April 2014

RESEARCH BRIEF:

Financial Counseling & Access for the Financially Vulnerable

cfed
expanding economic opportunity

Prepared by the Corporation for Enterprise Development (CFED) for the U.S. Department of the Treasury

Is financial counseling for participants in a job training program effective?

Approximately one in 12 American households do not have a checking or savings account, and among very low-income households, the proportion that is unbanked jumps to more than one in four.[1] Not only do these low-income households lack basic financial tools, but they may also need to build their financial capability—the ability to make informed decisions about the use and management of money. There has been a surge in interest in how to improve the financial capability of low-income households among practitioners, policymakers and researchers. Research suggests that the combination of education and access may improve financial knowledge, behavior and outcomes.[2] However, research to-date largely examines the impacts of financial education and financial access as a single treatment, without attempts to untangle interactions or 'bundling' strategies.

With support from the U.S. Department of the Treasury, Corporation for Enterprise Development (CFED), the Center for Financial Security at the University of Wisconsin-Madison (CFS) and the New York City Department of Consumer Affairs Office of Financial Empowerment (OFE) partnered on a pilot program to test the effect of pairing of financial access and an average of one to two hours of financial counseling on the financial capability of a population transitioning off of public benefits in New York City. This brief summarizes the findings of the Assessing Financial Capability Outcomes (AFCO) pilot, which was integrated into one of the largest transitional employment programs in the country. The 1,034 participants were offered safe, affordable bank accounts with direct deposit, and half were also offered free one-on-one financial counseling with trained providers through the City's Financial Empowerment Centers.

The AFCO pilot's quasi-experimental design allows an examination of the impact of the financial counseling on participants' financial capability and well-being, including credit history, financial behavior and attitudes. The pilot's implementation was also documented to examine how financial empowerment services can effectively be integrated into an existing workforce program. Programs working with clients in financial transition such as transitional employment, welfare-to-work, domestic violence and prisoner re-entry programs may achieve stronger outcomes if their clients are given tools to better manage their money, improve their credit scores and plan their financial futures.[3]

[1] *2011 FDIC National Survey of Unbanked and Underbanked Households* (Washington, DC: Federal Deposit Insurance Corporation, 2012), http://www.fdic.gov/householdsurvey/2012_unbankedreport.pdf.

[2] For a review of these studies, see Christi Baker and Doug Dylla, *Analyzing the Relationship between Account Ownership and Financial Education* (Washington, DC: New America Foundation, 2007), http://newamerica.net/publications/policy/analyzing_relationship_between_account_ownership_and_financial_education.

[3] For more on the potential impact of an integrated services model, see *An Integrated Approach to Fostering Family Economic Success: How Three Model Sites are Implementing the Center for Working Families Approach* (Baltimore, MD: The Annie E. Casey Foundation, 2010), http://www.aecf.org/KnowledgeCenter/Publications.aspx?pubguid=%7BF0C4C227-E25E-4B20-A005-0DE98C2FA82C%7D.

Key findings from the pilot include:

- **Participants who received counseling were more likely to stay current on debt payments.** Participants offered counseling had a 5% reduction in the percentage of debt that was past due after 12 months, and those that actually attended counseling had a 14% decrease over the year. There was no effect on credit scores after 12 months. However, credit scores are also not very sensitive to short-term behavior change, thus percentage of debt past due may be a better measure of financial capability for this population.
- **Integrating access to accounts dramatically increased the banked status of participants**. Over the course of the study, the percentage of participants who reported being banked moved from one-third at baseline to almost 60% at six months, and over half still reported being banked at 12 months. The pilot demonstrated high demand for financial services among this population, but there remained significant barriers to account ownership for a number of participants.

