Financial Empowerment Centers & Safe Start Savings Accounts:

Findings from Five Focus Groups

January 2011

Prepared for:
New York City Center for Economic Opportunity (CEO)

Prepared by:
Westat
1600 Research Boulevard
Rockville, Maryland 20850-3129

Westat

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FINDINGS FROM FIVE FOCUS GROUPS

Authored by:
Cynthia Robins
Alicia Norberg
Jennifer Hamilton

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OVERVIEW

The Center for Economic Opportunity (CEO) was established by Mayor Bloomberg in December 2006, following the recommendations of the mayor-appointed Commission of Economic Opportunity (Commission), to implement innovative ways to reduce poverty in New York City. The CEO works with City agencies to design and implement evidence-based initiatives aimed at poverty reduction and manages an Innovation Fund through which it provides City agencies annual funding to implement such initiatives. To date, CEO has funded approximately 40 initiatives across some 20 sponsoring agencies. CEO also oversees a rigorous evaluation of each program to determine which are successful in demonstrating results toward reducing poverty and increasing self-sufficiency among New Yorkers.

As part of its anti-poverty objective, CEO encouraged New York City's Department of Consumer Affairs to create an Office of Financial Empowerment (OFE), whose mission would be to educate, empower, and protect New Yorkers with low incomes and help them make the best use of their financial resources. In support of this mission, OFE has worked to improve residents' access to income-boosting tax credits; connect households to safe and affordable banking and asset-building products and services; and enforce and improve consumer protections to enhance financial stability. In addition, OFE created a network of Financial Empowerment Centers (FECs), which are located in high-need communities throughout the city. Each Center is run by a community-based organization and works closely with schools, homelessness and foreclosure prevention services, community courts, credit unions, and other neighborhood institutions. At the FECs, residents can receive free one-on-one financial counseling to help reduce their debt or address problems with debt collectors, improve credit scores, improve their money management skills, and start saving money. Counselors can also provide free referrals, as needed, to social service providers or more advanced asset-building assistance (homeownership, entrepreneurship, post-secondary education, etc).

This report summarizes our findings from five focus groups with individuals who received financial counseling services from one of a number of FECs throughout the City. The aim of the project was to hear from focus group participants about their experiences with the FECs: how they heard about the FECs, the kinds of financial challenges that they hoped would be addressed by a FEC counselor, their assessments of the assistance they received from the counselors, and their experiences with the banking industry (good or bad) both before and after visiting a FEC, plus decisions for opening (or not opening) a SafeStart account. In addition, participants were asked for suggestions about how to improve Safe Start accounts and/or FEC services so that the Centers could better meet the needs of other low-income New York City residents.

In the first section below, we describe the methods used to conduct this study. Included in this section is a detailed description of our recruitment strategy and our findings from that endeavor. We then describe our approach to the focus groups themselves, including group logistics and the key questions asked in the discussion protocols. Finally, we briefly describe our analytic approach to the data, noting both the strengths and limitations of the information obtained through this methodology.

We then present our findings for each of the key study questions. The reader should note that for such questions as how clients heard about the FEC or the kinds of financial challenges they faced, our findings are illustrative – not an exhaustive list – of the many different pathways that individuals may take to a FEC. The FECs' client population may indeed share similar experiences, but only a survey could indicate the extent to which focus group participants' lives and service experiences mirrored that of the larger population. In addition to addressing the key project questions, we also present some unanticipated findings from these five discussions. These include the extent to which the affective component of service delivery (i.e., emotional support) seems to matter, as well as how fragile that linkage can be for this cohort of service recipients.

Finally, we offer participants' suggestions for ways in which FEC outreach and services (including banking services) may be modified in order for the Centers to better meet the needs of other low-income residents throughout the city.

METHODS

Recruiting

Six weeks before the focus groups were scheduled to be held, the Department of Consumer Affairs, Office of Financial Empowerment sent Westat a list containing the names and contact information of all individuals who had gone through at least an intake at one of the Financial Empowerment Centers in the city. For each individual, we had the name of the non-profit organization that sponsored the FEC that s/he had attended (e.g., Credit Where Credit Is Due, Bedford-Stuyvesant Restoration Corporation), and one of three indications about the individual's bank account status: All clients who were believed to have opened a Safe Start account were so indicated, as was the date on which the account was reported to have been opened; clients who did not open a Safe Start account, but who had another type of bank account were labeled as "Other;" and individuals for whom no follow-up information was available were listed as "Unknown." While it was believed that many of this last group may well be "unbanked," it was also conceivable that some of these individuals had opened an account and simply failed to follow-up with the FEC.

Our recruiting goals, including the participants' banking status and the FEC where they received services, are presented in the following table:

Group Number	Account Status of Participants	Sponsoring Non-Profit Organization of FEC
1	**Safe Start Account Holders** **Goal: Recruit 12, 8-10 to show**	• **Credit Where Credit Is Due** • **The Financial Clinic**
2	**Clients with Other Accounts** **Goal: Recruit 12, 8-10 to show**	• **Credit Where Credit Is Due** • **The Financial Clinic**
3	**Safe Start Account Holders AND Clients with Other Accounts** **Goal: 6 Safe Start and 6 Other (3 from each site)**	• **BSRC** • **Phipps**
4	**Spanish Language** **Safe Start Account Holders, Clients with Other Accounts, and Unbanked Clients** **4 Safe Start, 4 Other Accounts, 4 Unbanked**	• **Credit Where Credit Is Due**
5	**Unbanked** **Goal: Recruit 2-3 from each site for a total of 12**	• **All Sites**

Challenges to recruiting

Making Contact: One of the greatest challenges to recruitment was simply making contact with the individuals on the list. Westat's primary recruiter made 642 calls to 552 unique telephone numbers belonging to 485 unique persons. Of the numbers she called, fully 143 (or 26%) were the wrong number, disconnected, not in service, or were unable to be completed as dialed. The multiple call attempts to the same number were the result of incoming calls going directly to voicemail, or the phone simply ringing without anyone answering. We discussed this challenge with the OFE DCA, who noted that many of these individuals are so plagued by calls from bill collectors that they will not pick up for a number they do not recognize.

FEC Brand Recognition: In addition, when the recruiter was able to contact a person, she discovered that FEC clients generally did not recognize the Center by the name of its sponsoring non-profit, such as The Financial Clinic. Instead, they often referred to the street address of the Center they visited, such as "Fulton Street" or "100 Pennsylvania," or even the name of the social services organization in which the Center was located (e.g., Home Base). We deemed a few of these initial contacts as "ineligible" because they insisted they had not gone to – nor had they heard of – the sponsor's name. We subsequently adjusted our screening approach to include street names and/or the social service agency in which a sponsor's Centers are located (e.g., The Financial Clinic has sites at Pennsylvania Avenue, Catholic Charities Home Base, and LaGuardia Community College).

Bank Account Brand Recognition: The recruiter discovered that many individuals were not certain about the type of bank account they had opened. For example, several were unable to identify the type of account they had opened as a "Safe Start" account. Some knew that they had opened a special account because they had received a "voucher" from their financial counselor, but did not know the product by its name. As a result of this challenge, we recruited two "false positives," i.e., individuals who thought they had a Safe Start account, but who seemed unaware of the account features once they were in the focus group discussions.

Spanish Language Group: Credit Where Credit Is Due reportedly sponsors FECs in areas of the city that have large Spanish-speaking populations. Consequently, we focused our recruiting efforts for this group on those individuals on our master list that had gone to a CWCID Center. On occasion, our Rockville-based recruiter either had an individual answer the phone in Spanish, or the voicemail was in Spanish. She noted these instances and forwarded the information to Alicia Norberg, the Westat staff member who is fluent in Spanish and who ran the Spanish language focus group. Ms. Norberg initially went through the list of Spanish-speaking individuals who had visited a CWCID Center, but the group was still short of the required number of recruits. She subsequently followed-up with Spanish-speaking individuals who had visited Centers sponsored by other non-profit organizations, such as Phipps Community Development Corporation. Overall, Ms. Norberg contacted approximately 47 individuals across 50 unique telephone numbers, 5 of which were no longer in service or were the wrong number.

Net results of Recruiting

Despite the number of contact attempts, we were unable to meet our recruiting goals for all of the groups. Nevertheless, we did have enough participants to hold all five of the scheduled sessions. The table below shows the number of participants that we recruited for each focus group and the number of individuals who actually participated.

