Keeping Control by Relying on Cash

U.S. Financial Diaries

Mike Smith : Kentucky

Mike Smith, a single man in his mid-50s, lives in a two-bedroom, one-bathroom house in Kentucky, in a small town near the Ohio River. (Names and details have been changed to protect the participants.) He works many hours as a maintenance man at a local office building, and when he's not working he likes to watch movies. Mike describes himself as being "a tightwad since the age of two." Even though his resources are limited, he manages to save by strictly controlling how much he spends, even on groceries and medical care. He is frustrated by the fact that he can't seem to earn more income even though he works hard.

Mike has never married, though he has three adult children. He has lived his entire life in his small town, spending summers at his family's farm. His grandmother, who owned a small shop, raised him. His parents were also self-employed – his mother owned a beauty parlor, and his father owned several bars. His family valued hard work but not education and he dropped out of high school, a choice that he still regrets.

Mike comes across as self-reliant, to the point of being a bit guarded and self-protective. He talks with pain about past wounds: he believes his three grown children, for example, have taken advantage of him and stolen from him, including identity theft. He suspects that the bank is shorting him $500 in his savings account. He accuses a brother of stealing a large portion of an inheritance from his grandmother. He shut off his cable because he felt that the company was overcharging him. He recalls how he once sued Verizon for overcharges, eventually winning a settlement of $1,000-2,000 – but says the check expired before he could cash it. Mike is constantly frustrated with his boss for not paying him overtime, and he frequently talks of quitting.

His financial life is a simple exercise. He deals largely in cash. He has a few assets, including his house, which has no mortgage but was appraised by his town as being worth $50,000 about 20 years ago. He has some cash holdings that he keeps at home and on his person, and a small savings account at a bank. He has no debts. By his own admission, he is a creature of habit. He goes out to dinner on Saturdays. He buys groceries and gas on Sundays, and he rarely spends money outside of his basic living expenses.

The principal investigators on the US Financial Diaries Project are:
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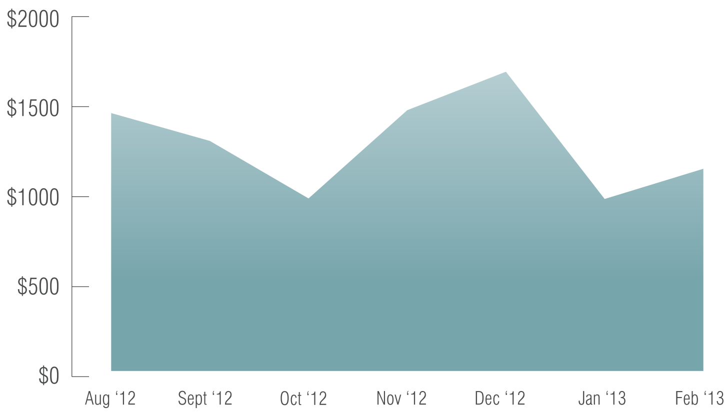
Income

Until recently, Mike worked as a remodeling contractor, but business slowed considerably in the housing crash. Since last April, he has been working full-time – and then some – as a maintenance man for a local office building. He often works as many as 55 hours a week at his job, which he doesn't mind, except for his ongoing complaint about being paid overtime. He started working for the office building on a part-time basis, manning the front desk on the side while he continued to pursue remodeling jobs. He began working full-time when the building manager asked him to temporarily fill a position, which, several months later, has yet to be filled with a new employee. Mike has turned away remodeling work in the meantime. On average, he earns approximately $1,100 per month, although his monthly income ranges from $960 to $1,665, mainly depending on whether and when he is paid for overtime *(see Graph 1)*.

