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American Renters and Financial Fragility

Summary

With data from the FINRA Investor Education Foundation's 2012 National Financial Capability Study (NFCS), this issue brief compares the demographic, behavioral and psychographic profiles of renters to those of homeowners. The data reveal a financially fragile renter population relative to homeowners. It is a group burdened by debt, lacking emergency savings and exhibiting low levels of financial literacy. Renters are also more likely to experience income shocks. Given their financial fragility and low levels of financial literacy, the findings suggest the renter population could have a difficult time responding to income shocks and the financial consequences associated with them.

Background

In 2012, 36 percent of Americans reported living in rental properties, up from 34 percent in 2000.[1] National data indicate that individuals who rent their homes share common characteristics that differentiate them from homeowners. For example, renters tend to be younger, have smaller households, be more ethnically and racially diverse and have lower household incomes. Recently, however, the demographic profile of renters has been shifting toward groups with traditionally high homeownership rates, like married couples with children, high-income households and white households.[2]

The purpose of this issue brief is to examine data from the 2012 NFCS State-by-State Survey to lend broad, initial insight into the financial capabilities of American renters, a little-explored segment of the population that may be more financially fragile and face more economic challenges than many other segments.

In 2012, 36 percent of Americans reported living in rental properties.

1. United States Census Bureau, 2013
2. Joint Center for Housing Studies, 2013

The Demographics of Renters and Homeowners

Consistent with U.S. Census Data, the NFCS data also show that renters are younger and have lower household incomes than homeowners: 74 percent of renters have household incomes below $50,000 compared to 41 percent of homeowners (Figure 1). Thirty-nine percent of renters are married compared to 63 percent of homeowners. Despite this difference in marriage rates, renters are more likely to have dependents in their households. To put this in perspective, 45 percent of renters with dependents are not married compared to 23 percent for homeowners.[3] For both renters and homeowners, most of the unmarried respondents with dependents are female—69 percent for renters and 60 percent for homeowners.

Figure 1. Demographics

	Renters n=8,325	Homeowners n=16,839
Mean age	41	48
Household income < $50,000	74%	41%
Married	39%	63%
Dependents	43%	37%
Minority	42%	29%
College degree	20%	29%
Unemployed or temporarily laid off	13%	7%

Source: 2012 National Financial Capability Study State-by-State Survey

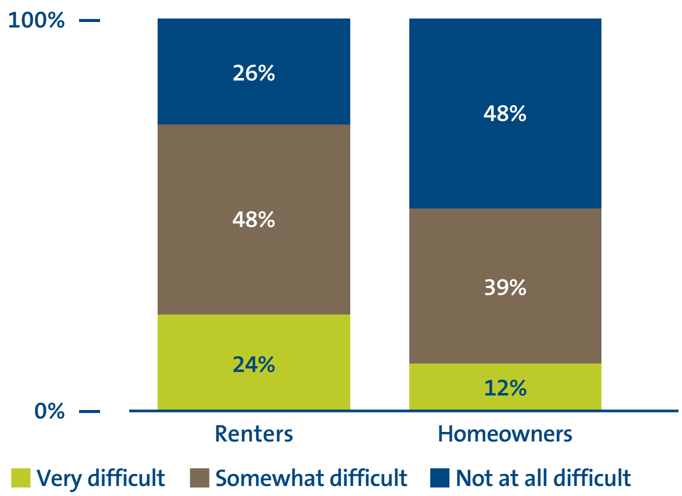
Renters are twice as likely as homeowners to be unemployed or temporarily laid off: 13 percent of renters were unemployed at the time the survey was administered compared to 7 percent of homeowners.[4] They are also less likely to be college educated and more likely to be a minority.

Renters Under Financial Strain

Renters have greater difficulty making ends meet than homeowners. Twenty-four percent of renters indicated that they find it very difficult to cover their bills, and an additional 48 percent found it somewhat difficult. For homeowners, on the other hand, only 12 percent found it very difficult, and 39 percent found it somewhat difficult. Figure 2 shows how each group responded to this question on the difficulty of meeting monthly expenses.

Figure 2. Making Ends Meet

In a typical month, how difficult is it for you to cover your expenses and pay all your bills?