Group Number	Account Type	FEC Sponsor	Total Number Recruited	Total Number Recruited Safe Start	Total Number of Attendees	Number Attendees w/ Safe Start
1	Safe Start	CWCID and FC	9	9	8	7
2	Other	CWCID and FC	10	0	7	0
3	Safe Start and Other	BSRC and Phipps	12	6	7	2
4	Safe Start, Other, Unbanked	All sites - Spanish Language	10	3	6	1
5	Unbanked	All Sites	12	0	4	0
		TOTALS	53	18	32	10

The demographic characteristics of participants overall are shown in the table below:

Profiles of FG Participants (n=32)	n	%	Profiles of Service Recipients
Age range = 22-64			
Average age = 39			
median age = 38			median age = 38
under 25	4	12%	21%
26 to 40	13	41%	34%
41 to 55	14	44%	33%
Over 56	1	3%	12%
Gender			
Female	18	56%	60%
Male	14	44%	40%
Account Status			
Unbanked	6	19%	64%
Safe Start	10	31%	22%
Other	7	22%	14%
Other before FEC visit	9	28%	NA
Educational Attainment			
Unknown	1	3%	No similar category
Up to 12th grade, no grad	6	19%	21%
High school grad/GED	8	25%	45%
Some college	12	38%	No similar category
Associates Degree	1	3%	14%
4 year college grad	4	12%	13%
Race/Ethnicity			
Black/African American	18	56%	50%
Hispanic	10	31%	41%
White	2	6%	3%
Other	2	6%	7%

Focus Groups

All groups were held at the main office of the Department of Consumer Affairs, Office of Financial Empowerment at 42 Broadway in the Financial District of Manhattan. Each discussion was scheduled for 90 minutes. This included time to review the informed consent form and for participants to ask any questions about issues they felt might not have been covered in the consent. After participants introduced themselves to the group, the moderator led the discussion following the protocols developed for the participant characteristics in the different groups (e.g., the Safe Start participants were asked specific questions about their accounts, while the unbanked group was asked a different set of questions).   Despite the nuances in the protocols, our overall aim was to address the following issues:

- How participants found out about FECs;
- The financial issues that prompted their request for assistance;
- Their experiences with their financial counselors;
- Any past experiences (good or bad) with bank account(s) and/or banks;
- What made them decide to open (or not) a Safe Start account;
- Their financial plans for meeting future goals; and
- Any recommendations for improving FEC services.

The four English language groups were moderated by Cynthia Robins; Alicia Norberg moderated the Spanish language group. Both moderators are full time employees of Westat, in Rockville, Maryland. All five groups were recorded (with participants' permission) to ensure the accuracy of this report.

A light meal was served at each group, and all participants received $50 cash and a $27 Metro card (weekly pass) for their participation.

Analysis

Our analysis of the focus group discussions is based on careful and multiple reviews of the five audio files. For the Spanish language group, Ms. Norberg reviewed the files and wrote a brief report that presented each individual as sort of a "case study." Dr. Robins reviewed all four English language groups, and transcribed the discussions as they occurred around key topic areas in the protocol. Overall, the participants' experiences are remarkable for their idiosyncrasies – they found out about the FECs in numerous different ways, they often had quite unique circumstances that surrounded their financial challenges, and they not only worked with different banking institutions, but different branches within those institutions. That being said, where feasible, we sought to make comparisons among individuals' experiences. These comparative points are presented in the Findings, below.

FINDINGS

Overview

In our analysis of the focus group data, we are able to offer OFE some important insights into the issues of interest, including how clients may find out about a nearby FEC, some of the reasons individuals come to a FEC for services, their experiences with the financial counselors, participants' experiences with the financial services industry and how those experiences impact their willingness to open a Safe Start account, and where focus group participants offered suggestions for changes to the way in which FEC services are delivered. We summarize our findings for each of these issues in the pages that follow.

How Participants Learned about the FECs

Focus group participants described a myriad of ways in which they found out about the Financial Empowerment Centers. Most of our participants said they were referred to a FEC through another social service provider in the city. In the "unbanked" group, for example, two individuals had gone to a FEC as part of their probation requirements upon getting out of jail. And participants in different groups said they found out about the services through their participation in various citywide housing programs, including Home Base and Work Advantage, or job development/training programs such as WorkForce One and Project Comeback. One individual found out about the services while attending a Veterans Affairs job fair. And still another individual who had been the victim of identity theft called the Northern Manhattan Bank to learn how to deal with identity theft, and they referred her to a FEC that offered classes on the topic.

Other focus group participants, most of whom did not describe themselves as being connected to the social service system, said they found out about the FEC services after calling the 311 assistance line. These individuals said when they called the number, they simply explained to the operator the difficulty they were having. The operator asked them for their home zip code, and then referred them to the Center or Centers that were nearest to their home.

Four individuals said they learned about the FECs by seeing a flyer or poster around the metropolitan area. One person saw an advertisement in the morning newspaper, and subsequently called 311 to obtain more information. Another individual said he saw a flyer advertising a "Free financial clinic" at the George Washington bus terminal. He contacted the FEC in order to sign up for the clinic. A third woman saw a poster at an art museum in Harlem and went to the FEC to check her credit report. And a fourth individual said she happened upon a neighborhood FEC when she was out shopping and went in to ask advice about starting up a cleaning business in the city.

From these individuals' stories, it appears that the Financial Empowerment Centers are well-ensconced in New York City's network of social services, including the 311 assistance line. Marketing efforts, such as flyers and newspaper advertisements, while effective, were a less common route into a FEC for these focus group participants.

Personal Financial Circumstances

In each focus group we asked participants to briefly describe the reasons that they had sought financial assistance from a FEC. The stories they told – about their financial situations and the personal circumstances that surrounded the fiscal issues – were as many as varied as the number of participants. How to find commonalities among such disparate life stories? Interestingly, during the initial focus group one participant suggested that the FECs provide two levels of service intensity: one for individuals whose issues were not so profound, and another level for clients with multiple issues who might need to spend more time with a financial counselor. When reviewing the focus group discussions for this report, indeed there do appear to be different levels of concerns that are brought to the FECs. At the lowest level of intensity are those individuals who come to a FEC seeking one-time assistance or information. For example, several participants said that they had gone to a FEC simply to check on their credit reports or to find out how to apply for a business loan:

- "I went to Brooklyn Restoration Corporation to get my credit report and see what was on there."

- "I have a credit [history] because I have a T Mobile account and they said there was some sort of breach of security. So they gave me a year's free access to my credit report."
- "I started going there because I applied for an apartment last year and my credit seemed not to be good when I thought it was ok. There are lots of [people with same name] out there showing up on my report, and it wasn't me."

Some participants found their credit reports to be fine and said they had no need to come back to the FEC for assistance; others discovered inaccuracies on their reports and learned how to file a dispute with the assistance of a financial counselor at the center; still others found that they had outstanding debt that was bringing down their credit scores. Many of these individuals subsequently worked with a financial counselor to develop a payment plan with the creditor.

Similarly straightforward were those participants who had no credit history at all, and so went to a FEC to learn how to establish such a history.

> "I had been in financial difficulty for some time…and realized I needed a financial counselor as part of moving forward…What I needed to do was build credit. I didn't have any debt – it wasn't good or bad. Even just to get an apartment I had to have some credit. So I needed to establish some credit."

In most of these cases, participants recounted that the counselors helped them open up a secured line of credit (with some insisting their Safe Start account was opened for that purpose1) so that they could begin to establish a payment history.

At the moderate level of need were those individuals who came into a FEC seeking assistance for a known debt that was troublesome. One woman, for example, had contacted a FEC for her brother, who was stressed by the outstanding debt he had to a credit card company. Because he was only making the minimal payments, she said, "It was impossible for him to bring the credit card balance down." By the time she contacted a financial counselor, he was over $14,000 in debt.

Another young woman confessed that she also had trouble with credit cards: "I went because I was a complete delinquent. As soon as I turned 18 I was getting all these credit cards. I don't know how many

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[1] We have since learned that Safe Start accounts cannot be used as secured line of credit. We were unable to ascertain if participants had received incorrect information from their counselors, had misinterpreted the information they had received, or had simply confused their Safe Start accounts with another banking product.

credit cards I had, but I was $10,000 in debt." Although she had opened her own business and been able to pay off that debt, she asked for assistance to bring her spending under control.

These and similar instances were rarely "one and done" for the financial counselors, who not only had to work with the creditor to come up with a solution, but also –as noted by the young woman above – work with the client to ensure that s/he did not end up in the same indebted situation in the future.

At the far end of the needs spectrum were those individuals whose situations were quite complex indeed. While their credit histories often were not good, the histories were often the result of very difficult and troubling life circumstances. One participant, for example, had had an accident resulting in a long-term disability – she described her motivation for going to a FEC as a "catastrophic change in my financial circumstances" as a result of the injury and her need for assistance with coping with these financial changes. Another woman sought assistance after her husband left her and their children. He not only left her and the kids with no source of household income, but also took on enormous loads of debt in both of their names after the separation. She was thus in a major financial hole when she contacted the FEC, and with no apparent way to dig herself out. One of the gentlemen in the groups also told of seeking assistance after experiencing rapid, devastating changes to his life and financial circumstances. These included the death of his wife, being laid off from his job, having to have major surgery which was further impeding his ability to work, and being put out of his apartment because of his inability to pay the rent. At the time of the focus groups, this gentleman was living doubled-up in his brother's home.

For these and other focus group participants, the financial challenges were just one component of a very troubling whole. Not surprisingly, they often described multiple sessions not just with a FEC counselor, but with an array of other social service personnel as well.