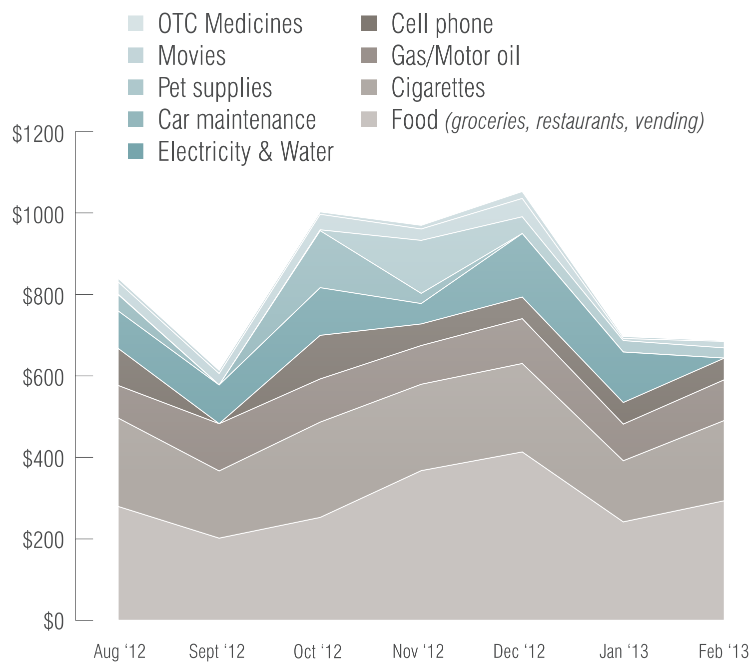
GRAPH 1: **Mike's monthly income ranges from $960-$1665**



Expenses

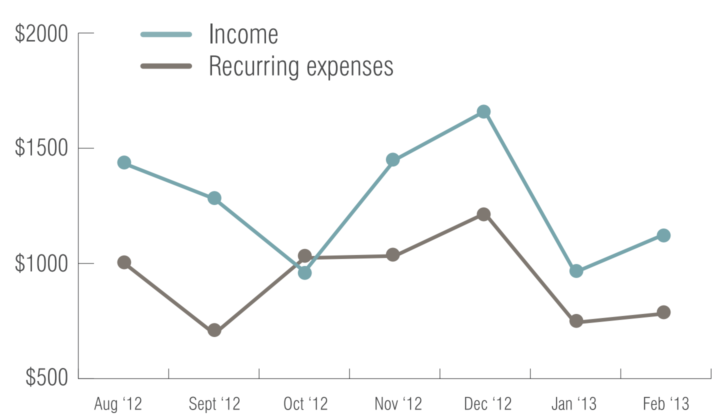
Mike deals almost exclusively in cash, and he spends in very small dollar amounts. His average transaction during the 10-month period from May 2012 to February 2013 was $10. During the same period, he had only six transactions that were above $100 in value, and four of those were for irregular or unexpected expenses (property taxes of $966, a semi-annual vehicle insurance payment for $302, $200 to repair an air conditioner, and $140 for vehicle maintenance). The other two expenses above $100 were $124 for an electricity bill, and $109 for a pet lizard, which he planned to use as an investment by breeding it and selling its offspring *(see Graph 2)*.

GRAPH 2: **Mike spends most of his money in small cash increments of between $10 and $25**



Mike is very regimented in the way he spends money. When he buys gas for his car – once a week, on Sundays – he always spends exactly $15, $20, or $25. When he goes to the dollar store for groceries, which he does mid-week as well as on Sunday, he purchases the same items, and he always spends between $15-20. Every morning, he buys a pack of cigarettes for himself and one for a friend, spending $6-7 for two packs and a soft drink. He knows he could spend less buying a carton, but he buys single packs to ration himself. When Mike has a bill that cannot be paid in cash – specifically, his water bill, electric bill, and cell phone bill – he takes out a money order (*see Graph 3*). When Mike has less income, he sometimes postpones paying a bill until the next month.

GRAPH 3: **Mike's spending is regimented; recurring expenses rarely exceed income.**



Assets and Debts

Mike says that he is "strictly against borrowing." As such, he has no debts whatsoever. He purchased his house – which he still owns, clear of any debt, and which was valued in 1993 as being worth more than $50,000 – with an inheritance from his grandmother. At the time, he also purchased two rental properties, which he has since sold. He currently owns 10 vending machines, which he purchased for $8,000 in 2009 in response to a newspaper ad that he now believes was a scam. He believed he would receive placements for the machines and shipments of candy; they never came. Today, the machines sit empty in his garage. Mike thinks he will try to make money off of them one day – perhaps when he retires.

In addition to cash holdings in his home of around $4,000, he has a savings account, which he opened when he received a large check and wanted to avoid paying a high check-cashing fee. The balance in his bank savings account is around $1,700. Mike has a simple method of saving money at home. When he receives a paycheck, he cashes it and puts the money in his wallet. When the amount in his wallet exceeds $1,000, he pulls out $500 to set aside with his other cash savings, which he keeps in a secret location in his home. His in-home savings are separated into two "accounts" – one for general savings and one for his annual property tax bill. Mike learned his savings practices from his grandmother, and he is generally suspicious of banks.