Pilot Design

The AFCO Pilot was implemented within the New York City Parks and Recreation Department's Parks Opportunity Program (POP), one of the nation's largest transitional employment programs for individuals transitioning off of TANF (Temporary Assistance for Needy Families). POP provides six months of full-time employment coupled with job search counseling and other human capital enrichment activities to approximately 6,000 adults per year. Participants work 35 hours per week earning $9.21 an hour as employees of the Parks Department. The participants' goal is to prepare for, search for and find secure employment during the program, and transition from public assistance to self-sufficiency. Participants cycle through the program building their skills in weekly specialized vocational and job-readiness training. Participants may also enroll in education (GED, adult basic education, ESL) and computer classes in preparation for private sector employment.

Between January and May 2012, all people enrolled in POP were offered a free checking account with a local bank, Popular Community Bank, and direct deposit of their paycheck. The accounts had no monthly fee, no minimum monthly balance requirement and there was no direct marketing of overdraft protection.[4] Bank representatives were available on-site to open the accounts, and

Keys Lessons from the AFCO Pilot Implementation

- Time the offer of financial services so that they occur when program participants are most open to changing their financial behaviors, such as the start of a new job.
- Treat account opening, direct deposit enrollment and financial counseling as part of the social service program rather than as optional extras. Extra activities can get lost in the shuffle of competing priorities.
- Make program participation convenient by providing multiple opportunities to open accounts and enroll in services on-site.
- Encourage multiple financial counseling visits as part of the program in order to increase the effectiveness of the counseling.
- Address clients' possible distrust of services by coupling peer-to-peer messaging with expert advice. Former POP participants delivered the offer of products and services, using real-life examples to describe the benefits of bank accounts, but bank representatives were also on hand to answer direct questions.
- Pre-screen financial institution partners and products to ensure they are appropriate for an unbanked population. Understand clients' perceptions of the participating financial institutions, as people often have strong opinions regarding the financial institutions that they want to use.
- Have a plan in place to address participants who are denied account access by the bank.

[4] This step was intended to protect participants from unintentionally incurring overdraft fees. Without overdraft protection, point-of-sale purchases or ATM withdrawal requests were denied in the case of insufficient funds in the account, limiting the accrual of overdraft fees. However, participants could still incur insufficient funds fees in certain situations.

participants were given account numbers that same day to facilitate signing up for direct deposit of their City paychecks. Participants were offered a $25 incentive to enroll in direct deposit. The offer of the banking products was integrated into the POP orientation session and the first professional development day, and it was presented by former POP participants, who also provided very "light touch" financial education about the benefits of using safe, affordable transaction products and the convenience of direct deposit.

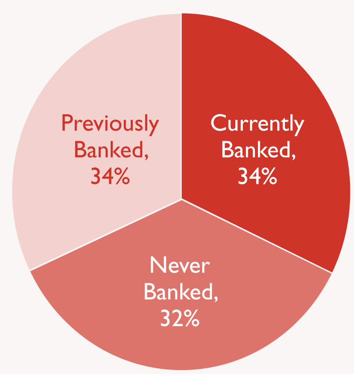
Half of the POP participants were offered the opportunity to attend one-on-one financial counseling with certified counselors at NYC's Financial Empowerment Centers during their prescribed work hours. Sessions lasted between 30 minutes and an hour, and counselors engaged with each POP participant in a full financial health assessment that looked at their finances overall, reviewed their credit report and helped them to establish a plan of action for addressing any issues. Participants who were offered counseling were credited with a full day of work with pay to attend their initial session, and they also had the option to return for a second session on work time. The offer of financial counseling was randomized by month of hire and by borough in which the POP site was located. Of those who received the offer, 186 or 37% attended counseling during the study period. Just over half of participants who received counseling (53%) attended just one session and 32% attended two or three sessions, but there were a small number of participants (28 people) who attended between four and 13 sessions.

The data used to examine the impact of financial counseling were collected at baseline and then six and 12 months following enrollment from credit reports, self-reported surveys, administrative data from the Parks Department and the Financial Empowerment Centers, and monthly bank transaction data for those participants who successfully opened accounts.