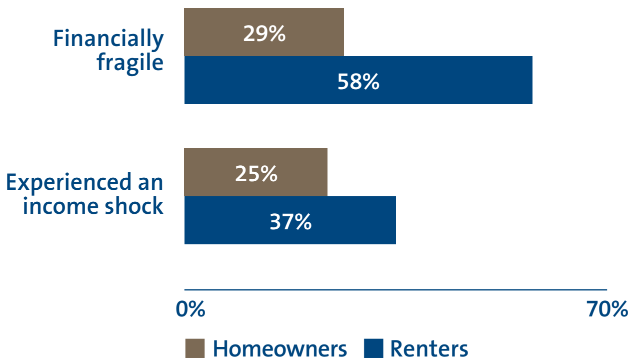
Source: 2012 National Financial Capability Study State-by-State Survey

Note: Figures do not add to 100% due to respondents not answering or answering "Do not know."

3. Recent research suggests that unmarried households with dependents experience greater financial strain than married households with dependents (see Mottola, 2014; Theodos, Kalish, McKernan and Ratcliffe, 2014).
4. The 2012 National Financial Capability Study was fielded from July through October 2012. See the Data section at the end of this paper for more details.

Renters also wrestle with two additional concepts related to financial strain: financial fragility and income shocks. Financial fragility, defined as a lack of liquidity to deal with an unexpected expense, is much higher among renters than homeowners. As Figure 3 shows, 58 percent of renters indicated that they probably or definitely could not come up with $2,000 in 30 days in the event of an unexpected expense (such as a major car repair or medical bill) compared to 29 percent for homeowners. Income shocks are defined as a large and unexpected drop in income in a 12-month period. Thirty-seven percent of renters experienced an income shock in the 12 months preceding the administration of the NFCS survey compared to 25 percent for homeowners.

Figure 3. Financial Strain



Source: 2012 National Financial Capability Study State-by-State Survey

Some Renters Are Doing Fine

Renters are not all alike. There is a small but meaningful group that appears to be in a much stronger financial position. For example, 11 percent of renters have household incomes of $75,000 or more. Among this group, 46 percent have a college degree, 53 percent say it is not at all difficult to cover their monthly expenses and 25 percent are very satisfied with their financial condition.[5]

These figures, while encouraging, fall a little short of homeowners making $75,000 or more in household income. The same percentage of homeowners in the $75,000 plus income range report having a college degree (46 percent), but a larger group of homeowners (65 percent) say it is not at all difficult to cover monthly expenses and significantly more homeowners (42 percent) are very satisfied with their financial condition.

Source: 2012 National Financial Capability Study State-by-State Survey

Sample size for renters with incomes of $75,000 or more is 915; sample size for homeowners with incomes of $75,000 or more is 6,671.

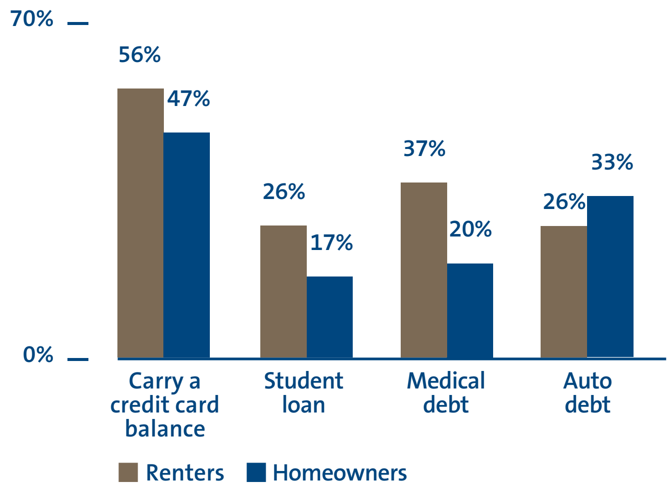
Renters wrestle with two concepts related to financial strain: financial fragility and income shocks.

Debt and Borrowing

By definition, renters do not have to manage mortgage debt, but there are other forms of debt that renters may manage—like credit card, medical, student loan and auto debt. The data suggest that renters are more likely to carry these forms of debt more than homeowners (Figure 4). Renters are 9 percentage points more likely than homeowners to carry credit card debt, 9 percentage points more likely to carry student loan debt and 17 percentage points more likely to carry medical debt. Auto debt, however, is more common among homeowners. Debt, in general, appears to be a worry for renters: 50 percent of renters indicated that they are concerned they have too much debt compared to 38 percent of homeowners.[6]

5. Financial satisfaction was measured with a 10-point Likert scale where 1=Not at All Satisfied and 10=Extremely Satisfied. Respondents who indicated that their satisfaction level was an 8, 9 or 10 were coded as Very Satisfied.
6. Concern about debt was measured using a 7-point Likert scale where 1 equals Strongly Disagree, 4 equals Neither Agree nor Disagree and 7 equals Strongly Agree. Respondents were asked to respond to the statement "I have too much debt right now" using the Likert scale. Those who responded with a 5, 6 or 7 were coded as being concerned they had too much debt.

