Center for the New Middle Class

Life Just Gets in the Way

An unexpected bill of $2,900 is cause for financial crisis. Unless you have less than prime credit, in which case, a $1,400 bill will send your finances into a tailspin. That means a child's broken arm would be a severe annoyance to a prime consumer's personal balance sheet, but a devastating blow to someone with a less-than-prime credit score.

Elevate's Center for the New Middle Class studied individuals' financial resiliency to find that access to credit can make or break one's finances during a crisis.

The press has wrung their collective hands over the idea that 47% Americans can't come up with $400 in case of an emergency. Whether it's the Washington Post, The Atlantic, or NPR, that statistic seems to be everywhere. In the same vein, the Associated Press and USA Today reported that two-thirds of Americans couldn't cover a $1,000 crisis.

But what does this really mean? Does this statistic consider cost of living in different locations? Certainly, $1,000 doesn't go as far in New York City as it does in Fayetteville, AR. And are the questions being answered even clear? What does "come up with $400" even really mean?

Are these questions of liquidity, credit availability, or financial flexibility?

The Center decided to explore the issue a little differently. We asked Americans how much the minimum amount would have to be for an unexpected bill to cause significant disruption to their monthly finances.

We think that this is the real issue at hand - when does a bill become a crisis?

Individuals with prime credit, on average, said the size of that bill would be $2,900. When you think about it, this makes sense for a prime consumer. They may not have the cash on hand, but they have options like credit cards, bank loans, and even 401k loans that could help them bridge financial gaps. For this group of consumers, only when you start getting to a $3,000 unexpected expense do things become much more disruptive.

However, individuals with nonprime credit hit financial crisis at $1,400, less than half of the amount of their prime counterparts.

This places several common unexpected expenses in category of expenses in which nonprime consumers can't fulfill, even though prime consumers are able to fulfill without much trouble. Examples of the average cost of common expenses below.

Transmission	$2,800
Broken Arm	$2,500
Apartment first/last rent	$2,462
Intrastate move	$2,300
Semester at community college	$1,630

This means, moving from one city to another for a better job would be a great step up for someone with prime credit but might actually be a significant setback for someone without the means to come up with the $2,300 needed to make it happen.

So where do nonprime consumers turn when they need to come up with the money to make it through some of life's common financial speedbumps? With many unable or unwilling to borrow from friends and family in times of need, their options are limited to products such as payday loans, title loans, check cashing services, and pawn shops.

This challenge is summed up beautifully by Sandy, a member of the New Middle Class. Jonathan Walker, Executive Director of the Center, spoke with her about her financial situation. Sandy said that she once had perfect credit. But after her husband lost his job, she was diagnosed with cancer, and they also incurred legal fees for the custody battle of a grandchild, it all became too much. "You never plan to have poor credit, she admitted. Life just gets in the way."