Financial Capability Research

Updates from the US Department of the Treasury

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Presentation Topics & Where to Find More

• Assessing Financial Capability Outcome Pilots
  – Youth
  – Vulnerable Adults

• Read more at:  www.treasury.gov – Consumer Policy Resource Center
Assessing Financial Capability Outcomes: Youth

Purpose: Better understand how to provide children with the financial skills to become economically successful

Eau Claire, Wisconsin
- 2011-2012
- 2012-2013

Amarillo, Texas
- 2012-2013
Research Questions

• Do students gain financial knowledge and understanding by participating in a financial education curriculum?
• Do students gain more financial knowledge when they also attend a school with a credit union or bank branch?
• Are students more likely to open a savings account and/or make deposits if they are participating in a financial education curriculum?
• Do students have more positive attitudes toward savings and financial institutions if they have access to a school branch?

<table>
<thead>
<tr>
<th></th>
<th>Financial education</th>
<th>No financial education</th>
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<tbody>
<tr>
<td>Credit union or bank in school</td>
<td>Credit union or bank in school + Financial education</td>
<td>Credit union or bank in school + No financial education</td>
</tr>
<tr>
<td>No credit union or bank in school</td>
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<td>No credit union or bank in school + No financial education</td>
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Financial Education and In-School Accounts

Classroom Financial Education
• Five or six lessons from Financial Fitness for Life curriculum over 5-6 weeks
• 45-minute lessons taught by classroom teachers
  – Teachers trained for three to eight hours on curriculum and materials
• Content focused on using a savings account
  – Defining income, expenses and savings
  – Wants vs. needs, incentives and goals
  – Compare savings options and understanding interest

In-School Financial Institution
• Eau Claire – Royal Credit Union School $ense
• Amarillo - Happy State Bank Kids’ Banks
  – **Account Type:** Joint ownership savings account (also opened minor only account for the pilot)
  – **Account Opening:** On-line, at a branch, or at school
  – **Frequency:** once a week during study period
  – **Transactions:** HSB -- deposits only at school branch, RCU – deposits and small withdrawals
  – **Student Staffing:** HSB - student tellers work with HSB staff, RCU – trained student tellers
Data

Knowledge

• Financial Quiz Score: The number of questions answered correctly

Attitudes

• Spend Money Immediately: Five-point scale how often a person finds it hard to avoid spending money immediately.
• Easy to Save: Five-point scale how often a person finds it easy to save money.
• Saving is for Adults: Five-point scale how often a person feels that saving money is only for adults.
• Banks/Credit Unions Useful to You: Five-point scale on the degree to which a person believes that banks /credit unions offer useful services.

Account Activity

• Account Ownership: Student reports whether or not he or she has a savings account in his or her own name.
• Net Deposits: Total amount of money that is deposited into the account, net of the total withdrawn from the account.
• Active Account Use: Number of distinct occasions on which money is deposited or withdrawn from the account.
Sample Size & Results

<table>
<thead>
<tr>
<th>Sample Size</th>
<th>Eau Claire</th>
<th>Amarillo</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Financial Education</td>
<td>320</td>
<td>285</td>
<td>605</td>
</tr>
<tr>
<td>Financial Education</td>
<td>380</td>
<td>418</td>
<td>798</td>
</tr>
<tr>
<td>Total</td>
<td>700</td>
<td>703</td>
<td>1,403</td>
</tr>
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</table>

Overall Results

– Large effects of education on knowledge questions
– Moderate effects of in-school banking and education on attitudes
– Education and bank access boost bank account ownership by kids
– Effects persist
Key Findings

• Education – relatively brief– has impact on knowledge
  • And it lasts at least from 4\textsuperscript{th} to 5\textsuperscript{th} grade

• Being banked intensifies the effect
  • Banked students are likely different...but banks in schools and incentives facilitate account ownership

• Attitudes about financial institutions strongly influenced
  • By education and even just having a branch in school

• Account use proved hard to measure stably
Purpose: Understand the impact of financial counseling and financial access on the financial capability and well-being of low-income, unbanked populations transitioning off of public benefits.
Research Design: Integrating AFCO into POP

**New Hire Orientation** => 2 weeks

**Field Orientation**

**1st POP Staff Development Day**

**POP**

- Direct Deposit Offer
- Checking Account Offer

**AFCO**

- Financial Access & Light-touch Education
- Peer + Expert
- Direct Deposit Offer
- Checking Account Offer
- Study Enrollment
- Financial Counseling Offer

