An Evaluation of Financial Empowerment Centers

Building People's Financial Stability as a Public Service

Executive Summary

Cities for FINANCIAL EMPOWERMENT Fund

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The complexity of the consumer financial marketplace, the continued presence of predatory financial products and services, and the role that financial instability can play in reversing other social service gains are all critical issues city leaders—and their residents—grapple with every day. But, while cities know that financially stable residents are critical to their success, it is only in recent years that they have begun to embrace financial capability and asset-building strategies. As these strategies have developed, city leaders have realized that the complexity of financial issues that residents face means that any services must be high-quality, individualized, and delivered by a trusted source. With these critical concepts in mind, the Financial Empowerment Center model was created.

The Financial Empowerment Center initiative provides free, one-on-one financial counseling as a municipal service to all residents. First developed in New York City under the administration of Mayor Michael R. Bloomberg, the Cities for Financial Empowerment Fund (CFE Fund), with generous support from Bloomberg Philanthropies, partnered with five cities—Denver, Lansing, Nashville, Philadelphia, and San Antonio—to see how, and if, this model might be successfully replicated in different municipal contexts. In addition to providing high-quality services that aimed to meaningfully improve the financial lives of residents, a central goal was to sustain FECs as a public service through public funding.

The model is based on four core tenets. First, people in financial trouble need individualized help, not just education, to deal with the complex issues and barriers that keep them from financial stability. Second, they should receive high-quality services from a professionally trained counselor. Third, financial counseling works well as a public service: city government is a trusted voice for residents amidst a sea of scams and complicated financial choices, and a natural convener of partners to enhance program sustainability and offer and market services at scale. Finally, financial counseling is a natural fit with other social services, which can be coordinated through referrals or integration partnerships.

In each of the cities, city government leadership managed the initiative, contracting with a primary nonprofit partner (or partners) to deliver counseling services. Counseling efforts and results were tracked on four dimensions—banking, credit, debt, and savings. The more than 22,000 individuals who sought financial counseling typically had annual incomes just over $21,000, and were challenged by disproportionally high housing costs and low savings. Despite these significant financial obstacles, people who availed themselves of FEC counseling services succeeded in opening bank accounts, reducing debt, improving credit, and even saving for emergencies and for their futures. A total of 5,305 FEC clients achieved 14,493 financial outcomes over the 30 months of this evaluation, including reducing more than $22.5 million in personal debt and increasing their family savings by more than $2.7 million.

In addition to in these successes, cities reported that the FEC initiative also helped change the way they approached anti-poverty programs. Each identified and committed public dollars to sustain FEC services beyond the CFE Fund/Bloomberg Philanthropies three-year grant, and three of five city administrations expanded their commitments by opening Offices of Financial Empowerment or similar municipal entities to support and oversee both FEC and additional city-led financial empowerment efforts.

THE FEC MODEL WORKED IN A VARIETY OF CITY CONTEXTS

The program model first developed in New York City during the Bloomberg administration was replicated with fidelity, with only minor adaptations. City administrations managed the public program, including efforts to integrate FEC services into other city and nonprofit services. City management contracted with nonprofit providers to deliver the financial counseling services and manage on-the-ground delivery. Counselors were hired for their aptitude for working with low-income populations even more than their background in financial services, and were provided basic training through a standardized curriculum, delivered by local community college partners and supplemented in each partner city with significant ongoing professional development.

The FEC counseling model centers on building rapport, prioritizing the clients' own goals, and encouraging clients to return for follow-up sessions both to continue working toward their goals and to report on their progress. The cities and nonprofit providers built networks of partner agencies, initially casting a wide net to recruit and refer people from a variety of places who faced financial instability.

The FECs' emphasis on professionalism, expressed through the model's attention to data-driven management as well as professional training, made a strong impression on clients, partner organizations, and municipal leaders. Clients described their initial surprise, emerging trust, and then ongoing loyalty engendered by their counselors' empathy and expertise. Similarly, the FEC managers became both consultants to and models for other city departments and nonprofit organizations.

FEC CLIENTS ACHIEVED MEANINGFUL FINANCIAL OUTCOMES, DESPITE VERY LOW INCOMES

FEC clients' success occurred in the context of very low incomes: over 70% had incomes that were below 50% of their area's median income, adjusted for household size, and the average monthly income was only $1,754, or $21,048 annually. Approximately 3.5% of clients reported no income at all, and 22.9% of clients had no health insurance at intake.

Financial Empowerment Centers tracked client progress across threshold outcomes: opening or transitioning to a safe bank account; establishing a credit score; increasing credit score by at least 35 points; decreasing debt by at least 10%; and increasing savings by at least 2% of annualized monthly income. To understand FEC impact, this evaluation analyzed client successes across these threshold outcomes, as well as across additional, related financial outcomes.

From March 2013 through September 30, 2015, 5,305 FEC clients achieved a total of 14,493 financial outcomes, as detailed below.