Importantly, our findings on how focus group participants found out about the FEC services appears to overlap to some degree with these intensity levels. For example, those individuals who found out about the services after happening upon a flyer, advertisement, or even a center, could all be characterized as relatively low-intensity clients. The 311 callers had more intensive needs – generally of moderate intensity (request for assistance with clearing up stressful credit card debt), although the woman who had just gone on disability also contacted a FEC through this route. Finally, and perhaps not surprisingly, high-intensity clients tended to be referred to a FEC from another social service provider. For these cases, it is important to recognize that the services offered by the financial counselor may not result in the kinds of asset-building outcomes envisioned by OFE. One woman, for example, whose contact with the FEC was through a housing assistance program, said she had established a savings account, but "I haven't been able to save. Everything goes to rent."

Clearly it is one thing to encourage a young person with a job to set up a savings account and help him control unnecessary spending so that he can save for a major purchase (e.g., a car or down payment on a house); it is quite another to set up a savings account for an older woman who earns less than a living wage and who is doing whatever s/he can to stay out of the shelter system. We thus suggest that OFE consider the complexity of each client's situation when assessing the effectiveness of a specific intervention, such as the establishment of a Safe Start account.

Services Provided

<u>Instrumental Component of Services</u>

With only a few exceptions, participants described their experiences with FEC financial counselors to be very positive indeed. They assessed these interactions along two important dimensions. The first was the instrumental dimension, i.e., the extent to which the counselor was able to address very specific financial issues for which the client had sought help. Participants described their counselors as "knowledgeable," particularly with respect to cleaning up credit reports:

- "I had a bill for $1000 and I showed [my counselor] and I said, 'I don't know what this bill's about.' He showed me how to write for consumers, gave me a letter for the bill collectors, the Better Business Bureau, and everything. He also mentioned the statute of limitations – it was over 10 years ago, he said, 'It's dead.'"
- "I went into the center and said 'I have a decent job, maybe I'll take some of this money and pay it towards some old phone bills, cable bills.' I was so desperate to do that. I wanted to pay the company so I could consolidate it or whatever. The counselor gave me a lot of options – call and see if time expired on [the debt]. She gave me numbers to call and see if [the charge] was me [not identity theft] – a lot of it was me. It wasn't as bad as far as the amount owed, but I knew it wouldn't be that easy to just clear it up. I also found out that you have to have them give you a written 'paid in full' to get it off the credit report. I found out a lot of pros and cons about that."

- From woman whose brother owed $14,000 in credit card debt: "The counselor asked if it was possible to pay it in a lump sum – maybe she could work something out for him. She got it down to $5500, he paid it, and it's over. It was over in less than a month. It was incredible. …My brother said 'Everything's done!' but the counselor said, 'We're not through!' She said we had to deal with the credit union to make sure [the debt] is wiped out. He was done, he didn't want to go…but she said, 'No, no, we have to finish this.' …I'm telling you, this woman was incredible."

Participants also described receiving useful advice on how to manage their money:

- "She taught us how to open an account, even if not a bank account, how to save money at home. She also taught me how to keep track of my expenses and determine what expenses are unnecessary. And when she taught me that, I started saving. Right now I've got like $1000 just at home."
- "I went down to see about my credit report. Before I left, the guy gave me a monthly budget paper. So I made 12 copies, one for each month. I started checking my expenses by the budget and realized that I could control that. I'm doing fine and catching up, getting to the point where I'll be able to have some extra money."
- "The good part is there's a lot of information, and no matter where I went I was able to get access to a lot of information. Everyone was incredibly informed."
- "Walking the streets of New York is very tempting. The lady told me not to do that – to cut back expenses. So I gained knowledge of what I owe – so now I know what I have. What they instilled in me was you've gotta have a plan. A reasonable plan according to your situation. That's what I'm trying to do."
- In the Spanish language group, one participant was referred by her counselor to a 6-week class where she learned how to manage her money and credit cards. She described it as "very important" and "interesting" experience where she gained many benefits from attending. She has learned how to manage her finances, periodically check her credit score, and how to keep track of what she spends.

Although most participants reported very good experiences with their financial counselors, there were a very few whose stories suggested they had received less-than-optimal services. One woman, for example, had gone to the FEC to obtain assistance with cleaning up her credit report. She noted that the counselor provided her with the report, but then focused almost exclusively on getting her to open a new bank account (in this case, a Safe Start account). While this participant had followed through with the account establishment, she was disappointed that her presenting need went unmet:

> "It seemed like they couldn't help me with the old debt. They just concentrated on my credit now, or how I was spending now, or how I could save now. I kept asking about old debt, that's really what I wanted cleared up. That's the reason I went, and I don't really feel like I got the help that I needed….in the meantime, I did open a bank account and I did start to save. But as far as my old debt, I didn't really [settle it]."

In another case, a woman in the Spanish language group said she had gone to a FEC to learn how she could establish credit so that she might obtain a loan to start a small business. She was told by the counselor that she would be receiving invitations for credit cards and that she should apply for them to develop a history. This participant applied for several cards and used them, and then found herself in debt. When she subsequently applied for a loan, she was told she owed too much money and so would not qualify for a loan.

While clearly these were not the kinds of outcomes OFE would like, it is important to note that such experiences were very rare among the focus group participants. Indeed, it seems as if these few instances were the result not of a philosophical or structural problem with the FEC itself, but perhaps a counselor who was not at the top of his/her game.

Affective Component of Services

In addition to describing these task-specific services offered by the counselors, participants also noted how "caring" their counselors were. At one level this theme was unexpected. As a culture, we generally think about money and credit as being driven by reason, not emotion – by definition, the "free market" is meant to be unencumbered by interpersonal relations; money is "cold hard cash;" and financial exchanges have become increasingly devoid of any interpersonal contact as individuals make online purchases, have direct deposit into their bank accounts, and withdraw cash from their accounts not through a teller, but an ATM machine. Yet financial difficulties are fraught with such emotions as embarrassment, shame, and at times, outright panic. One woman clearly described why she thought individuals need the kind of help offered by the FECs: "How can we manage these things when we are all upset?"

Several individuals described how important their financial counselors were not just to their financial well-being, but their emotional health as well:

- "The ten minutes I spend with my counselor, if he wasn't there, nine times out of ten I'd have spent those ten minutes picking someone's pocket."
- "My counselor was always very nice to me, she just tended me – she was having some time for me every time I called."
- "I love Financial Clinic because they were like, 'You're fine. We're going to do your taxes, we're going to court for you, we're going to take care of you.' And the people who work there are some of the most caring patient people I've ever worked with – really amazing people."

The caring side of financial assistance services is perhaps easy to overlook, but clearly was a critical component of the services offered by the FEC counselors. Emotional "upset" can be a real impediment to a person's ability to deal effectively with almost any problem; where counselors could inject calm – and, indeed, some reason – into the situation, clients were able to take positive steps towards ameliorating their financial difficulties.

At the same time, and ironically, the personal connectedness that makes the encounter so positive can be the very thing that destroys it over the long term. As we see in the next two sections, issues of "trust" are paramount in this domain; as individuals come to learn how the financial services industry operates, their general willingness to trust others may become compromised. A seemingly innocent mistake on the part of a financial counselor may be all it takes to break down a once-healthy relationship.

Participants' Experiences with the Financial Services Industry

The majority of focus group participants were drawn to a FEC because of difficult past experiences with banks. Any number of "transgressions" had compromised their financial health. A small overdraft, for example, might have resulted in a large fee being assessed against the account:

> "You can go get a cup of coffee at Dunkin' Donuts and you can go over… you only went over $2, but you get an overdraft fee of $30. They're looking forward to you messing up so they can charge you $30!"

A person living on the financial edge can hardly afford to lose $30 to a bank. Yet in some cases, when the individual couldn't bring the balance back up from, say, the $32 deficit, more fees were assessed, putting the person even further in debt to the institution. For low-income individuals, this pattern could quickly create a debt to the financial institution that was insurmountable.

Failure to maintain a minimum account balance also could result in fees being charged or, worse, the account being closed by the bank:

> "I needed to have $25 in the account and I only had $15. The bank closed the account, and they kept my $15!"

Low-income individuals appear to be most at risk of falling victim to such standard institutional practices – middle-income individuals are less likely to find their monthly balances so close to the minimum required; and wealthy persons may have accounts that have no such requirement, since it may be assumed by the institution that the individual will have a sizeable account balance at all times. It was hardly surprising then that so many focus group participants described poor credit histories that contained at least one instance of being in debt as a result of a bank account problem.

Most striking about the stories, however, was the fact that prior to going to a FEC, so many of these individuals appeared to have very little understanding of how the financial services industry works. Consider, for example, the following individual's explanation for why she thought her credit report was good, despite the fact that she knew she had an overdraft in an account and owed the bank money:

> "I thought my debt went away because people are sending me credit cards. Yeah! [But] that sh-t didn't go away…I'm [now] trying to fix my credit. I'm working on it…I was being sued and I didn't even know about it. How do they do that when they're still sending me credit cards? It's still the same social security number!"