Focusing on a Vulnerable Population

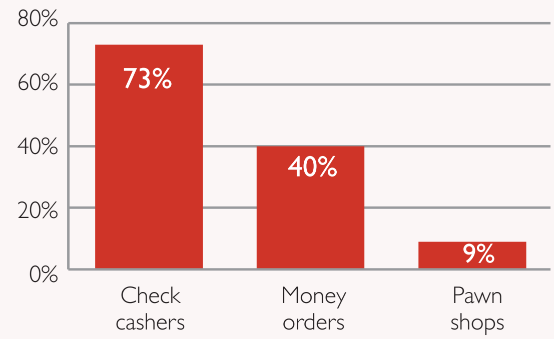
Participants in POP are heads of households transitioning from TANF and have been screened for "work-readiness," which includes screening for mental health and substance abuse issues, physical capability and the ability to take direction in English. Approximately 80% of all people who began POP between January and May 2012 enrolled in the research study, resulting in a final sample of 1,034 participants.

Figure 1: Baseline Banked Status



Baseline data on the study population revealed significant of levels of financial vulnerability. The majority of the sample was single women of color with children with an average age of 36. One in five participants reported being homeless or living in a shelter. Approximately two-thirds of participants were unbanked in the month prior to enrolling in the study, and half of those had never had a bank account. Three out of four reported using alternative financial services, the most common being check cashers followed by money orders (see Figure 2), and 46% of participants stated that they felt they had little to no control over their finances. The average debt was $5,316, and 37% of that debt was past due 30 days or more. The average credit score (of participants who had a score) was 558, well below what is generally considered a good credit score. Almost half of participants did not have enough credit history or credit activity to have a credit score.

Figure 2: Baseline Use of Alternative Financial Services



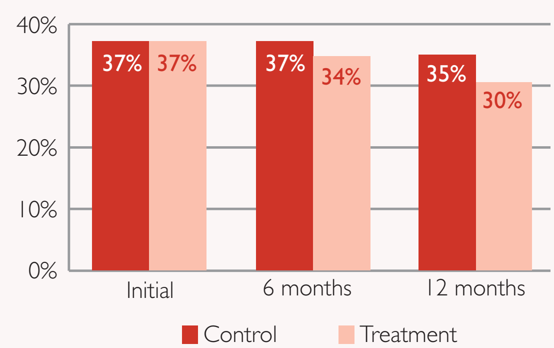
Over the 12 months we followed this population, the participants, on average, were on a positive financial trajectory. Average credit scores steadily increased, and the reported use of alternative financial services such as check cashers decreased. However, the data show a less rosy picture when looking at the rate of participants' employment after the POP program. At the end of the six-month POP employment period, only 18% of participants reported having found outside employment. At 12 months, (six months after they completed POP), the employment rate rose to 35%. The rate of POP participants entering unemployment following POP is in line with POP's overall statistics, and it is important to keep this context of long-term unemployment in mind when considering the results of this study. Populations who lack employment and face extreme levels of financial instability may still benefit from financial counseling and access to mainstream financial products and services, but expectations about the degree to which these services can ameliorate larger issues need to be held in check.

Table 1. Changes in POP Participants over the 12-Month Study

	Baseline	6 Months	12 Months
Credit Score	558	561	570
Uses AFS	74%	70%	64%
Employed full time	100%	6.9%	12.1%
Employed part time	0%	11.5%	23.1%