**Randomly Assigned Treatment**
Financial Product & Financial Counseling

Popular Community Bank (formerly Banco Popular)
• Free, “safe” checking account with direct deposit
  – no minimum balance requirement
  – no monthly fee, no minimum number of transactions.
  – Automatic opt-out for overdraft protection
  – Free ATM card, Network of free ATMs
  – Free online banking, bill pay
• Participants could open account on site and sign-up for direct deposit of their paycheck at the same time

NYC Financial Empowerment Centers
• Free One-on-One Financial Counseling
• Counselors work with clients to review full financial picture and identify unique needs.
  – Banking -- Savings
  – Credit -- Debt
• Create a plan to strengthen financial health and put it in to action
  – Negotiate with creditors
  – Create a budget and savings plan
  – Find affordable financial products and services
  – Make strategic referrals, and more.
Account Take-Up and Barriers

<table>
<thead>
<tr>
<th>Status</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Banked at Baseline</td>
<td>34%</td>
</tr>
<tr>
<td>Never Banked at Baseline</td>
<td>32%</td>
</tr>
<tr>
<td>Never Write Checks</td>
<td>79%</td>
</tr>
<tr>
<td>Never Bank Online</td>
<td>63%</td>
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<tr>
<td>Never Bank with Mobile Phone</td>
<td>67%</td>
</tr>
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</table>

- 49% applied for bank account
- 55% applied for direct deposit
  - Prior to AFCO was 15%
- About 33% of participants who applied for accounts weren’t successful

Chex Systems, 46%
Other Reasons, 54%
Misuse of Account, 27%
Fraudulent Activity, 19%
Typically Attended Single Counseling Session

- Number of Participants
- Number of Sessions Attended

- Bar chart showing the distribution of participants across different numbers of sessions attended.
Data

**Survey Data** (Intake, 6 months, 12 months)
- Current banking status
- Financial situation, behaviors, and attitudes
- Demographic characteristics

**Credit Reports** (Baseline, 6 months, 12 months)
- Credit score
- Debt levels
- Accounts Open, Past due

**Bank Account Transaction data** (32% of clients, 49% had accounts)

**FEC administrative data on counseling attendance**

**Parks Dept. administrative data on post-POP employment**
## Results

### Changes in Population over 12 Months

<table>
<thead>
<tr>
<th></th>
<th>Baseline</th>
<th>6 Months</th>
<th>12 Months</th>
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</thead>
<tbody>
<tr>
<td><strong>Credit Score</strong></td>
<td>558</td>
<td>561</td>
<td>570</td>
</tr>
<tr>
<td><strong>Banked</strong></td>
<td>34%</td>
<td>59%</td>
<td>54%</td>
</tr>
<tr>
<td><strong>Uses alternative finance</strong></td>
<td>74%</td>
<td>70%</td>
<td>64%</td>
</tr>
<tr>
<td><strong>Employed full time</strong></td>
<td>100%</td>
<td>6.9%</td>
<td>12.1%</td>
</tr>
<tr>
<td><strong>Employed part time</strong></td>
<td>0%</td>
<td>11.5%</td>
<td>23.1%</td>
</tr>
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</table>
Key Findings

• Financial counseling—even relatively modest provision—can be beneficial
  – Decrease in percentage of debt that is past due at 6- and 12 months
  – Increase in credit scores at 6 months, but no measurable effect by the 12 months (post employment)
  – Increase in financial planning behaviors (reviewing a credit report) at 6 months (but not 12)

• Credit issues common and often serious

• Unbanked “problem” needs more analysis:
  – Even “Safe Accounts” can be used sub-optimally
Insights for Policy & Practice

• Integrating Access to Financial Products and Services is Feasible at Scale
  – Account communication, marketing, features, context, incentives, hassle factor/process...all these matter

• Successful Account Use and Management is Challenging
  – Traditional account may not meet the needs of all members of this population,
  – Sequencing services to improve account use

• Integrating Financial Counseling Can Be Challenging
  – Counseling may require repeated follow ups

• Financial Fragility Limits the Potential for Financial Capability Interventions
  – Financial capability impacts from low-intensive programs in the context of unstable (or zero) income are relatively challenging to achieve