“It’s Almost a Trap: Homelessness and Predatory Financial Exclusion”

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 On any given night in Los Angeles, 57,794 people may be homeless, which is a 23% increase from the 2016 total of 46,874.[[1]](#footnote-1) In the Service Planning Area 2 jurisdiction which includes the regions of Northern Los Angeles, it is estimated that approximately 8,000 individuals experience homelessness on a given night. The focus of research on homelessness has centered on several common explanations about the root causes of the situation such as mental illness, domestic violence, substance abuse, physical disabilities, veteran status, developmental disabilities, and chronic health issues. Although this may address homelessness as an individual issue, it fails to acknowledge an important structural factor, namely the impact of an individual’s financial circumstances on the inability to secure stable housing. In the 21st century United States, the collapse of the financial and real estate markets escalated the rate of homelessness. Research into the financial circumstances of the homeless and its impact on an individual’s loss of home and ability to secure stable, long-term, permanent housing provides the basis for early intervention and encourages policy change surrounding predatory loans.

 The “It’s Almost a Trap: Homelessness and Predatory Financial Exclusion” study explored the financial circumstances, specifically the connection between payday loan debt and other personal loans, on a person’s experience with homelessness. This research was in consultation with a local San Fernando Valley homeless services organization, which has seen an increased number of individuals with payday loan debt. These loans come with high interest rates that make it nearly impossible for low-income families to escape the burden of debt. That the rise in homelessness has been precipitated by predatory financial exclusion practices is the focus of this study.

**Research Questions**

 This research assessed the impact of payday loan debt and other forms of debt on homeless individuals. The Individual Finances Study asked: how do the financial circumstances of individuals contribute to their homelessness?

**Literature Review**

Social exclusion theories (Wallace and Quilgars 2005) examine the social justice implications of social marginalization and there are many ways that individuals can be marginalized (ex: stigmatization, substance abuse, lack of access to health services, difficulty accessing resources, etc.). For the homeless, this marginalization culminates with various forms of financial exclusion (Wallace and Quilgars 2005). The collapse of the financial market and real estate crash in the first decade of the 21st century created a distressing financial exclusion situation.

 The National Alliance to End Homelessness (2013) recognizes the financial difficulties of homeless individuals and lists economic security as an important factor in securing housing[[2]](#footnote-2). Poor credit can create boundaries to access banking services, which then leads to a reliance on predatory, payday loan companies. High housing rates, low income, predatory loans, large debt, and lack of financial well-being contribute to growing stress and a financial downward spiral.

*High Housing Rates and Low Income*

 Research from Johnson (1999) suggests high housing rates and low wage work are predictors in the cycle of homelessness. It is not necessarily personal characteristics that lead to low-wage work, but structural issues that deny these individuals lucrative options. An interview with male homeless shelter users revealed that job loss was a leading factor to homelessness (Schwend, et al. 2015). Shinn et al. (2007) predicted that low income and high levels of economic stressors contribute to homelessness, and this bore out in their study in which 22% of participants had lost a job. However, it is not just stressful life events or low wages leading to homelessness, but it is events that lead to a loss of resources, such as an eviction or job loss (Shinn, et al. 2007).

*Predatory Loans and Large Debt*

 Homeless individuals often lack fiscal knowledge, and Lux and Mikeszova (2013) reported seventy-four percent of the respondents in their survey had poor financial literacy and deep debt. Many of the respondents with debt had consumer loans. The social workers identified two important attributes that most homeless people share: psychological predispositions and unaddressed bad debt (Lux and Mikeszova 2013). Although payday loan companies provide assistance for financially fragile individuals, it comes with a high-interest loan and leads to greater financial vulnerability and entrapment in a cycle of debt (Younghee, et al. 2014).

*Financial Well-being and Stress*

 Household indebtedness can prohibit a person from gaining access to proper housing. Often, clients do not realize the amount of their debt, disregard written warnings of eviction, and lack financial planning skills (Lux and Mikeszova 2013). The majority of families in a shelter program were there because they had experienced a housing or financial crisis (Steen and Mackenzie, 2013). However, through interviews, the research team concluded that severity of financial stress could be lessened through financial counseling and literacy training (Steen and Mackenzie 2013).

**Hypotheses**

 Low levels of income and higher amounts of financial debt are associated with an individual having longer and more frequent experiences with homelessness. Furthermore, among the homeless, high levels of economic stress are associated with poor financial well-being and high levels of psychological stress.

**Methodology**

 Participants in the IRB-approved study were recruited through a convenience sample. All participants were 18 years or older and clients of two different Los Angeles based homeless service organizations. Data collection included a 32-question survey that asked demographic information about the individual’s experience being homeless, and financial information. Individuals were asked to participate in a 30 minute to 1-hour face-to-face, qualitative interview to gather more in-depth information about their experience being homeless in connection to finances.

*Measures*

 The data collection instruments measured a number of factors related to homelessness and the financial circumstances of individuals. The survey investigated the amount of stress an individual feels as a result of their financial circumstances, as well as an individual’s perceptions of debt, particularly when compared to the actual amount of debt they carry. Additionally, financial exclusion is assessed, conceptualized as a consequence of poor financial circumstances which result in poor credit and exclusion from traditional banking institutions. Financial exclusion is important in the context of homelessness as this can exacerbate the social exclusion that homeless individuals face.