Table 1 • Outcomes Achieved During Study Period

Outcome	Number of Outcomes Achieved
Open or transition to a safe and affordable bank account	944
Establish a credit score	269
Increase in credit score	2,196
Increase credit score by at least 35 points	1,324
Move up a FICO credit score category	901
Decrease in amount of debt	3,125
Decrease debt by at least 10%	2,261
Increase in amount of savings	1,672
Achieve savings of $500	567
Achieve savings of one month's expenses	365
Increase savings by at least 2% of income	869
Total increase in savings	**$2,731,922**
Total reduction in debt	**$22,545,564**

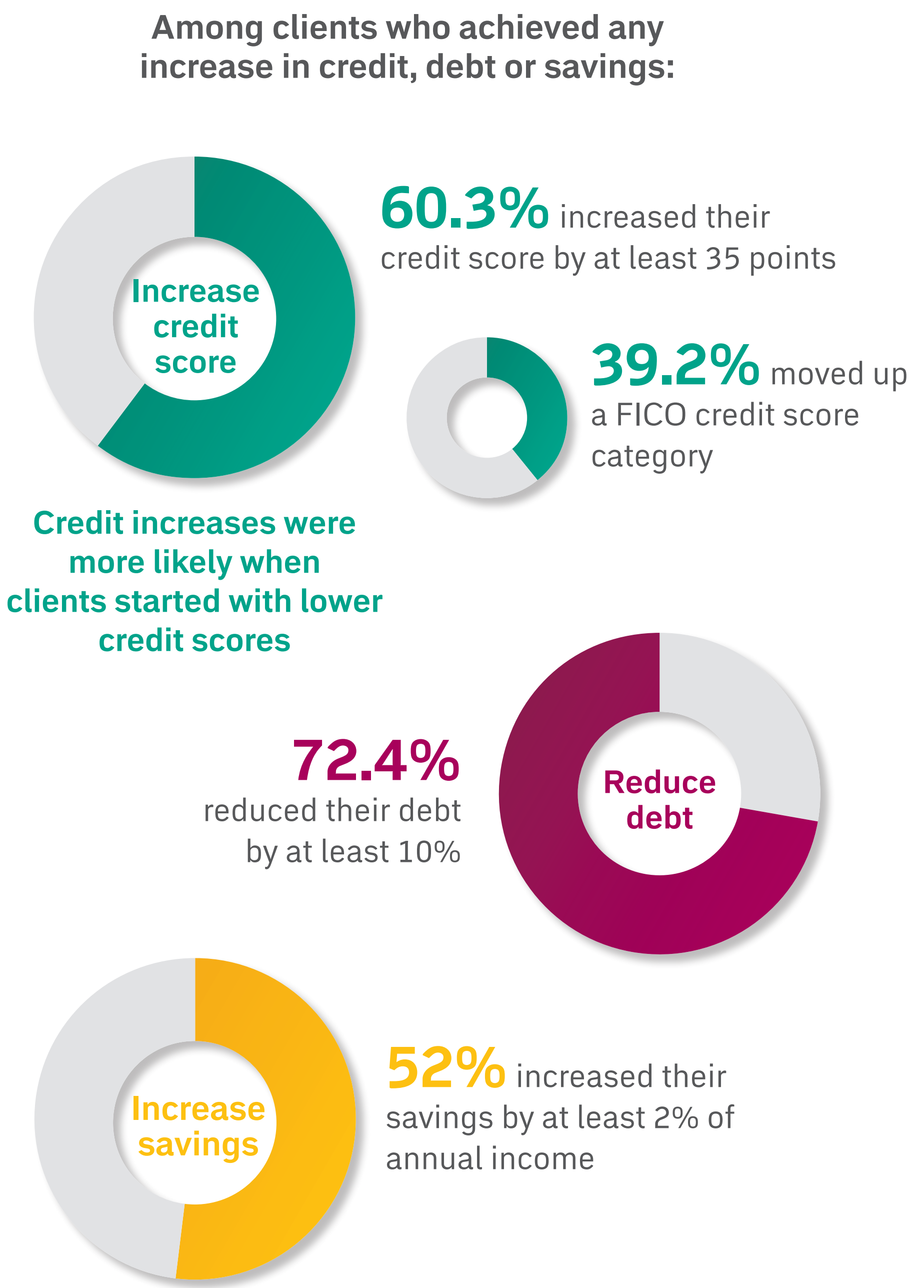
Overall, 11,511 people (56% of all FEC clients) attended more than one counseling session; returning for multiple sessions was seen as a critical factor in outcome achievement. Returning to financial counseling was the most consistent predictor of achieving a financial outcome, and people working on debt were most likely to return. People who were unbanked were considerably less likely to return for a follow-up session than those who had accounts, and they were less likely to succeed when working on building savings or establishing credit.

Research results also indicate that people who sought financial counseling appeared to be accurate in their self-assessments of their financial condition. Those who were more worried about their finances at intake had less ultimate success in opening bank accounts or improving their credit scores. Those who said at intake that they felt more control over their finances saw more success in reducing debt and increasing savings.