The public increasingly is becoming aware that credit card companies make their money not off of "deadbeats" (individuals who pay off their credit card balance every month), but those customers who maintain a balance and are thus forced to pay high interest rates. This focus group participant clearly was unaware of this fact, and still mistakenly believed that she was receiving multiple offers because she had good credit, not the other way around.

A gentleman in the same focus group offered this misconception about when outstanding debt "counts":

> "I had a bank account in the past with Chase. It was negative, I owed Chase money – I still owe them money. $500 or something. I didn't pay them to this day because it didn't show up on my credit report; I figured if it didn't show up on my credit report…"

One woman summarized the extent to which so many people are at a disadvantage when it comes to the financial services industry:

> "I was thinking that it might be helpful to have some sort of program or class in school, because I feel like the only time you get to learn about economics is if you take an economics class. If you don't have parents that have an understanding of finances, how are you supposed to learn? You end up in college with credit cards – all the sudden you're supposed to know how to do things, and it's really not fair."

For many of the focus group participants, the services they received from a financial counselor provided just this kind of understanding. One of the most important lessons was that money owed rarely "just disappears" from an individual's financial record. Several participants who had gone in search of a business loan, for example, discovered they were ineligible for a loan because of past debts incurred when they were younger. And in the "unbanked" group, one of the young men insisted he did not care about outstanding debt he had for a hospital bill; he simply wasn't going to pay it, he said. This gentleman was then soundly reprimanded by a woman participant who was roughly ten years his senior, who pointed out that he would indeed come care about not having paid that debt when he was ready to settle down and start a family.

An additional lesson was that although the system may be stacked against individuals who are poorly resourced, there are numerous ways – often involving personal connections - to get the system to work in one's favor. For example, several participants described how their financial counselors were able to lower the total amount of money they owed to a creditor simply by calling and working out an agreement with one of the company's financial representatives. The woman whose brother had $14,000 in credit card debt, for example, marveled at how his counselor called the creditor and worked out a deal whereby if he could pay $5500 in one payment, the rest of the debt would be written off. Participants in this and other groups described similar experiences.

Similarly, a couple of participants noted the importance of having a good relationship with the manager of the bank. As we noted earlier, one woman said when she received overdraft fees, she simply went to the manager and asked him to remove the fees - which he did. She did comment, however, that "Everyone is not fortunate to know the bank manager and so you have to pay the fees." The woman whose husband abandoned her and her children also knew that bank managers can generally make exceptions to the rules: "If the bank manager is helpful, it counts a lot." That said, she described two encounters with her Safe Start account where she did not have such good luck. In one instance, she deposited a small check, thinking that small amounts were not subject to the bank's policy of holding checks for ten days. She deposited a check for $200, but "I couldn't get any of the money out. I called the manager – he was not helping me at all. He said, 'So you do not like it, I cannot help you. You can get your money in I don't know how many days.' It was hell for me because of my problems and then dealing with these people."

For some participants, these insights into how banks work seemed to generate a sense of distrust. The following comments illustrate some of the ways in which participants framed their concerns:

- One woman who owed Target money had gotten some money and wanted to "make amends." She planned to go over to the store to pay off her bill, but called her counselor before doing so. The counselor advised against that action, noting that this woman would still need a "paid in full" letter in order to clear out the statement of debt. She said, "They almost got me!"
- The woman who described receiving an overdraft charge of $30 after purchasing a cup of coffee suggested that banks count on customers making these kinds of mistakes: "So I said, 'Hey, there's a catch to that!" She also noted the inherent challenge of knowing how much money is in the account at any point in time: "If I want to get a CD, I look at my account and see the funds are still there [even though she had bought something earlier in the day]. I see the funds are still there, so I use that money to buy a CD. Then three or four hours later… A lot of people don't know how it's run, they see the funds are still there, and it's a trick almost. 'I see the $500 there, I just took out $60, but why isn't it showing $440?'"

- A gentleman who had been out of work for some time warned others in the focus group about the banks: "They're not there to help you. They're not…All these nice commercials, 'We help you!' My grandparents never believed in banks, they said, 'The banks will rob you.'"

Certainly not all participants were so skeptical, but counselors should bear in mind that the FEC target population is one that has often been hammered by the larger economy: low-wage jobs, high rent, brushes with the shelter system, and unmanageable debt. The sense that the system is "designed for you to fail" (as one individual put it) is a perception shared by many individuals, and certainly may be a factor in the kinds of financial decisions these clients make going forward.

Safe Start Accounts

<u>Experiences of Participants Who Opened Accounts</u>

As noted earlier, participants' awareness of the Safe Start accounts – either that they had one or had been offered a voucher by their financial counselor – was somewhat limited. We initially believed this to be a branding issue, and that may still be part of the difficulty clients have with recognizing this banking product. After reviewing the focus group data, however, one has to wonder about the extent to which bank accounts are at the front of these individuals' minds. This seems particularly true for the high-intensity clients whose needs may be so profound that a bank account can hardly make a dent in the challenges they face. This is not to dismiss the importance of the Safe Start account for this population of clients, only to suggest that OFE might not want to put too much emphasis on enhancing brand recognition for this particular product.

To that end, most participants who had opened Safe Start accounts reported very positive experiences. They said they were particularly interested in the accounts because of the low opening balance ($5 or $25, depending upon the bank one went to) and the fact that fees were waived for the first two years. The discussions also suggested that several individuals believed they could use the Safe Start account as a secured line of credit, paying back the account over time so that they could begin to establish a successful record of payments.

At least three individuals who opened such accounts early, however, reported negative experiences with the banks. As discussed previously, one woman with a Safe Start account was about to close it because the bank was treating it like any other account. She had 10-day holds on checks that she deposited, and when she had an overdraft (because the money from the check was not available to her), she was charged a fee for that. Two other participants reported difficulty opening the account because the teller was unfamiliar with the product. One gentleman said he went into the bank with the voucher and his financial counselor's card:

> "The lady didn't know anything about it. I said, 'Listen, the voucher explains everything. I have a card with my counselor's name – if there's a problem, pick up the phone and call him!'

He described having to return to that branch two additional times before he found someone who could help him.   Another woman in the same focus group echoed this experience:

> "They didn't understand the vouchers, like it was something new. [The teller] had to go to his supervisors."

These two individuals indicated that they had opened their accounts early on, when the Safe Start product was just being rolled out, and suspected that might have been the source of the confusion. The participant who was about to close her account was clearly operating in the present, however, suggesting that not all banks – or at least bank branches – have been fully informed about the terms of Safe Start.

Why Participants Did Not Open Accounts

Individuals who did not have a Safe Start account offered a number of reasons why they had not taken up the offer from their financial counselors. Some participants already had other bank accounts and said they simply did not feel like opening a new account. In the Spanish language group, one respondent said he didn't want to bother with having to learn about all of the fee schedules and other "mañas" ("little annoying details") of another bank account. Similar comments were also made in the English language groups:

> "The counselor, she told me to go and get one of these. I don't know why I didn't. I just didn't feel like setting up a new account."

A couple of participants suggested that opening a bank account was low on their priority list, as illustrated by the following comment:

> "I needed $25 to start and a minimum balance of $500. I wasn't really concerned about that now, I was just trying to figure out the steps to take care of my credit report. Right now is just not the time for me. There are other things that I want to take care of, other things that I've started that I want to finish."

At least two participants (one of whom was in the "unbanked" group) expressed concern that if they opened an account, the bank to which they still owed money might come and place a claim on the money. And a couple of individuals said they did not like the fact that the account does not have a VISA debit card, just an ATM card. They said they saw little reason to put their money in the bank when they would still have to handle a financial transaction using cash.

Perhaps the most interesting were the two women in the unbanked group who adamantly refused to open a Safe Start account, providing several different reasons for their refusal. First, they noted that interest rates on savings accounts are practically nil and that, if they used a foreign ATM, they would lose more money taking their own money out of the bank than they would earn through interest rates:

- "There's no need for the savings if it's not growing nothing on it, there's no interest growing on it or anything, and then you still gotta pay to take the money out of your own savings. And after awhile with all the interest rates they want, you gotta pay because you took this out, to me I feel like I'm spending more money than I'm putting in the bank to save, or I'm spending more money to take my money out to save."

- "I had a checking and a savings account, but savings didn't do too much so now it's just checking…they really don't give you too much on it, so I can save it myself and have quick access."

In addition, and as suggested in the quote above, participants were concerned about being able to have access to their money. One gentleman in the unbanked group asked rhetorically, "What if I don't have my money right there?" And one of the women expounded on the point:

> "I got to pay you $500 to open up this account. I gotta leave this money or if I don't put a certain amount in at a certain time, you all charging me. That's my money! If I don't feel like putting my money in at that time – all banks, you have to have a certain amount of money in your bank account at a certain time or they're charging you. Why? It's my cash. No bank is better than no

other bank, they're all the same. 'We have free checking! Free savings! But then after the free checking and savings, next month, if you don't have this much in here, we have to take this.' They're all the same."