Figure 4. Debt Exposure



Source: 2012 National Financial Capability Study State-by-State Survey

Note: Percent carrying a credit card balance is among credit card holders (n=4,575 for renters and 13,922 for homeowners).

The higher levels of medical debt could be related to the lower levels of healthcare insurance among renters. Sixty-eight percent of renters have healthcare coverage compared to 85 percent of homeowners. The differences in auto loan debt, on the other hand, may reflect the lower household income of renters and their inability to afford the cost and maintenance of an automobile. It could also be due to renters tending to live in urban areas,[7] where public transportation is more available and the need for an automobile is decreased.

The debt and financial pressure that many renters face could be driving them to non-bank forms of borrowing.

Digging deeper on credit card debt, we find a higher percentage of renters with credit cards engaged in problematic credit card behaviors. Twenty-one percent of renters were charged a late fee in the 12-months preceding the administration of the 2012 NFCS survey compared to only 15 percent for homeowners. Similarly, 11 percent of renters were charged an over-the-limit fee compared to 7 percent for homeowners, and 15 percent used their credit cards for cash advances compared to 10 percent for homeowners (Figure 5).

Figure 5. Credit Card Behavior

	Renters n=4,575	Homeowners n=13,922
Charged a late fee	21%	15%
Charged an over-the-limit fee	11%	7%
Used card for cash advance	15%	10%

Source: 2012 National Financial Capability Study State-by-State Survey

Note: Percentages are among credit card holders.

Further, a closer looks at the relationships among age, housing status, education and student loan debt reveal an interesting pattern. As seen in Figure 6, across all age groups renters are less likely to have a college degree and more likely to have student loan debt. For example, in the 35 to 54 age group, 33 percent of homeowners have a college degree compared to 18 percent of renters—yet more renters have student loan debt, 21 percent for renters compared to 17 percent for homeowners.

7. Housing Assistance Council (2013)

Figure 6. Education Information by Age and Housing Status

	Renters		Homeowners	
Age	Student Loan Debt	College Degree	Student Loan Debt	College Degree
18 – 34	38%	23%	35%	26%
35 – 54	21%	18%	17%	33%
55+	9%	17%	5%	28%
Total	26%	20%	17%	29%

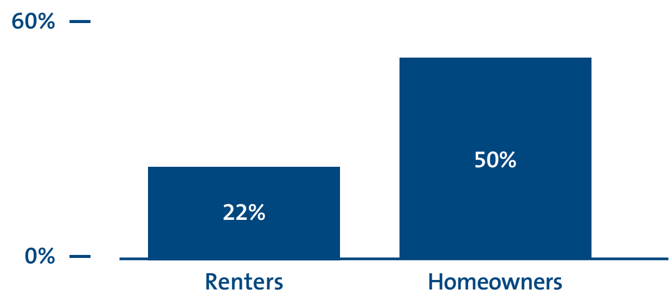
Source: 2012 National Financial Capability Study State-by-State Survey

Note: Sample sizes for the cells in this table range from a low of 1,866 to a high of 7,204.

Even though renters in the sample were more likely to have student loan debt, the lower percentage of renters with college degrees suggests that it might be more common among renters to take on student loan debt without obtaining degrees than it is for homeowners. Given their financial fragility, renters may encounter situations where they need to suspend their education for financial reasons prior to obtaining a degree. And while this scenario could be true for homeowners as well, the data suggest that it is more likely for renters. Alternatively, the higher percentage of renters with student loan debt may simply reflect the fact that they tend to have lower incomes and, consequently, a greater need to borrow money to fund their educations. In any event, taking on student loan debt without obtaining a degree—whether by renters or homeowners—is a problem because the debt needs to be repaid, but without the benefit of a higher income that is typically associated with a college degree.

