Together, the data compiled here tells a story of a population experiencing high daily costs on top of low and volatile incomes, which forces hard choices about which bills to pay at the end of the month. As a result, tens of thousands of residents find it challenging to maintain the financial cushions needed to move into financial well-being, including liquid savings and access to affordable credit. The data show a pernicious cycle (Figure 4)—for residents in poverty and residents further up the income distribution—that we must collectively act to address. This cycle is not the result of individual behaviors like reckless spending or lack of budgeting know-how, but rather the reflection of systemic ills, including predatory lending and a dearth of jobs in the city.

Although we do see indicators of progress, the consequences of widespread household financial instability can be severe and have ripple effects throughout the city. Financial instability is linked to housing instability, as evidenced by extremely high rates of evictions and foreclosures, which threaten health and well-being, and compromise neighborhood revitalization efforts. Further, Black and Latino entrepreneurs from Detroit interested in starting or growing their businesses likely have lower credit scores and less in personal savings than newcomers to the Detroit market, which complicates the prospects for equitable development and neighborhood entrepreneurship.

Figure 4

The Financial Instability Cycle



The COVID-19 pandemic, with its attendant disruptions to income and employment, will only further undermine the efforts of low- and moderate-income Detroiters to reach financial well-being. As public and philanthropic efforts rapidly change course to address financial emergencies, we must also think about the medium-term, and continue to address the systemic conditions that led to many of the challenges highlighted in this paper. This means, for example, fully funding affordable housing and a right to counsel in housing court, while also continuing to focus on workforce development and strengthening Detroit’s labor market.

Further, there are a variety of interventions that public and private actors can take to promote financial health directly, even during a pandemic, such as virtually promoting second-chance bank accounts for individuals who have become unbanked, investing in shared equity homeownership, or creating affordable small-dollar loan products. Now, as always, we must do more to ensure households are aware of and apply for critical income supports, such as the property tax exemption and unemployment benefits. We also should invest in what seems at first glance to be unrelated to economic success: strong social networks. Detroiters already rely on their connections for financial and in-kind support. Going forward, we have an opportunity to nourish these networks among low- and moderate-income families, by amplifying solutions, like those offered by time banks and the Family Independence Initiative.

Lastly, as a majority-minority city, Detroit suffers from the consequences of current and past racial and ethnic discrimination. In efforts aimed to improve the financial outlook for Detroit residents, we must ensure—through both intentional design and rigorous evaluation—that the benefits fully reach residents of color, as well as those with lower education and income levels. In recent years, numerous programs to encourage employment, home buying, entrepreneurship, and financial empowerment have been developed to encourage financial stability in the city. We hope Detroit continues to do this work with an added focus on the varied elements needed to bring tens of thousands of families into lasting financial health.

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