*Sample*

 Included in this study were 18 survey participants and 4 interview participants. Women make up 66.7% of the participants, and the group’s average age is 35.5 years. The majority of the participants were Hispanic (61.1%) and have completed some college but have not received a degree (50%). Sixty-one (61.1%) percent of participants reported that this is the first time they are experiencing homelessness and have been homeless for 3-12 months.

**Results**

*High Housing Rates and Low Income*

 Five participants reported the inability to find a good paying job and 8 reported the lack of affordable housing as a reason for the difficulty finding secure, permanent housing (Table 1). Fifty-six percent (55.6%) of participants were working; of those working 44.4% are working full-time. However, despite working they still find themselves unable to make ends meet. The participants express frustration with their inability to find an affordable place to say and low wages:

***Kim****, a Hispanic, 30-year old mother of 3. Kim has earned her Bachelor’s degree and is currently working full-time and is homeless for the first time. Kim says, “I am not able to afford any type of housing at this time due to rent increases in the valley and because I am not able to find an employment that would give me the hours and if they do give me the hours the benefits have to come out of pocket and with a family of 5 it can get pretty expensive quickly.”*

***Esmerelda****, a 30-year-old, single mom says, “I just didn’t have enough money, just living paycheck to paycheck and let’s say something happens, like I have to fix my car or like I don’t know I have to use money and I end up with nothing for a whole week or two weeks and I would have to get a payday loan.”*

***Rachel,*** *a single mom of 3 with a full-time job says, “I’ve been looking for a place now for two weeks, and it is so depressing. I don’t have much to go towards rent. Even though I am working, I don’t make enough to pay what is required for rent on your own.”*

*Predatory Loans and High Amounts of Debt*

 The majority (77.8%) of the study participants had some kind of financial debt. Fifty-six percent (55.6%) of participants state that financial debt has contributed to their becoming homeless and the length of time that they have been such. Participant’s debt ranges $250 to $35,000, with an average of $8,223.

**Kim** has a total of $13,300 debt. She has two payday loans: $5000 with 180% interest rate and $300 with 165% interest rate. In response to being asked if debt contributed to being homeless, Kim responded by saying, “The money that I make is mostly to pay for my day loans.”

Sandy, a working, single mom of 4 kids, expressed the predatory nature of payday loan companies:

But yeah payday loans are huge, it’s almost a trap. It’s a quick fix but you pay for it in the long term... In a moment of desperation. Because they know people need it now to pay their bills, to keep the car or apartment or home and they aren’t regulated you know, you can take out $300 and end up pay $1500-$2100 in the end.

*Financial Well-being and Stress*

 Many of the participants expressed poor financial well-being (Table 2), (ex: males have a mean of 4.25 out of 5 when asked if having real financial problems). When asked about perception of personal debt, “some debt” (55.6%) was most commonly reported, and 22.2% of participants said they were in “serious debt.” To be clear, responses are based on perceived debt and how an individual defines that amount, in association with the other circumstances impacting their housing status, can vary greatly. While, they may perceive having “some debt,” the severity of the financial circumstances paints a different picture. For instance, Timmy an unemployed 27-year-old, male with a substance abuse problem has four payday loans totaling $255 each. Timmy characterized himself as having “some debt”; however, with the high interest rate of a typical payday loan, the modest amount of $255 can double or triple in a just a few weeks.

 The majority of participants agreed that thinking about their financial circumstances is anxiety producing (mean of 3.76 on a 5-point scale), can make their “heart race” or make them “feel stressed” (mean of 3.35) (Table 3).

When Sandy was asked how her financial situation impacted her stress level she responded,

Oh it’s incredible! Because, like I said, I am a single mom of 4 kids so I have to support them and support myself and I don’t have any other options and I certainly don’t want to get into more loans … So it’s constantly there, every week. I live paycheck to paycheck.

**Conclusion**

 These findings demonstrated an association between negative financial circumstances and homelessness. Bad credit, large debt, and lack of a living wage create financial exclusions that both generate and exacerbate homelessness. Predatory credit agencies put individuals into financial situations that may be inescapable. Homelessness and finances are highly sensitive issues that many individuals are not comfortable discussing, thus, data are difficult to collect as those who have fallen into homelessness are often embarrassed or ashamed of their financial circumstances and/or homeless status. Further survey and interview data collection is planned in order to better understand the relationships between homelessness, debt, predatory loans, and financial exclusion. It is only by knowing the connections/associations of the homeless experience that risk factors can be addressed and eliminated.

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**Appendix A**

**Tables**

**Table 1**

**Circumstances for Homelessness**

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| --- |
| **What are the circumstances that led you to homelessness?** |
| **Circumstance** | **Count** |
| **Other** | 11 |
| **Loss of job** | 8 |
| **Family issues** | 8 |
| **Inability to find affordable housing** | 7 |
| **Inability to find a good paying job** | 5 |
| **Inability to get enough hours at work** | 4 |
| **Change in relationship status** | 4 |
| **Mental health** | 4 |
| **Eviction** | 3 |
| **Substance abuse** | 2 |
| **Unexpected loss of a loved one** | 1 |
| **Illness** | 1 |
| **Foreclosure** | 1 |

**Table 2**

**Measuring Financial Wellbeing**



**Table 3**

**Measuring Financial Stress**



1. https://www.lahsa.org/documents [↑](#footnote-ref-1)
2. http://www.endhomelessness.org/pages/economic-security [↑](#footnote-ref-2)