Perhaps related to the debt issue, renters in the sample are unlikely to have emergency savings. Only about one in five renters (22 percent) have enough money saved to cover their expenses for three months in the event of sickness, job loss, economic downturn or other emergency (Figure 7). This figure is about half the size of homeowners, where 50 percent of respondents have emergency funds.

Figure 7. Emergency Savings



Source: 2012 National Financial Capability Study State-by-State Survey

The debt and financial pressure that many renters wrestle with could be driving them to non-bank forms of borrowing—like pawn shops, auto title loans, tax refund advances, rent-to-own stores and payday lenders—to make ends meet. This is problematic because short-term payday lending entities have been shown to charge very high interest rates.[8] They have often been characterized as a mechanism for predatory lending and tend to be concentrated in economically depressed geographical areas.[9] Research suggests that 50 percent of those who take a short-term payday loan default on payments.[10]

8. Bertrand and Morse, 2011; Lusardi and de Bassa Scheresberg, 2013
9. Johnson, 2002
10. Skiba and Tobacman, 2008

Figure 8 shows the percent of respondents who used a non-bank borrowing method one or more times in the past five years, broken out by renter and homeowner. Renters have double the usage rate of payday loans, rent-to-own stores and pawn shops.

Figure 8. Non-Bank Borrowing in the Past Five Years

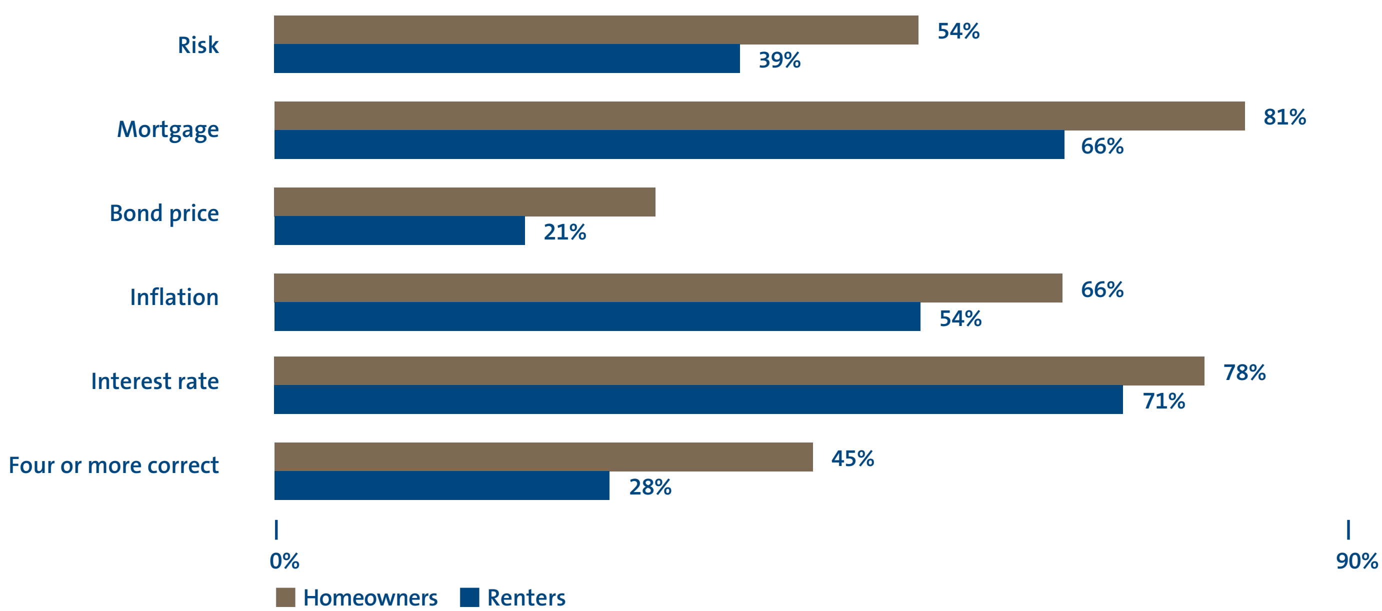
	Renters	Homeowners
Pawn shop	28%	13%
Payday loan	19%	9%
Rent-to-own store	16%	8%
Auto title loan	10%	9%
Tax refund advance	11%	7%

Source: 2012 National Financial Capability Study State-by-State Survey

Financial Knowledge

To gauge the financial knowledge of respondents, a small financial literacy questionnaire was included in the 2012 NFCS. The five-item inventory asks questions about interest rates, inflation, bonds, mortgages and financial risk. On the whole, renters have lower financial literacy levels than homeowners, which could impact their ability to make effective day-to-day financial and economic decisions. Figure 9 shows the percent of each group that responded correctly to each of the five questions. (Financial literacy quiz questions can be found in the Appendix.) Across the board, homeowners are more likely to answer the financial literacy questions correctly. As might be expected, more homeowners (81 percent) answered the mortgage question correctly compared to renters (66 percent). In addition, 45 percent of homeowners correctly answered four or more questions compared to 28 percent of renters.