BANKING OUTCOMES

Fully 31.4% of the people working on banking opened or transitioned to a safe and affordable bank account. Each additional session made a client 43.0% more likely to open an account—71.2% for unbanked clients. People who were unbanked were also more likely to succeed if they had wage income. However, those who were unbanked at intake were 38.4% less likely to open a safe and affordable account than those who already had an account and opened a new one. In addition, unbanked clients were less likely to return for follow-up sessions, itself a significant factor in achieving an outcome.

Figure i: Threshold Outcome Achievement



CREDIT OUTCOMES

Despite being twice as likely as all U.S. consumers to have subprime credit, and about half as likely to have any credit score when they started counseling,[v] nearly a quarter, 23.1%, of the 1,166 unscored clients working on credit issues succeeded in establishing a credit score. Among multisession clients working on their credit, 36.9% increased their credit scores, with more than 60% of these clients increasing their score by at least 35 points. People with wage income were 41.3% more likely, and people who were housing cost burdened (paying more than 30% of income on housing) were 17.0% less likely, to make positive improvements in their credit score than those without wage income or housing cost burdens.

DEBT OUTCOMES

While FEC clients had an average of nearly $29,000 in debt—more than half with credit card accounts, 40% with utility debt, and 38% with student loans—those working to reduce debt were most likely to succeed compared to those working on other issues. Almost 37% of clients who tried to reduce their debt were able to do so by at least some amount. Of note, a person's starting debt level did not appear to have a significant effect on her absolute likelihood of reducing debt; however, having a higher amount of debt was a barrier to achieving a debt reduction of 10% or more. People with utility arrears were 21.9% more likely, and people with medical and student debt were 23.7% to 34.8% less likely, to achieve overall debt reductions compared to people without each debt type.

SAVINGS OUTCOMES

FEC clients were much more likely than average Americans to have no savings, with almost 60% of multisession clients working on savings having started FEC services with zero reported savings; yet overall, 28.1% of multisession clients working on savings successfully increased their savings, by an average of $1,634 (median $400), for a total of $2,731,922 saved. Of those who increased their savings, 52% increased them by at least 2% of net annual income. Notably, clients with wage income were 40.6% more likely to increase their savings than those without, while people who were housing cost burdened were 27.0% less likely to increase their savings.

PSYCHO-SOCIAL OUTCOMES

FEC clients report that opening a bank account, improving credit, reducing debt, or increasing savings made an important difference in their lives. They described being able to improve their housing and business conditions, access more financial products, and stick to their budgets.

In addition to these financial impacts, they said that financial counseling and improving their financial situations helped them discuss money more effectively with spouses and children, reduced their stress and improved their emotional health, built up their sense of confidence and self-efficacy, and enabled them to develop decision-making and negotiating skills.

Both counselors and focus group participants reported that FEC services gave them a "finances toolbox"—a variety of knowledge and skills that empowered them to navigate complex financial issues and solve financial problems.

1. Hamdani, Kausar, and Claire Kramer Mills. July 14, 2016. "Community Credit: A New Perspective on America's Communities." Federal Reserve Bank of New York. https://www.newyorkfed.org/data-and-statistics/data-visualization/community-credit-profiles/index.html#inclusion

THE “SUPERVITAMIN EFFECT”

The “Supervitamin Effect” refers to the improved social service outcomes and more effective public service delivery that may be achieved when people’s financial instability improves as a result of integrating financial counseling and other financial empowerment efforts into host programs. Partner organization staff in all five cities touted the FECs’ ability to augment existing services and improve their clients’ outcomes. While more research is needed, especially to support randomized control trials that can pinpoint the effect that financial counseling integration has on host anti-poverty services, Lansing, Michigan’s work reducing stays in transitional housing for people on parole offers one of the most promising case studies illustrating the Supervitamin Effect. Preliminary data suggest that FEC counseling helped parolees find independent housing significantly more quickly, hastening program goals and reducing state costs.

FECS CHANGED ANTI-POVERTY SERVICES IN ORGANIZATIONS AND CITIES

Beyond the client level impacts, the FEC initiative helped change the way cities and their nonprofit partners approached anti-poverty programs and policies. Interviews with staff of the cities, nonprofit providers and partner organizations revealed that organizations appreciated their new capacity to work with clients on financial issues that affected their long-term goals, even while addressing more urgent needs. Throughout the cities’ social service environments, the FECs demonstrated the value of integrating a holistic set of financial empowerment services into municipal and nonprofit services. Furthermore, the FECs significantly contributed to expanding municipal governments’ involvement in and commitment to financial inclusion efforts, with all cities securing public dollars to sustain FEC counseling services, and three cities opening new Offices of Financial Empowerment anchored by managing their FECs.

Federal guidance and support of financial counseling models such as FEC can boost high-quality anti-poverty and financial inclusion services in cities; policymakers and funders should look to the critical professional counselor competencies outlined in this report to ensure quality services.

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