Both of these women had extensive knowledge about how the financial services industry operates, but were making different financial decisions as a result. The one woman, who had a small business, chose not to open a savings account because of the lack of interest and her need for "quick access" to her money. She did have a checking account for her business, however, and said, "I have no choice but to be in a bank." The other woman, however, demonstrated the extent to which clients may well take on the adage, "Once burned, twice shy." Her experience with Safe Start was further complicated by the fact that different banks apparently have different requirements, and what her counselor told her turned out not to be true where she tried to open an account. Her distrust is evident in her final statement:

> "And I went, that day, [the counselor] told me it was free – mostly $1 or $5, and when I went they wanted $25 and I didn't feel like giving them $25 that day. So I left. She told me it was $5, but they said $25 – so I got fooled."

We return to this theme of "trust" and the financial counselors in the next section.

Suggestions for Improving the Financial Empowerment Centers

In each group, we asked participants what they thought could be done differently to improve the services offered by the FECs. Many of their suggestions were straightforward and, in many cases, appear to be easily remediable.

Everyone on the Same Page

Participants' descriptions suggest that not all bank branches understand the particular aspects of the Safe Start account, such as no fees for the first two years. From the distrust many participants showed towards banks specifically, and "the system" more generally, it is clearly important that the process of opening the account be as trouble-free as possible. One participant suggested that the banks go to the FEC locations, learn about the Safe Start accounts, and set up desks at those locations to solicit business from FEC clients. He said, "It's business for you all as well as doing something for us." Indeed, when this gentleman made the suggestion, another participant in the group indicated that the FEC he visits is co-located with a credit union, and he had no difficulties opening up his account.

Conduct More Outreach

Participants generally had marvelous comments to share about their experiences with the FECs, but expressed concern that they previously had not known these services exist in the city. Several individuals suggested that OFE conduct more outreach, specifically in the form of newspaper advertisements and flyers posted around town:

> "What could be improved is the outreach – it's like it's just sitting there, there's all this information there and no one knows about it."

The benefit to "getting the word out" is that the FECs would be able to support more low-income residents of the city. The challenge, it seems, might be one of capacity – how many individuals, and at what level of service intensity, can the FECs really support?

More Follow-up from Counselors

It can be difficult to find any social services arena where the line staff is described as "amazing" and "incredible" by the service recipients, but many of the financial counselors who work at the FECs clearly have earned the highest praises from their clients. Participants believed their financial counselors were extraordinary human beings: knowledgeable, caring, and committed to ensuring their clients' needs were met. In all of the discussions, however, participants said there is a need for more follow-up from the counselors. Some just wanted the counselor to "check in to see that everything is going ok," while others recognized that their financial distress was an ongoing challenge:

> "You get the immediate help, but long-term help is lacking. They just help you there, you come out of it, but you cannot stay stable. … When I went there, to the clinic, I was feeling sick mentally health-wise every way. Now I feel more in control. But I cannot improve the situation by myself."

While this request has an instrumental component ("help me stay stable"), as we suggested earlier, there is also an affective piece to the relationship that appears to be just as important as the technical one. Throughout the discussions, participants commented on how "personal" or even "embarrassing" it was for them to talk with someone about their financial difficulties. Part of the reason these counselors were held in such high esteem, it seems, is because clients feel safe talking to them: the details of a messy divorce, a spending spree, or life in the shelter system all have financial components, but also highly emotional ones as well. In mental health services, that bonding process is referred to as a "therapeutic alliance" and research has demonstrated that that bond may be the most important predictor of client outcomes2. It perhaps is worth exploring the extent to which empathetic counselors have a caseload with the best outcomes.

The challenge to this kind of relationship for the FECs appears to be twofold: First, there are practical challenges because counselors have many clients and there are residents throughout the city whose needs are quite profound. Secondly, though, and as alluded to elsewhere in this report, these clients have taken numerous blows in their lifetimes from the system at large. If they demonstrate a widespread lack of trust, it is not without good reason. That being said, financial counselors – particularly the good ones – may be prone to tapping into this lack of trust, even if unwittingly. Two individuals commented that they had expected their counselors to call after 6 months to see how they were doing, and both failed to receive such a call. Both took the lack of follow-up very seriously:

- "Because she didn't call back after 6 months it didn't really rest well with me. She said she would help me to fix my credit and in at least 6 months, we would have another meeting. She had all my information and I lost her business card – I just recently found it. I mean, if I do that with my business – that's not good. That's just – if you say that you're going to call someone, no matter what period of time it is, you're supposed to put it down, that's what I was taught. And it's bad for business."
- "Even though I left the lady, I also told her I still wanted to come see her to let her know how I'm doing with the money, what the situation is. She told me she was moving to a different address. So I gave her my email. She sent me her email. I emailed her to set me up with an appointment, but she never called me back. …Some people just do their job just because, 'This is what I have to do. Alright, I'm done with her, I'm not really going to call her back, I'm just going to tell her this.' It felt like she was going to call me back because she's really trying to help somebody. They make you feel like that – 'Oh, she's really going to help us.' …You do get a bond with a person you're sitting with for over a month and you telling

[2] The seminal work in this area was Bordin, E.S. (1979) "The generalizability of the psychoanalytic concept of the working alliance." *Psychotherapy: theory, research, and practice*. Vol. 16: 252-260. A meta-analysis of related studies can be found at Martin, DJ; Garske, JP; Davis, KM (2000) "Relation of the Therapeutic Alliance with Outcome and Other Variables: A Meta-Analytic Review." *Journal of Consulting and Clinical Psychology.* 68(3):438-450.

> them your personal business, your personal spending experience and stuff, you do feel that way. It's not like I lost a friend, but damn you could have gave me a call back – 'Are you all right? Did you go broke? Did you open an account?' She's not a bad person – I'm not going to sit and say I'm not going to call because she was a bad person, she was actually a good person. But as far as 'I'm going to keep in touch and I'm going to check on you' and you didn't do that."

We offer these quotations not to say that these two counselors failed to do their job – 6 months and a full caseload is an understandable factor in someone forgetting to make a follow-up call. Rather, these quotes are provided to demonstrate just how important this relationship can be to FEC clients, and also how vulnerable it can be. The request for follow-up calls was consistent across the focus groups, but the process should be planned carefully before being implemented. It is clearly an important request being made by FEC clients, but also one that – if implemented poorly – carries great risk.

Attachment

Date: January 12, 2011

To: Office of Financial Empowerment

From: Westat Associates

Subject: Safe Start Focus Group Report

Overview

This memo is intended to provide the Office of Financial Empowerment (OFE) with additional information about how Safe Start accounts affect the financial lives of clients who have received services from a Financial Empowerment Center. After re-reviewing all of the data, our primary findings are as follows: First, while the Safe Start accounts certainly were doing our focus group participants no harm, neither were those accounts particularly high on the list of these individuals' needs. As further documented in this memo, most of these participants had significant service needs, including the need for housing and employment support. There appeared to be little role for the Safe Start accounts in terms of addressing these pressing challenges.

Secondly, we recognize that OFE has invested considerable resources in encouraging low-income residents to become engaged with the mainstream financial services industry. However, the focus group discussions indicate that many consumers' distrust of the formal system is profound. Some of the distrust results from not understanding how the financial system works, and certainly that can be remediated through financial counseling and classes offered at the FECs. But a portion of the distrust has emerged from their own negative experiences with the system, as well as a growing awareness of the ways in which the industry often targets low-income, high-risk individuals. Much of their reluctance to engage with the system may be rooted in these experiences and perspectives. We thus suggest at the end of this memo that providing financial services to city residents on their own terms, with the added benefit of establishing a means of savings (described below), might be a reasonable compromise for an otherwise intransigent population.

Questions This Memo Aims to Address

The specific areas where additional details were requested were as follows:

- Additional feedback on participants' current financial behavior: How are participants managing their money and conducting financial transactions? Also how are participants' previous experiences with the financial industry affecting current practices?
- More information is needed on participants who have other types of bank accounts: How do they use these accounts? Why did they choose the account over the SafeStart account?
- For those with the SafeStart: How are they using the account? Has having the account changed how they manage their money?
- In the Spanish group, some participants mentioned being told they could not open the SafeStart account because they needed to enroll in the 6-week class. Please include.
- For unbanked participants: How are they managing their money? Do they plan on opening an account? What are some of the barriers to being banked?
- Each group ended with a conversation on future financial goals and plans to follow up with FEC counselors. Please include some analysis of this.

In response, Westat has reviewed all of the summary notes (which include verbatim transcription of parts of the discussions) and has reviewed the audio files for any critical details that were perhaps missing from the summaries. Westat has also written a brief summary for each participant that highlights what s/he said with respect to the above topics.

Methodological Considerations

In addition to summarizing our findings with respect to the above topics, however, a couple of notes about the strengths and limitations of focus groups as a data collection strategy may be in order. Without a doubt, there are enormous benefits to bringing together individuals with similar characteristics to talk about a specific array of experiences. The group setting provides a dynamic environment in which participants build on ideas shared by others. That interactive process can offer the researcher important insights into what experiences or perspectives the participants may have in common, and, as importantly, where those experiences diverge. Focus groups are an extraordinarily cost-efficient way to elicit general perspectives on the topic of interest.

