



# How Households Expect to Cope in a Financial Emergency

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How households cope with financial emergencies depends largely on the resources at their disposal. As such, one reason for building assets is to be able to manage unforeseen expenses—a basic hallmark of economic stability. Differential access to good financial options affects how much households pay for credit in a time of need. Using savings would be an obvious choice. However, savings may be either insufficient to cover unplanned bills, or nonexistent.

The cost of resolving financial difficulties can vary substantially depending upon whether households rely on conventional methods of paying unexpected bills or turn to alternative (and often higher-cost) methods. Not surprisingly, lower-income households typically have fewer good options. Using data from the Making Connections Cross-Site Survey

(2002–2004),<sup>1</sup> we examine how households with incomes over \$30,000 and those with incomes below \$30,000 would respond in a financial emergency. Respondents were asked how they would deal with an unexpected bill that was half their monthly income and had to be paid in two weeks (figure 1).

In general, higher-income households were more likely to use *conventional* methods in an emergency. Seventy-six percent of higher-income households reported they would use savings, while only 58 percent of lower-income households did. Of the conventional methods, lower-income respondents were much less likely to borrow from a bank (28 percent) compared with higher-income respondents (39 percent); and only 31 percent of lower-income respondents reported they would use a credit card compared with 43 percent of higher-income respondents.

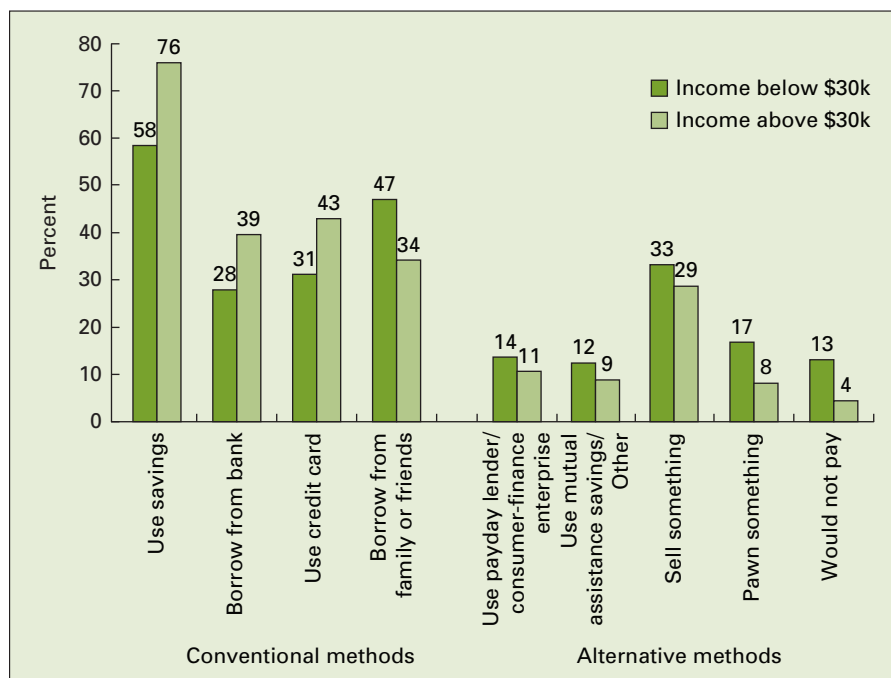
However, lower-income household respondents were much more likely to borrow from friends or family (47 percent) than higher-income respondents (34 percent).

Lower-income households were more likely to use *alternative* methods to pay unexpected bills. These households were somewhat more likely to borrow from institutions offering high-cost loans, such as payday lenders or consumer-finance enterprises, and twice as likely to pawn something. Lower-income households also reported a relatively high chance of not paying unexpected bills (13 percent).

## Note

1. The Making Connections Cross-Site Survey is a product of the Annie E. Casey Foundation. For more information, see <http://www.aecf.org/MajorInitiatives/MakingConnections/FAQs.aspx> (accessed February 14, 2008).

FIGURE 1. How Households Would Pay a Large Bill in an Emergency



Source: Annie E. Casey Foundation, Making Connections Cross-Site Survey (2002–2004).