Conclusion

This snapshot of Mike Smith's financial life provides a window into many themes that arise repeatedly in the US Financial Diaries. First, Mike has a financial management system. In fact, he has a fairly regimented system that works well enough for him that he manages his weekly cash flow with certainty and clarity. He is also clearly willing to pay for this certainty and clarity with both his time and his money: he would rather make small purchases regularly at the dollar store than consolidate his shopping into a weekly trip to a grocery store, and he would rather pay check cashing fees for each bill that comes due than rely on a bank account.

Even with this somewhat limited **financial management system**, Mike sets aside savings for both intermediate and long-term needs, and maintains a major asset: his home. He makes difficult budgeting decisions to make ends meet, decisions that others might make differently. For instance, he purposefully foregoes higher quality, fresh food and avoids medical care that he knows he needs for ongoing headaches and earaches. There are limits, however, to this budgeting approach. He clearly has more difficulty with larger financial decisions, with longer-term time horizons and possible surprise outcomes than he does with near-term, controllable cash management choices. In this quality, he has much in common with most (if not, all) financial decision makers.

A related point is that Mike has a clear **preference for cash**, and thus pays transaction fees to convert his paycheck into cash, and then again to convert that cash into bill payments. His finances are stable, he has a savings account, and he has sufficient financial cushion that it is easy to imagine him using a checking account without bouncing checks – if he could be convinced of its value in terms of convenience or access to electronic payments. However, innovation around today's checking account structure, check clearing speed, and banks' typical customer communication is necessary before a checking account would provide him with the extreme transparency and control that he exercises over his finances by relying on cash.

Mike is "underbanked" but, like many, he is **underbanked by choice**. Looking at his finances it's clear that he would benefit from using a wider set of financial products, and using the ones he already has more intensively. The underlying reason he is underbanked is that he seeks control and transparency in his finances – a goal that is shared by millions of Americans and that Mike simply demonstrates in an extreme version. Mike clearly believes that formal finance institutions don't deliver—in fact, they undermine—the control and transparency he desires. Yet, it is entirely within reach for financial institutions to deliver these capabilities around repeat, predictable cash management decisions – and even to provide customers with tools that facilitate better long-term decisions and greater financial health – particularly if they build on Mike's strong spending discipline and desire for a routine.

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U.S. Financial Diaries

New York University's Financial Access Initiative (FAI), the Center for Financial Services Innovation (CFSI), and Bankable Frontier Associates (BFA) will collect and analyze detailed cash flow and financial data from more than 200 families in the US over the course of a year. The study will provide an unprecedented look at how low and moderate-income families—in four regions and 10 distinct demographic profiles—manage their financial lives. The landmark study will greatly improve the ability of policymakers, nonprofits, and the financial industry to understand the needs of these households and increase the quality and accessibility of financial services. Leadership support for the US Financial Diaries Project is provided by the Ford Foundation and the Citi Foundation, with additional support and guidance from the Omidyar Network. For more information, please visit **usfinancialdiaries.com**.

fai Financial Access Initiative NEW YORK UNIVERSITY

The Financial Access Initiative (FAI) is a research center focused on exploring how financial services can better meet the needs and improve the lives of poor households. At FAI, we systematize evidence and communicate lessons, generate new evidence, and frame policy and regulatory issues. FAI is housed at NYU's Robert F. Wagner Graduate School of Public Service. Visit **www.financialaccess.org**; learn more about the Big Questions in financial access at **www.financialaccess.org/big-questions**; follow us **@financialaccess**.

CFSI Center for Financial Services Innovation

The Center for Financial Services Innovation (CFSI) is the nation's leading authority on financial services for underserved consumers. Through insights gained by producing original research; promoting cross-sector collaboration; advising organizations and companies by offering specialized consulting services; shaping public policy; and investing in nonprofit organizations and start-ups, CFSI delivers a deeply interconnected suite of services benefiting underserved consumers. Since 2004, CFSI has worked with leaders and innovators in the business, government and nonprofit sectors to transform the financial services landscape. For more on CFSI, go to **www.cfsinnovation.com** and join the conversation on Twitter at **@CFSInnovation**.

BFA Bankable Frontier Associates

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