Those benefits notwithstanding, group discussions are also inherently limited in terms of being able to obtain in-depth information from participants. In the ideal focus group world, eight participants over an 80-minute discussion period would talk 10 minutes apiece (although that in itself is insufficient time to learn detailed information from each participant). In truth, however, that ideal world does not exist: Invariably there are participants have very little to say in a group setting, even if the topic is important to them. Conversely, other participants may attempt to dominate the conversation, leaving little air time for others who have something to share. An experienced moderator can encourage the former and discourage the latter, but in a time-limited discussion, those challenges invariably eat up the clock. Eighty minutes with the concomitant interruptions is enough time to gather a broad understanding of an issue, but such interruptions further impede our ability to learn details about each individual's unique experiences.

Additionally, because of the low number of participants who had Safe Start accounts, we are limited in what we can say about these accounts *generally* and how they influence individuals' financial behaviors. The parameters of the groups required that we recruit up to 12 Safe Start account holders for the first group, up to six such account holders for the third group, and three Safe Start clients for the Spanish language group[3]. The table below shows the total number of individuals we were able to recruit for these three groups, the number of Safe Start account holders we recruited, the number of recruits who came to the discussion, and the number of *those* individuals who actually had Safe Start accounts[4]. In short, despite our efforts, we ended up with only ten individuals who had Safe Start accounts; moreover, one of these was about to close her account because the bank continued to charge her fees, and one did not have access to his account because Capitol One was using the account to cover this man's prior debt to the bank. An attempt to identify "patterns" or "trends" with such a small number of individuals is an analytically questionable endeavor.

[3] Our recruiting challenges are described in detail in the report.

[4] We describe the "brand recognition" issue in the description of the recruitment process.

Group Number	Account Type	FEC Sponsor	# Recruited Total Groups 1, 3, and 4	Number Recruited Safe Start	Number Attendees Groups 1, 3, and 4	Number Attendees w/ Safe Start
	Safe Start	CWCID and FC	9			
	Safe Start and Other	BSRC and Phipps	12			
	Safe Start, Other, Unbanked	All sites - Spanish Language	10			
		TOTALS	31	18	21	10

Further, the experiences described by all of these focus group participants cannot be generalized to the larger population served by Financial Empowerment Centers. As noted in the report, this population turned out to be extraordinarily difficult to recruit: They do not answer their phones and/or often change their phone numbers; they also may lose phone service altogether due to a failure to pay a bill; and their residences are likely to change, generally as a result of their financial difficulties and the subsequent loss of housing. We therefore believe that the individuals we were able to recruit were those who were the *most stable*, and many of these participants presented with enormous life challenges, including homelessness, criminal histories, disability, loss of employment, spousal abandonment, and young children who needed care. If this is the most stable of the target group, then the stories of those individuals who did not attend a group – especially those who were recruited for the unbanked focus group, but failed to show – are likely to be much more complicated than the stories we did hear. Our responses to the additional questions posed by the Office of Financial Empowerment thus should be read with these important caveats in mind.

Finally, one of the most valuable aspects of qualitative research is that the data collection process often highlights issues that are important to the participants, but were not considered by the researchers in their development of the interview protocol. We fully understand OFE's interest in the day-to-day uses of these accounts by the FEC clients, but the focus group discussions revealed the establishment of a savings account to be a less valued service offered by the Financial Empowerment Centers that other services (e.g., assistance with clearing up past debt, improving credits scores). We believe there are several reasons for this. First, as noted previously, many participants were facing life challenges that were far more complicated than could be addressed by opening a savings account. The account may have been value-added, but it paled in comparison to their need to find a job that paid a reasonable wage, the need to clear up old debt to creditors (which often included banks), and their desire to find safe and affordable housing. Importantly, our understanding is that the FEC services were envisioned as part of a larger, seamless service delivery process that includes job training, behavioral health counseling, and housing assistance, among others. In many respects, then, the relatively low importance participants placed on their bank accounts would suggest that the service delivery model is meeting its goals.

Secondly, and following from the above, the relationship between these participants and their financial counselors emerged as one of the most important "services" they had received at the FECs. Certainly the instrumental aspects of the relationship were important, as counselors cleared up credit reports and provided clients with money management skills. But the affective/emotional component of that relationship was also noted by focus group participants as extraordinarily valuable to them. As one woman said,

> "..I can hardly make [those] few appointments with the financial clinic, I have to go to my social worker, I have to go to Workforce, I have to go the lawyer, I have to go to my work, for my kids, to their school, everywhere. So how can one person be like scheduled for so many things when you are upset? This is the thing, we are all upset."

In a life that presents unimaginable complications, participants placed great value on having that connection with their financial counselor.

None of this is intended to diminish the learning objectives of the OFE with respect to these accounts, but rather to point out that <u>for the participants in our focus groups</u>, opening a bank account seemed to be less important than other services offered by their financial counselors. In reading through our responses to the OFE's series of questions, below, the reader should bear this finding in mind.

Summary of Findings

Feedback on Participants' Current Financial Behavior

Overview of Changes to Financial Behavior

The majority of focus group participants reported positive changes to their financial behaviors as a result of their meeting with a FEC counselor. Such changes included monitoring their income and expenditures more closely; reducing unnecessary spending; and, where possible, focusing on saving ("I pay myself first"). It is worth noting that many participants said they sought assistance from a FEC precisely because of a particular financial challenge, such as longstanding debt to a bank for an overdrawn account, a desire to improve their credit scores, or a discovery that their identities had been stolen. In short, many individuals were already aware of a problem and ready to take action when they went to a FEC, and thus were open to the suggestions offered by their financial counselors. Those participants who were remanded to meet with a financial counselor and who believed they had no financial problems (e.g., the two men in the Unbanked group) had not changed their behaviors. Drawing on the transtheoretical model of behavior change[5], we believe financial counseling services are unlikely to have a positive effect on these individuals who have no recognition that money issues might be a problem for them (i.e., are not in the pre-contemplation phase). OFE might consider reserving these services for individuals who are truly ready to make a change.

Changes to Financial Transactions as a Result of Financial Counseling

Discussions did not focus explicitly on how participants' financial transactions might have changed as a result of their work with a financial counselor, but how their financial *situations* had changed (or not). Although changes in the former could be encompassed in the latter, we heard very few indications to this effect. Indeed, we believe that for many participants, financial counseling would have little to no effect on how they conducted their day-to-day financial transactions. There are a couple of reasons for this: First, some individuals went to a FEC not because of financial distress, but because they were concerned about their credit scores or the possibility of identity theft. These participants had no cause to do anything differently, except perhaps monitor their credit reports more closely. Because numerous participants said they went to a FEC because of overdrawn bank accounts or credit cards that were maxed out, however, our assumption is that cash, money orders,

[5] See, for example, JO Prochaske and WF Velicer (1997) Transtheoretical Model of Health Behavior Change. American Journal of Health Promotion, 12(1): 38-48.

and prepaid VISA cards remained the most common approaches for these persons. Indeed, Safe Start account holders were only given ATM cards, thereby requiring that they continue to conduct transactions either in cash or cash-at-one-remove (prepaid VISA, money order).

Secondly, discussions tended to focus on opening *savings* accounts, not checking accounts. If an individual had gone from cash-based transactions to checks, this would represent a significant change in financial understanding and behavior: That is, a check written and mailed is not immediately a check cashed, ergo the account balance shown at an ATM may still include the still-to-be-cashed check. Participants described significant difficulty understanding this issue with debit accounts (where transactions are reflected fairly quickly), which had led several individuals to be overdrawn at their banks. It is perhaps significant that none of the participants described opening a checking account at the behest of their financial counselor. And in that respect, we do not believe these encounters led to significant changes in how individuals conducted their financial transactions.

How Past Experiences with Financial Industry Affected Current Practices

Although participants were asked to discuss their past experiences with financial institutions, we did not directly ask them how those experiences were affecting their current financial behaviors. In short, we have some idea of their historical and present-day experiences, but lack the narrative that links these two eras for any individuals. At best, we can infer from the discussions that most participants had had bad experiences in the past with banks – overdrawn accounts, outstanding debt, etc. – and as a result, many had a significant distrust of the financial services industry[6]. For some, this meant opting out (by choice or by default) of the mainstream financial system; others remained in the system, but had a healthy cynicism about the extent to which the banks had the consumers' best interests in mind. As one woman said, "I have no choice but to be in a bank." The extent to which those past experiences affected present-day behaviors would best be obtained through in-depth interviews with selected participants.

[6] We believe the extent of this distrust is adequately described in the current report.

Other (non-Safe Start) Account Holders

How do they Use These Accounts?

We do not believe we have information from the discussions that would allow us to answer this question in any detail, other than "it depends" upon the type of account each individual had (i.e., checking or savings). Indeed, some of our Safe Start participants also had other types of bank accounts (not just Safe Start), which they used according to what type of account it was (e.g., one woman in the first group said she had a checking account that she used for her regular financial transactions; she opened a Safe Start account to have a savings account). We thus can provide no additional insights into this question.

