An Evaluation of Financial Empowerment Centers

Building People's Financial Stability as a Public Service

Client Achievement

Cities for FINANCIAL EMPOWERMENT Fund

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INTRODUCTION

The Financial Empowerment Center (FEC) initiative provides free, one-on-one financial counseling as a municipal service to all residents. The FEC initiative was 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 successfully be replicated in different municipal contexts.

The FEC 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, a natural convener of partners, and can market services at scale. Finally, financial counseling is a natural fit with other social services, from exchanging referrals to being integrated fully into service delivery streams.

This brief, which summarizes findings about outcomes achieved through the financial counseling, is excerpted and adapted from the CFE Fund's full report, *An Evaluation of Financial Empowerment Centers: Building People's Financial Stability As a Public Service*.

CLIENTS

Figure 1 • Client Demographics

Demographic	
Average Age (Years)	42.8
Average monthly income	$1,754
Median monthly income	$1,535
Female	70.6%
Married	23.8%
Divorced/separated	16.1%
African American/Black	46.8%
Latino/Latina	26.2%
Caucasian/White	17.5%
U.S. citizen	93.4%

The single most salient and unifying characteristic of people who used FEC services was their very low incomes. Over 70% of FEC clients had incomes below 50% of their area's median income, adjusted for household size. FEC clients were primarily low-wage workers and people living on fixed incomes. Additionally, 14.6% of all FEC clients said they were unemployed.

As in most human service programs, women were the majority of clients—ranging from 65% to 72% of clients across the five cities—with higher rates of men using FEC services in cities that specifically targeted veterans and the formerly incarcerated.

The FECs only serve people over age 18, and half of all clients were between ages 26 and 45. On average, nearly 11% of clients had not finished high school (ranging from 6% to 18%), while 46% had completed some level of post-secondary education (ranging from 39% to 49%). Overall, 46.8% of all FEC clients were African American/Black, 26.2% Latino/Latina, and 17.5% Caucasian/White. A total of 62.1% percent of FEC clients had dependent children; overall, FECs in all five cities served families with a total of 23,882 children.

COUNSELING OUTCOMES

FEC threshold outcomes date back to the original FEC program in New York City in 2008. Seen as evincing meaningful change in financial circumstances as well as a measure of the performance of FEC city and nonprofit providers against contract expectations, the CFE Fund continued to use these threshold outcomes in its five-city replication initiative. These threshold outcomes included:

- Banking: Open or transitioned to a safe and affordable bank account
- Credit: Establish a credit score
- Credit: Increase credit score by at least 35 points
- Debt: Decrease non-mortgage debt by at least 10%
- Savings: Increase savings by at least 2% of annual income

The evaluation looked at these threshold outcomes, as well as other financial and psychosocial gains.

OUTCOME ACHIEVEMENT

Figure 2 • 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**

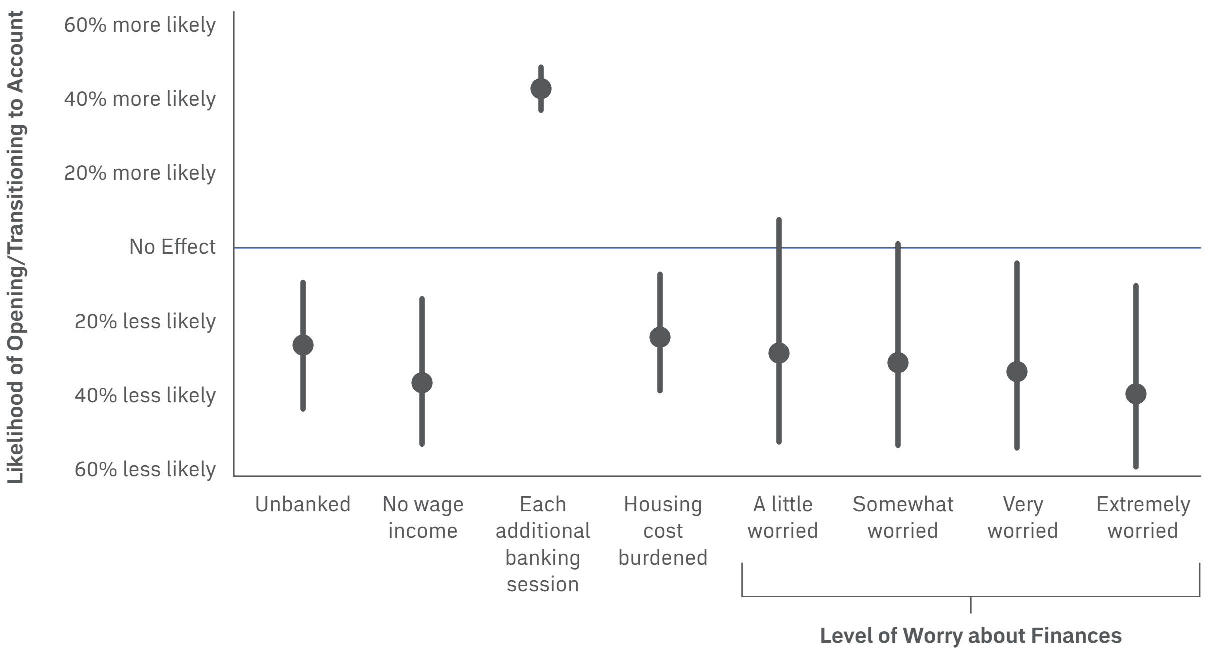
The FECs in all five cities served a total of 22,174 people. These clients attended a total of 56,965 counseling sessions, including 9,915 initial sessions and 47,050 follow-up sessions. Overall, 56% of clients in the FEC evaluation data set attended more than one counseling session. Outcomes were captured only for people who attended more than one counseling session, and cities and their nonprofit providers prioritized clients returning for more than one session. The evaluation found that each additional session attended increased a client's likelihood of achieving outcomes.

