

Research Brief

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## Financial Counseling and Financial Access among Job Training Participants

J. Michael Collins, Nathalie Gons, & Kasey Wiedrich

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The current pilot study tested the degree to which offering bank account access by itself and in combination with financial counseling in the context of an existing workforce program improved the financial capability of a financially vulnerable population. A high rate of account take-up suggests that unbanked participants had a strong desire to become banked when given access to an account with agreeable terms. Financial counseling was associated with a decrease in the percentage of debt past due at six and twelve months following enrollment, as well as increases in credit scores and financial planning behaviors (especially reviewing a credit report) at the six-month mark. The results led to five main insights: integrating access to financial products and services is feasible at scale; successful account use and management is challenging; more transparency is needed in account history reporting systems and proactive consumer guidance for repairs; integrating financial counseling into an existing workforce program is a complex process; and expectations of the impact of financial capability interventions offered to vulnerable populations should be shaped by a realistic assessment of the context.

### Introduction

Research suggests that financial education and financial access may improve financial knowledge, behavior, and outcomes. However, prior studies have lacked a formalized quasi-experimental framework that facilitates a causal analysis of financial counseling, and few have examined a population as financially distressed as the focal respondents in the current study. In addition, the extant research largely examines the impacts of financial education and financial access as a single treatment, without attempts to untangle interactions or assess “bundling” strategies.

The U.S. Treasury-funded Assessing Financial Capability Outcomes (AFCO) Pilot tested the degree to which offering bank account access by itself and in combination with financial counseling improved the financial capability of a financially vulnerable population. The study integrated financial empowerment services into an existing workforce program: the New York City Parks Opportunity Program (POP), a transitional employment program for adults moving off public assistance.

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### Pilot Design and Implementation

POP is one of the nation’s largest transitional employment programs. Administered by New York City’s Department of Parks and Recreation, POP provides six months of full-time employment coupled with job search counseling and other human capital enrichment activities to approximately 6,000 adults receiving public assistance annually. POP participants work in New York City’s parks, playgrounds, and recreation centers, with the goal of transitioning to private sector employment and self-sufficiency.

The New York City Department of Consumer Affairs Office of Financial Empowerment (OFE) managed the implementation of the research pilot and hired three former POP participants to assist with enrollment and implementation. Feedback from these former POP partici-

pants on what messages and real-life examples resonated with them informed the script used in the offer of bank accounts, financial counseling, and the opportunity to participate in the study. Between January and early May 2012, the POP specialists worked at POP locations in four New York City boroughs to enroll POP participants in the study and implement the pilot.

<i>Baseline Characteristics of Study Participants</i>	
<i>Male</i>	<i>22%</i>
<i>Age</i>	<i>35.5</i>
<i>Married</i>	<i>8.5%</i>
<i>Have Children</i>	<i>76%</i>
<i>Banked</i>	<i>34%</i>
<i>Use Alternative Financial Services</i>	<i>74%</i>
<i>Savings</i>	<i>\$122.00</i>
<i>Debt (excluding mortgage)</i>	<i>\$5,316.00</i>
<i>Credit Score</i>	<i>558</i>

*Banking Access.* All participants were offered checking accounts at a local bank, Popular Community Bank (formerly Banco Popular). The account included no direct marketing of an overdraft protection option, no minimum monthly balance requirement, and few other requirements. Popular Community Bank also agreed to be flexible with regard to opening accounts for POP employees with past problems with a transaction account.

During the POP orientation day, the POP specialists offered all POP employees Popular checking accounts and direct deposit of their paychecks. A Popular staff member was present to facilitate the account opening and answer questions. Participants were able to fill out direct deposit forms while opening their accounts. Study participants who did not open an account at orientation were offered a second opportunity two weeks later, at which time they were offered a \$25 incentive for enrolling in direct deposit.

The response to the bank account and direct deposit offers was more enthusiastic than expected. Of the POP participants enrolled in the study, 55% signed up for direct deposit and 49% applied for a new checking account

with Popular. The high take-up of accounts suggests that unbanked participants had a strong desire to become banked when given access to an account with agreeable terms. However, even with the flexibility offered in the pilot study, up to 40% of participants who applied for a checking account were unable to open one, often due to negative ChexSystems reports.

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*Financial Counseling.* About one half of the POP employees were offered the opportunity to attend one-on-one financial counseling during their prescribed work hours. The offer to participate in counseling was randomized by month of hire and the borough of the POP site (to avoid bias, the counseling assignment was switched after approximately half the participants were recruited). The counseling was provided by New York City's Financial Empowerment Centers, which offer financial counseling at over 20 locations citywide at no cost to participants.

Counselors were informed of the unique needs of this client group with reference to direct deposit and the Popular accounts. However, the counselors also engaged with each client to examine their overall finances and establish a plan of action to address a range of needs including: budgeting for transitions, credit review and repair, reducing debt, and planning for future needs. Sessions lasted 30 minutes to an hour, and participants were credited a full day of work with pay to attend their initial session. Participants had the option to return for a second session on work time, and if the counselor recommended, additional sessions were compensated.