Key Findings

Figure 3: Percentage of Debt Past Due

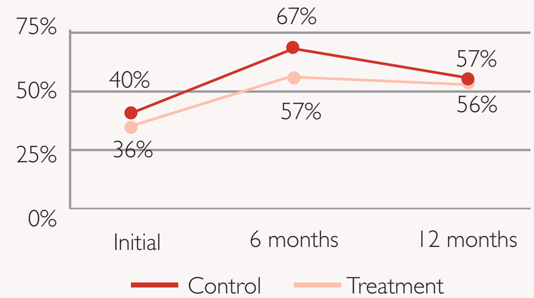


Debt and Credit: The primary finding of this study is that participants who received counseling were more likely to stay current on debt payments. Participants who received the offer of counseling had a 5% reduction in the percentage of debt that was past due after 12 months, and those who actually attended counseling had a 14% decrease over the year. This is an important outcome as it suggests the counseling services helped clients focus on financial management, and these behaviors were maintained even after the counseling was completed. Paying bills on time is a leading indicator for improving credit history and ultimately credit access over the life course.

Between baseline and six months, participants offered counseling did see an increase in credit scores, although not at statistically significant levels. And by 12 months there was no measurable impact between the treatment and control groups. However, fewer than half of participants in the study had a credit score and few had credit scores that were able to be matched at all three periods, reducing the statistical power of these estimates. Credit scores are also not very sensitive to short term behavior change, thus percentage of debt past due may be a better measure of financial capability for this population over this time period.

Demand for Banking Services: Embedding the offer of a bank account into the orientation process—and having bank representatives onsite to process applications—made a dramatic difference in the banked status of participants overall. Over the course of the study, the percentage of participants who reported being banked moved from one-third at baseline to almost 60% at six months, and over half still reported being banked 12 months after enrollment in POP. There was, however, no significant impact of counseling on whether or not a participant was banked at six or 12 months. During the pilot, 49% of POP participants applied to open an account, and 55% signed up for direct deposit of their paycheck,[5] suggesting that there was an unmet demand for financial products among this population.

Figure 4: Percentage Banked



Barriers to Banking: However, a number of the individuals who attempted to open an account were unsuccessful. Approximately one-third of the participants who applied for a checking account on-site at POP did not successfully open one, and a key obstacle was negative reports in ChexSystems, an account verification service used by financial institutions to identify account applicants who may have a problematic account history. According to Popular Community Bank, of the 175 participants whose accounts were not opened, almost half (46%) had ChexSystems profiles. Most of the negative ChexSystems profiles indicated some prior misuse of an account (e.g., owing a balance on a previous account, the majority of which were under $500). Only 33 profiles in ChexSystems reported fraudulent activity on a previous account.

Account Use: Account transaction data on the POP participants who successfully opened accounts provide insight into how this population managed their bank accounts. The average account had a balance of $107 during the first six months of the study when participants were employed through POP, and a $91 balance in the six months after leaving POP. Approximately one in four accounts incurred at least one bank fee—typically fees for insufficient funds or returned items, and fees were an average of $47 over the life of the account, approximately 50% of the average balance they carried over the life of the account. Accounts were open for just under an average of eight months, and as of June 2013, 23% of accounts opened through the AFCO pilot were still open.[6] There were no significant differences in account use or length of time the account was open between those participants who received counseling and those that did not.

Financial Planning Behaviors: Participants were asked in surveys about steps they were taking to manage their personal finances, including (1) reviewing a credit report, (2) creating a debt payment plan, (3) establishing a new source of credit, (4) using a savings program, (5) increasing amounts put into savings and (6) increasing amounts put into paying off debt. There was a significant increase in participants engaging in these positive behaviors, particularly reviewing a credit report, after the offer of financial counseling between baseline and six months, although not at 12 months. However, participants were asked about steps taken over the last six months, and some steps, such as signing up for a savings program or creating a debt repayment plan, may only need to be taken once, assuming the participant sticks with them.

[5] Take-up of direct deposit is higher than take-up of the bank accounts as some participants that were previously banked signed up for direct deposit to their existing account or prepaid card. According to administrative data from the Parks Department, the percentage of POP employees who utilized direct deposit prior to the AFCO pilot was 16%.