Why Did They Select Something Other than a Safe Start Account?

Although many of our Other account holders said they had bank accounts prior to meeting with a FEC financial counselor, a few participants suggested they were unbanked at the time of that meeting. The main reason for opening something other than a Safe Start account appeared to be brand loyalty: Several individuals had had accounts with a specific bank (e.g., Chase) in the past and opted to open a new account with that financial institution. Others said they did not like the fact that Safe Start accounts only came with ATM, not debit, cards. And at least two individuals said they wanted an account that would yield some return on their savings: one found a CD account that was to her liking, while the other said since there was no return on a Safe Start account she would rather keep her money where she could access it easily (cash at home). Again, however, because of the small number of participants in these groups, we caution the reader against over-generalizing these findings.

Safe Start Account Holders

How are they using the account? Has having the account changed how they manage their money?

We had conflicting reports about how these Safe Start participants were using their accounts: Some described them as savings accounts, while at least one participant believed he had opened a secured line of credit with Safe Start in order to build his credit history. Our December 22nd discussion with the Office of Financial Empowerment, however, revealed that there is no secured line of credit available with Safe Start. We discovered branding problems with the product during recruitment, and believe this may be yet another instantiation of this challenge. That notwithstanding, Safe Start participants did describe how they used – or planned to use – their Safe Start accounts, as indicated in the table below.

For the most part, we are unwilling to say that having a Safe Start account changed how any of these ten individuals manages his/her money. Participants did describe *changes to their financial awareness*, but *as a result of their relationship with the financial counselor, not the savings account per se*. We have described this phenomenon in detail in our report.

Respondent ID	Account Use	Comments
GROUP ONE		
R1	Secured line of credit	Reported by OFE as not an option with Safe Start.
R2	Savings	Referred by shelter system; "I always have a dollar in my pocket and a dollar in the bank."
R3	CLOSING	Appeared to use for cash flow, but bank was holding deposited checks for 10 days, charging her overdraft fees, etc.
R4	UNABLE TO ACCESS (perceived to be a checking account?)	Safe Start was being used by Capitol One to pay off R4's old debt to the bank. R4 spoke about the account as a checking account, saying he wanted to use the account to track his rent payments (had come out of the family shelter system).
R5	Savings	Referred by shelter system; able to save, paid five months' rent in advance; out of work at the time of the group and without any income.
R6	Savings	Referred by the shelter system. Has a checking account. Says unable to save because "everything I have goes to rent."
R8	Direct deposit/cash flow	Referred by shelter system. Had to open account for direct deposit of SSDI check.
GROUP THREE		
R2	Check deposit/cash access	Currently in shelter system. Uses Safe Start to deposit checks, access cash. No savings accrued because wife reportedly uses all cash for drug purchases.
R3	Savings	Has a small business upstate and plans to build customer base in city. Working on Ph.D. in psychology.
GROUP FOUR (SPANISH LANGUAGE)		
R1	Savings	Uses as savings; obtained useful information from classes at FEC.

Spanish Language Group and Required Courses

There were six participants in the Spanish language group, one of whom had opened a Safe Start account. This individual reportedly attended a six-week class before opening the account and spoke highly of what she had learned there, including how to manage her finances, periodically check her credit score, and how to keep track of what she was spending. Two other participants were interested in Safe Start accounts, but were not interested in attending a six-week class in order to do so. One individual said his counselor told him about the class, but said he did not have time to attend; the second participant said he wanted to open a secured line of credit with a Safe Start account, but was told by the bank he would have to attend a six-week class before doing so. We have since learned that Safe Start cannot be used for this purpose, thus we are unsure if he was referring to Safe Start or some other banking product when describing this experience.

There were no instances in the other four focus groups of participants talking about "mandatory" classes for Safe Start accounts. While some individuals discussed taking money management classes, no one complained of them being an inconvenience; in point of fact, a few participants said they voluntarily signed up for such events. Indeed, given that the one individual may have confused the Safe Start account with another banking product, we are uncertain if the six-week classes are an issue at all. Further information would need to be obtained from FEC clients in order to ascertain the extent to which such classes are a) required and b) serving as a barrier to individuals opening Safe Start accounts.

Unbanked Participants

There were only four of twelve recruits who showed up for the "unbanked" focus group, two of whom had been mandated to meet with a financial counselor as a condition of parole, and the other two of whom had their own unique circumstances (one went to a FEC voluntarily to find out about her credit score, while the other was referred by her social worker). Given the few participants and the uniqueness of their circumstances, we cannot draw any conclusions or larger "lessons learned" from this focus group discussion. At best, we can describe their individual circumstances and the perspectives each of them shared with regard to how they're managing their money, their plans for opening a bank account, and their current barriers to being banked. We believe, however, that these four stories have been fully described in the body of the report; a review of both the notes from the discussion as well as the audio recording revealed no new information to add to these accounts.

Future Financial Goals of the Participants

We have carefully reviewed both summary notes and audio recordings from the focus groups in order to determine how participants described their future financial goals. On the whole, participants' goals were straightforward, although some were more realizable than others. For example, most of the participants had fairly modest goals: first, clear up outstanding debt and, secondly, work on improving their credit histories so they could eventually make a large purchase, such as buying a house. For the most part, these individuals described receiving excellent assistance from their financial counselors, particularly with respect to taking care of outstanding debts, reducing unnecessary spending, and, importantly, staying away from credit cards. As we have argued in the report, this group of participants has the lowest level of need and their concerns can be addressed fairly readily by the FECs.

Numerous other participants said they wanted to open their own businesses. A couple of individuals actually had a business or could describe in concrete terms their future plans, and simply needed to clear up their credit histories to move forward. Others, however, stated this goal so vaguely that it was unclear the extent to which this was a goal, or a dream. Indeed, one man who had attempted to obtain a loan was told that he needed to have at least $20,000 in savings in order for the bank to extend him the money. He had been laid off from a good job and was working part time as a delivery truck driver, but seemed despondent at the realization that he would be unable to bank that much money anytime in the near future. In a capitalist system, it takes money to make money, and many of these individuals simply lacked the financial resources required to move beyond their current means. Because these individuals needed a significant increase in income, we believe it unlikely that FEC services would be able to help them meet this entrepreneurial goal.

If we focus solely on the Safe Start account holders, six of the ten participants either were currently homeless, or had been homeless in the recent past and had been referred to a FEC by a homeless services program. They shared a simple financial goal: stay out of the shelter system. What was required to meet that goal was far more complicated than simply reducing unnecessary spending or putting extra money in savings: one individual was on disability and likely was receiving case management support to manage his finances; two individuals were currently jobless, only one of whom may have been receiving unemployment compensation; two who were out of the shelter were working, but declared that everything they were making had to go to pay rent; and the one individual currently living in a shelter was working part-time at a fast food restaurant. While a couple of these individuals acknowledged gaining useful information from their financial counselors about money management and personal finances, their challenges were rooted in structural phenomena: trying to live in one of the most expensive cities in the world either on no income or working extremely low-wage jobs. From their stories and our understanding of the financial system, we do not believe that a bank account – Safe Start or otherwise – is able to redress this fundamental problem.

Recommendations

We concluded our draft report with participants' suggestions for ways to improve the services offered by the Financial Empowerment Centers, which included the following:

For Safe Start accounts, co-locating bank branch representatives in the FECs – Participants suggested that co-location would help ensure that bank personnel fully understand the terms and conditions of these lifeline accounts, and that FEC clients could easily establish such accounts.

Conduct more outreach – Many participants said they were pleasantly surprised to learn that the FECs exist in the city and that they offer such important services to low-income residents. They suggested that more individuals would avail themselves of FEC services if the city were to conduct more widespread outreach efforts. Although they did not make explicit suggestions as to how to get the word out, we would recommend placing informational posters in high-visibility areas, such as bus and train terminals, in and on buses, at job training centers, and the like. We would also caution OFE, however, that any increase in demand must be met by a supply-side increase. If counselors are already overwhelmed, then additional staff resources would need to be put in place before beginning any outreach efforts.

More follow-up from counselors – Consistently, participants requested that their financial counselors conduct follow-up calls just to "check in" and "make sure everything's going ok." We fully support this recommendation, although note that if follow-up gets built into the service structure, FEC supervisors need to ensure that such contacts are made. As indicated in the report, this is a vulnerable client population that gives service providers a very low margin of error when it comes to trust.

In addition, we offer the following three suggestions for addressing the needs of this client population:

Incorporate __modified__ mainstream financial services within the check cashing industry –Studies have suggested various reasons for why unbanked individuals are reluctant to join the mainstream financial services industry. In their study of the effectiveness of "lifeline" accounts in helping the unbanked, for example, Doyle, Lopez, and Saidenberg7 suggest that consumers are not "price savvy" about the cost of check cashers compared to the cost of banking services. They calculate that for an individual with an income of $10,000, the annual cost of using a check casher is $172 compared to a $44 cost of having a regular bank account. Importantly, however, they state in footnote 5 that "The $44 cost includes the *interest earned* on the *$750 average balance* held by the survey's low-balance bank customer. For customers with less than that amount, the actual cost may be higher (emphasis added)."