According to administrative data, approximately 186 participants (37%) who were offered counseling actually attended counseling at a Financial Empowerment Center. Just over half of these participants (53%) attended one counseling session, 32% attended two or three sessions, and the remaining 15% attended between four and thir-

teen sessions.

*Data.* The data for this study consist of a combination of self-reported and administrative data collected at baseline and six and twelve months after enrollment. Six months post-enrollment is a critical juncture, as it coincides with the end of participants' enrollment in POP. Between January and May 2012, approximately 1,300 POP participants were recruited, and 1,034 consented to participate. These clients also received a \$25 gift card to compensate them for their time.

Baseline data on the study participants paint a portrait of a very financially vulnerable population from traditionally disadvantaged communities. Most are single women with children, and one in five live in a homeless shelter. Approximately one third reported having a bank account in the month prior to enrolling in POP, and 74% reported using alternative financial services, including money orders and check cashers. The average credit score of 558 was well below what lenders would consider a good credit score, and almost half of the participants with a credit report did not have enough credit history or activity to have a credit score. The final notable aspect of the data is that all POP employees seem to be on a positive financial trajectory in terms of improving credit scores, being banked, and reduced use of alternative financial institutions.

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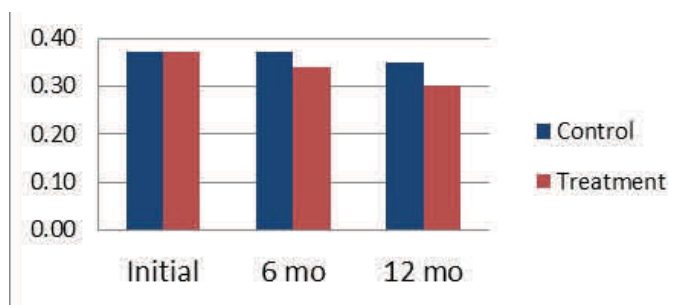
*At six months, there was some increase in credit scores for clients who took part in counseling, but not at standard levels of significance. At 12 months, the direction of the results was reversed, but was still not statistically significant.*

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### Analysis and Results

*Credit Outcomes.* At six months, there was some increase in credit scores for clients who took part in counseling, but not at standard levels of significance. During the 6-12 month period, control groups caught up to the progress made by the treatment groups in the first six months, and at the 12 month follow-up, there was no measurable effect of counseling on credit scores. The lack of significant effects may have been due to the small sample size (only 343 study participants had credit scores reported in all three periods), which reduced the statistical power of these estimates.

### Estimated Effect of Offer of Counseling on Percentage of Debt Past Due



The results indicate that, on average, the offer of counseling (regardless of take-up) produced a 5% reduction in past debt due over 12 months, and actually attending counseling produced a 14% decrease. These reductions were concentrated among respondents without credit scores. Large changes in the percentage of debt past due were also dominated by people who had zero debt at one endpoint and positive, but completely past due debt at the other (e.g., went from 0% past due to 100%, or vice versa).

*Banking Outcomes.* Financial counseling is associated with an increase in bank accounts in the 6-12 month period (likely due to the persistence of accounts opened while employed by POP), but the estimates are not statistically significant.

There is directional evidence that counseling actually reduced (logged) bank balances in the 6-12 month period (post POP), although there are no statistically significant effects. Looking at the actual (non-logged) balances, this translates into an average balance of about \$41 less among counseled clients. Further analyses suggest there is not a relationship between an individual paying down debt and lower bank balances.

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*The results suggest that financial counseling may be associated with reduced bank balances in the 6-12 month period, and an increase in the fees incurred; however, neither estimate is statistically significant.*

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About 28% of the POP participants in the bank data paid at least one bank fee. On average, fees were about \$47 over the lifetime of the account. Additional analysis suggests that counseling may actually increase the fees incurred. One possible explanation of this pattern is that

counselors may have promoted the use of automatic electronic funds transfers for bill payments.

*Financial Planning Outcomes.* Six survey questions inquired whether participants had taken the following steps to manage their personal finances in the last six months: (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.

Counseling was associated with positive changes in reports of these financial planning behaviors in the first six months of the study. Additional analysis suggests this result is largely driven by respondents' increased likelihood of reviewing a credit report.

### **Insights from Implementation**

Through a series of one-hour interviews conducted with program stakeholders including POP participants, POP staff, financial counselors, and Popular Bank staff, we documented the strengths and weaknesses of the pilot's implementation and the experiences of the participants in three key areas: account take-up, account use, and financial counseling take-up.

The key elements of the pilot program that encouraged account take-up were the timing of the offer (at the POP orientation), the convenience of the account opening process, the delivery of the account offer by former POP participants, and the \$25 incentive for signing up for direct deposit.