Figure 9. Financial Literacy Quiz Questions



Source: 2012 National Financial Capability Study State-by-State Survey

Summary and Implications

The current study found that, relative to homeowners, renters comprise a financially fragile population that is burdened by debt and lacks emergency savings. Many rely on expensive means of non-bank borrowing like payday lenders and pawnshops, and their low levels of financial literacy suggest that they might not have the financial knowledge to deal with some of the more difficult financial decisions they may face.

Renters are also more prone to income shocks, and the financial fragility of renters coupled with their lower levels of financial literacy and healthcare coverage raise questions about their ability to handle income and expenditure shocks. This could have substantial repercussions for the renter population, including falling behind on monthly bills, using risky forms of credit, missing a rent payment or, possibly, eviction and homelessness.[11]

In recent years, researchers have identified several sub-groups within the American population with lower levels of financial literacy that, perhaps, could benefit from targeted financial education—women, minorities and young adults all fall into this group.[12] The data in this brief suggest that renters represent yet another sub-group that could likely benefit from targeted financial education efforts. While the challenges renters face are manifold, increasing the financial literacy and capability of this group may represent one avenue to improve the overall financial wellbeing of over one-third of households in the United States.

About the Authors

Stacia West is a graduate student at the University of Kansas School of Social Welfare, and Gary Mottola is the research director at the FINRA Investor Education Foundation.

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Data

This study uses data from the State-by-State version of the 2012 National Financial Capability Study. The National Financial Capability Study was funded by the FINRA Investor Education Foundation and conducted by Applied Research and Consulting. The study used a sample of 25,509 adults ages 18 and older (approximately 500 per state plus the District of Columbia) obtained from Research Now, SSI (Survey Sampling International) and EMI Online Research Solutions via proprietary, online panels of individuals who have agreed to participate in the panel and who are compensated for completing surveys. Nonprobability quota sampling was used to obtain the sample. The data is representative of the U.S. adult population (ages 18 and up) on age by gender, ethnicity, education and census division when weighted. Data from the U.S. Census Bureau's American Community Survey were used to construct the weights. All statistics in this report are weighted, but the sample sizes are unweighted. The survey was fielded from July 2012 through October 2012. A pure probability sample of this size would have an estimated margin of error of half a percentage point (*i.e.*, plus or minus 0.5 percent), and the margin of error would increase somewhat for sub-groupings of the sample. As in all survey research, there are possible sources of error, such as coverage, nonresponse and measurement error that could affect the results. More information about the National Financial Capability Study—including the questionnaire and detailed methodology documents—can be found at *www.USFinancialCapability.org*.

11. O'Flaherty (2009) suggests that the most common shocks that lead to homelessness are shocks to income, health and sobriety; nine percent of people who stayed in an emergency shelter in 2012 stayed the previous night in their own rental house compared to 1 percent for homeowners (U.S. Department of Housing and Urban Development, 2012).
12. Lusardi and Mitchell, 2014; FINRA Investor Education Foundation, 2013

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Appendix

Financial Literacy Questions (correct answers in bold)

Suppose you had $100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow?

- **More than $102**
- Exactly $102
- Less than $102
- Don't know
- Prefer not to say

Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, how much would you be able to buy with the money in this account?

- More than today
- Exactly the same
- **Less than today**
- Don't know
- Prefer not to say

If interest rates rise, what will typically happen to bond prices?

- They will rise
- **They will fall**
- They will stay the same
- There is no relationship between bond prices and the interest rate
- Don't know
- Prefer not to say

A 15-year mortgage typically requires higher monthly payments than a 30-year mortgage, but the total interest paid over the life of the loan will be less.

- **True**
- False
- Don't know
- Prefer not to say

Buying a single company's stock usually provides a safer return than a stock mutual fund.

- True
- **False**
- Don't know
- Prefer not to say

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