Currently, savings accounts have virtually a zero return rate. And for numerous focus groups participants, a $750 *average* balance would be inconceivable: They described accounts that were overdrawn because they purchased of a cup of coffee or underwear for their children, accounts with a minimum required balance of $25 that were closed because the individual couldn't meet that requirement, and, in some cases, debts owed to banks that amounted to hundreds of dollars. Many of these individuals did not have an unneeded $750 that they could simply leave "parked" in a bank. In fact, if one considers monthly service fees for having a low balance, penalty fees for overdrawing the account, as well as "convenience" fees for using foreign ATMs, their true cost of having an account would be far more than $44, and maybe even significantly higher than $172.

Then why not take advantage of the Safe Start accounts? Numerous participants (not just some of those in the unbanked group) expressed a real distrust of the mainstream financial services industry. They talked about banks' "tricks," "being fooled," "they almost got me" or "there's a catch." As noted in the report, one unbanked client actually went to open a Safe Start account, but was told by the teller that the minimum required balance was higher than what her counselor had told her; she did not open the account, saying, "I got fooled." Regardless of whether she was misinformed by her counselor, misunderstood her counselor, or went to a bank that had a different minimum required opening amount[8], the experience reinforced this woman's distrust in the formal financial system. Better communication between counselors, clients, and the bank branches might help reduce such events, but the depth of the distrust should not be underestimated.

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[7] Joseph J. Doyle, JA Lopez, MR Saidenberg (1998) How Effective Is Lifeline Banking in Assisting the 'Unbanked'? Current Issues in Economics and Finance, 4(6).

[8] The varied terms for each of the banks are potentially a significant source of confusion and frustration for the consumers, financial counselors, as well as the financial institutions. We recommend that either all banks operate off the same terms, or that OFE invest considerable resources into explaining these differences to both consumers and financial counselors.

Secondly, and as noted in the report, there is good reason for low-income individuals to distrust the mainstream financial services industry. Among other things, banks make substantial amounts of money on individuals who cannot pay off their credit card balances or whose payments are late[9]; as well, ATM and related banking fees are a significant revenue generator for the banks[10]; and the mainstream media has clearly implicated the financial services industry in the mortgage crisis, which indeed "fooled" many low-income consumers. Add to that the fact that individuals with limited resources can ill-afford to put a check into a bank that will hold it for several days and there seems little incentive to become overly engaged with this system.

Thus, rather than focus only on trying to bring the population into the mainstream system, we suggest that the system consider meeting the consumers on their own terms. More specifically, many banks have moved into the check cashing arena, recognizing the substantial revenue that can be generated in this environment[11]. But could New York City set terms with the banks to ensure that some of this revenue to go back to the consumers? That is, if an individual is willing to "lose" $15 to a check casher in order to have ready access to his/her funds, some portion of that fee – say, $7.50 – could be set aside in a savings account for that consumer that, like the Earned Income Tax Credit, could be drawn out at the end of the year. We recognize that the fee structure of check cashers is in part established because of the financial risk incurred; but the industry has become attractive to mainstream financial institutions, suggesting that some large portion of the fee is pure profit. Since low-income consumers seem feel they are taking on financial risk by being engaged with the banks, perhaps a risk- and profit-sharing model would work for all parties.

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[9] See Massoud, Nadia, Saunders, Anthony and Scholnick, Barry, The Cost of Being Late: The Case of Credit Card Penalty Fees (March 2006). AFA 2007 Chicago Meetings Paper. Available at SSRN: http://ssrn.com/abstract=890826. The authors indicate that one survey revealed that in 2004, penalty fees alone resulted in more than $13 billion in bank revenues, while in 2001 late fees raised more than $7 billion for the banks. This is supported by the following, more recent study finding:

"A 2006 Demos study reveals that households with incomes below $25,000 are twice as likely to pay credit card rates of more than 20% than those earning $50,000 and five times more likely to pay such rates than those earning $100,000. Lower-income, single and minority borrowers were also more likely to pay late fees than others were. [http://www.usatoday.com/money/industries/banking/2008-11-09-bank-credit-card-interest-rates_N.htm – accessed 12.29.10]

Recent changes to banking laws are driving financial institutions to seek additional ways to generate revenue from their wealthier client base (e.g., Rewards Cardholders Face a Higher Price for Perks. New York Times, February 20, 2010 – http://nytimes.com/2010/02/20/business/20rewards.html?tntemail0=y&emc - accessed 1.5.2011), but these historical facts – and their emotional legacy for low-income populations – are likely to remain unchanged for some time.

[10] L Radecki (1999) Banks' Payment-Driven Revenues. Federal Reserve Bank of New York, Economic Policy Review. July, 1999.

[11] See, for example, "Noncustomer Check Fees Reinforce Financial Divide." Report prepared by the Consumers' Union Southwest Regional Office, October, 2001 (accessed at: http://www.consumersunion.org/finance/noncustsw1001.htm – 12.29.10).

We recognize this recommendation runs counter to the philosophy of OFE, which has invested considerable time and effort encouraging low-income residents to become engaged with the mainstream financial services industry. From the focus group discussions, however, we also recognize that many consumers' distrust of the formal system is profound. Some of the distrust results from not understanding how the financial system works, and certainly that can be remediated through financial counseling and classes offered at the FECs. But a portion of the distrust has emerged from their own negative experiences with the system, as well as a growing awareness of the ways in which the industry often targets low-income, high-risk individuals. Providing financial services to city residents on their own terms, with the added benefit of establishing a means of savings, might be a reasonable compromise for an otherwise intransigent population.

Consider caseload "intensity" when assigning clients to financial counselors – This was a suggestion offered by a participant in the first focus group, and subsequent discussions bore out his observations. Many individuals present at a FEC for one-time assistance (e.g., to check their credit reports) and need no additional assistance from the financial counselor. Others, however, are dealing with a mountain of challenges and will need to meet with a counselor more often than once a month. There are a couple of ways to assign cases based on intensity, the first of which would entail caseload size being inversely related to case intensity. Specifically, counselors who do well with the "one and done" issues might be assigned these cases, as well as provide *ad hoc* services for individuals who drop in and need immediate assistance. Should the drop-in need more intense services, s/he could then be assigned to a counselor who had a smaller caseload, but whose cases required significant involvement. Supervisors could also assign cases similar to the "mixed case rate" payment method used by some social service providers. That is, all financial counselors would carry a caseload that contained a mix of low-, medium-, and high-intensity need clients. FECs could experiment with both approaches and conduct an evaluation to determine which approach not only best meets clients' needs, but also results in the lowest burnout rate among counselors.

Continue Training and Support for Financial Counselors

Although participants may have expressed a reluctance to engage with mainstream financial services, they spoke very highly of their relationships with their financial counselors. As described in detail in the report, most counselors worked assiduously to address their clients' most pressing financial needs (often significant debt), offered money management suggestions that individuals had incorporated into their daily lives, and, as importantly, served as good listeners for their often overwhelmed clients. Participants expressed a trust in their financial counselors that was remarkable in the degree to which it contrasted with their intense distrust of the financial services industry. Indeed, even some individuals who appeared most skeptical about banks had followed their counselors' suggestions for opening accounts. We thus believe these relationships to be critical to the foundation of the services offered by the FECs and, in addition to the ideas discussed previously, offer three suggestions for ensuring their continued effectiveness.

First, we recommend that OFE support the development of an ongoing training module that provides all financial counselors with both the general, as well as specific, details about Safe Start accounts. This is not a simple task, for it requires counselors to know – and convey to their clients – that different banks have different arrangements with the city for these accounts. Likely counselors will encourage their clients to establish an account with a financial institution in the neighborhood, but they should not count on individuals banking close to home. In short, FEC clients may opt to open an account with a bank whose Safe Start terms are different than those offered by the neighborhood institution; counselors need to be able to describe this institutional variation to their clients so that no one "gets fooled" by being misinformed.

Secondly, we recommend that financial counselors be aware of and clearly communicate to their clients the time-limited nature of Safe Start account fees and terms. A "surprise" change in these terms has the potential to damage the client's fragile trust in his/her counselor and reinforce the client's beliefs in a financial system that is designed to "trick" its low-income participants. Ongoing communication about the trial periods of these starter accounts would seem critical to building clients' long-term trust in the mainstream system.

Finally, we heard stories that staff at individual bank branches also may be ill-informed about the terms of Safe Start accounts. It is not feasible for OFE or the FECs to conduct informational sessions with branches throughout the city; however, OFE may consider establishing a mechanism to conduct a branch "intervention" at the request of either a financial counselor or FEC client. Such an approach not only would inform bank personnel about these lifeline accounts, but also, and more importantly, would provide structural support for financial counselors who have little time available to educate bank staff on their clients' behalf.