The Popular Community Bank account data suggest that not all participants used their bank accounts successfully. The interviews indicated that this was because not all participants understood the fee structure of the account, participants believed that a bank account was not useful when they were unemployed, and Popular did not have a good reputation among many participants.

Finally, the interviews highlighted several obstacles to financial counseling take-up and success. POP specialists were unable to contact the majority of those who had signed up for counseling, and thus were unable to schedule appointments. For those who did schedule an appointment, the attendance rate was only 65% (which is on par with attendance rates for other similar groups). The financial counselors interviewed also noted that repeated counseling sessions, a minimum of two or three,

are usually necessary for financial counseling to have a substantial effect on an individual's personal finances.

### **Insights for Practice and Policy**

*Integrating Access.* The results of the study show that integrating access to financial products and services is feasible at scale. The high take-up rate of bank accounts suggests that unbanked participants had a strong desire to become banked and would take advantage of an opportunity if offered an account that had agreeable terms and was easy to open.

The results suggest that embedding financial product offers and financial counseling in public programs can be an effective way to promote financial access and financial capability. Workforce programs in particular offer an ideal setting, as these programs work to increase the incomes of participants and move them into the labor force or unsubsidized employment. This model also has implications for private sector employers who could consider integrating similar access to financial products and education services into both the hiring/orientation process and ancillary Employee Assistance Program (EAP) benefits.

#### **Insights for Practice and Policy:**

- 1.) Integrating access to financial products and services is feasible at scale.
- 2.) Successful account use and management is challenging.
- 3.) More transparency is needed in account history reporting systems and proactive consumer guidance for repairs.
- 4.) Integrating financial counseling into an existing workforce program is a complex process.
- 5.) Expectations of the impact of financial capability interventions offered to vulnerable populations should be shaped by a realistic assessment of the context.



*Challenges for Vulnerable Populations.* While the program design succeeded in getting people into accounts, successful account use and management remained challenging for participants. Thus, ways of encouraging successful account use need further examination. Traditional bank accounts, even ones with flexible and affordable terms, may not fully meet the needs of this financially vulnerable population, particularly when they no longer have a source of steady income. It may be beneficial to look at ways to further improve the structure of accounts specifically for low-income consumers or increase the functionality of existing public benefits transaction products, such as electronic benefit transfer (EBT) cards, to better ease the transition into mainstream financial products. Future research should also explore the effects of offering counseling before, rather than after, participants open bank accounts.

*Transparency.* The frequency with which accounts were denied due to negative ChexSystems reports highlights the need to closely scrutinize the structural barriers to financial access that are associated with this system. Consumers lack information about ChexSystems and how to resolve issues. The financial industry lacks universal practices about what triggers a negative report to ChexSystems, what constitutes leniency for second chance accounts, and how consumers are notified when there are issues to resolve. Financial access could potentially be expanded by increasing the transparency of the ChexSystems program and improving consumers' understanding of the system.

*Complexity of Integrating Financial Counseling.* Integrating financial counseling within a multi-site work program proved to be a complex process. The provision of highly customized one-on-one counseling is not easy to integrate seamlessly into an existing program. Even though participants did not lose pay, attending financial counseling appointments required taking time off work and traveling to another location. Given the nature of this transitional employment program and the array of other services offered to participants, taking time for financial counseling meant not taking part in other potentially valuable activities. Past experiences with clients in New York City have also shown there may be many reasons why more people did not attend a counseling session, including not understanding what counseling would entail, thinking that counseling is not for people like them,

or believing that they did not have enough money to address any issues.

*Expectations.* Expectations of the impact of financial capability interventions offered to vulnerable populations should be shaped by a realistic assessment of the context. The participants in this study were extremely financially vulnerable. Given the context of their lives, it is unrealistic that an hour of financial counseling could have an outsized effect on their overall financial well-being. Indeed, it is encouraging to see that access to a limited amount of financial counseling was able to produce several outcomes that, while small, helped participants make inroads toward reducing their debt, improving their credit, and building financial management skills. While counseling may be more likely to have a greater impact on more financially stable participants, the potential importance of counseling for highly vulnerable populations should not be undervalued.

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### **The Center for Financial Security**

The Center for Financial Security at the University of Wisconsin-Madison conducts applied research, develops programs and evaluates strategies that help policymakers and practitioners to engage vulnerable populations in efforts which build financial capacity. The CFS engages researchers and graduate students through interdisciplinary partnerships with the goal of identifying the role of products, policies, advice and information on overcoming personal financial challenges.

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**UNIVERSITY OF WISCONSIN-MADISON**

UW-Madison School of Human Ecology

Nancy Nicholas Hall

1300 Linden Drive, Suite 4285

Madison, WI 53706

[cfs@mailplus.wisc.edu](mailto:cfs@mailplus.wisc.edu)

[cfs.wisc.edu](http://cfs.wisc.edu)



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