[6] This level of account retention was considered good by Popular Community Bank. It is lower than account retention rates reported for other account access programs, such as local Bank On programs. Bank On Savannah and Louisville have reported account retention rates of 86% and 85% after one and two years, respectively. However, the population participating in Bank On in these communities chose to open accounts voluntarily rather than as a part of a research pilot and is likely not as highly financially vulnerable or unemployed as the POP population.

Implications for Policy and Practice

This study provides promising evidence of the impact of financial counseling, and it is encouraging to see that access to a only an hour or two of one-on-one financial counseling sessions was able to produce several outcomes that—while small—helped the POP population make inroads toward reducing their debt, improving their credit and building financial management skills. However, the level of financial vulnerability in the POP population suggests that the findings from this study may not be generalizable to the overall adult population. The POP population faces additional barriers and challenges that may limit the potential the impact of counseling on their financial capability, such as high rates of homelessness and unemployment and a lack of experience with mainstream financial products. Despite these qualifications, the AFCO pilot can offer several important insights on the topic of expanded financial access that are instructive for both policy makers and program administrators.

Insight #1: More can be done to integrate financial services and products into government programs and the workplace.

This study shows that it is possible to successfully integrate the offer of banking products and counseling into a large public program offering intensive services to a high need population. Compared to the cost of a six-month job training program, an hour of financial counseling is a relatively cost-effective strategy to add to existing services to help someone improve their financial burden and behavior.

Workforce programs in particular offer an ideal setting for the integration of financial access and counseling. Programs are working to move participants into the labor force or unsubsidized employment, increasing and stabilizing their incomes. With this boost in income, participants may have the resources to tackle financial issues, perhaps for the first time. Counseling also has the potential to help people plan and make effective choices about how to manage their income as well as manage their finances as they move into full-time work. A bank account could also be a helpful tool to manage their earnings and expenses as they move from benefits into financial independence.

And while this pilot was focused on integrating access to financial products and counseling into a government program, it was also a pilot that integrated these services at the place of—and point of—employment. There is much from this model that has implications for private sector employers who could consider integrating access to financial product and education services into both the orientation process and ancillary Employee Assistance Programs.

Insight #2: More transparency and consistency in account history reporting systems may expand access.

The high take-up rate of the bank accounts in the AFCO pilot suggests that unbanked participants had a strong desire to become banked and would take advantage of an opportunity if offered an account with affordable terms that was easy to open. However, the study also highlights some of the barriers those outside of the mainstream face in opening traditional bank accounts. A number of participants were unable to open bank accounts because of negative ChexSystems reports. Consumers lack information about ChexSystems and how to resolve negative reports, but there also appears to be a lack of universal practices in the financial industry about what triggers negative reports to ChexSystems, what information about the account is disclosed to the reporting agency, and how consumers are notified once they are in the system. Financial access could potentially be expanded by increasing the transparency of ChexSystems and improving standards for what financial institutions report to both the reporting agencies and customers. Regulators may be able to do more to ensure that financially vulnerable individuals, who are most at risk of being denied access to mainstream financial products, are aware of the system, know how to access and use reports, and understand how to rectify or dispute outstanding issues. Much like efforts have expanded consumer knowledge of, access to and use of credit reports, a similar effort would be valuable related to account histories.

Insight #3: Explore ways to improve account use and management.

Account management also proved challenging for some POP participants who opened bank accounts through pilot, as evidenced by the high average fees and number of accounts closed by the end of the study. Perhaps account use would have been more successful if participants had received financial counseling prior to opening accounts. However, the closed accounts may not represent a poor financial decision on the part of clients. It may be the case that a traditional bank account, even one with safe terms, does not fully meet the needs of this financially vulnerable population, particularly when they no longer have a source of steady income. In interviews, participants stated that they did not see a reason to use a bank account if they were unemployed. It may be beneficial to look at other types of financial products, such as prepaid cards, or at ways to increase the functionality of existing public benefits transaction products, that may be more flexible for a population transitioning from benefits to unsubsidized employment or between public programs.