BANKING OUTCOMES

A basic transactional account is an important first step in establishing a mainstream banking relationship, depositing earnings securely, easily paying bills, safely making everyday purchas¬es, and saving for the future. For people who had never been banked, counselors emphasized safe banking options such as credit unions or banks that have expressed an interest in working with this population. For people with previous banking experience, counselors primarily helped them to resolve negative issues. Often this involved calling their previous financial institution to address overdraft or credit issues that had put their accounts in disrepair.

Overall, 944 (31.4%) of multi-session clients working on banking successfully opened or transitioned to a safe and affordable bank account. Unbanked clients were less likely to return for follow-up sessions, and the number of sessions was itself a significant factor in achieving an outcome. Each additional session made a client 43% more likely to open an account; for unbanked clients, each additional session had an even bigger impact of 82.3%. The odds ratio graphic below highlights other characteristics that relate to clients' likelihood of opening a bank account.

Figure 3 • Characteristics Linked to Opening or Transitioning to a Safe and Affordable Account



CREDIT OUTCOMES

There are many examples of the cost savings available to people with higher credit scores, from mortgage interest rates to insurance premiums to finance charges. FEC counselors supported credit outcomes by walking clients through the details of their credit reports and the tangible steps they can take to address their credit scores; helping clients identify specific debts, erroneous entries, and instances of identity theft. When working with unscored clients, counselors educated them about: what a credit score is; the ways in which the credit score affects their financial health; the consequences of lack of credit or poor credit; and the range of actions they can take to address/improve their credit score.

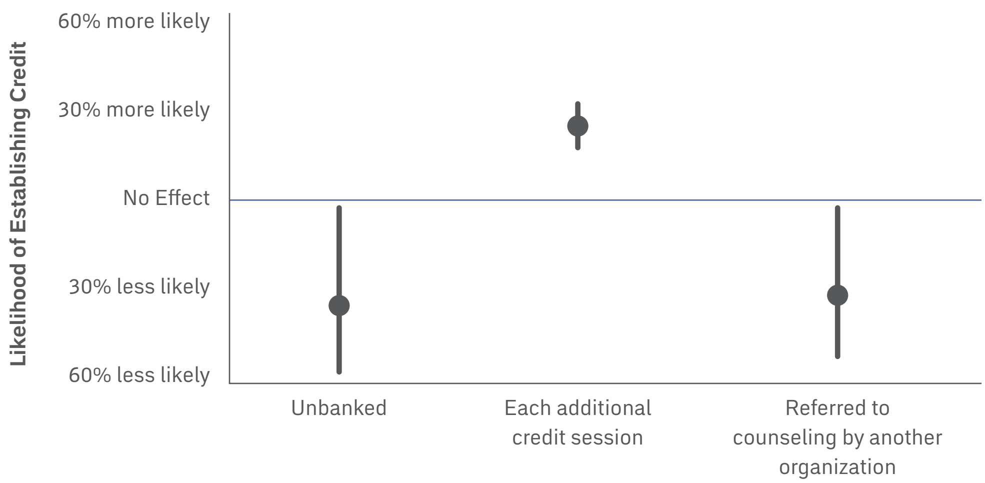
Among FEC clients for whom credit information was available, 17.8% did not have a credit score when they started counseling; the comparable figure for all U.S. consumers was 7.5%. Out of multi-session FEC clients working to establish a credit score, 23.1% did so successfully. On average, they had higher monthly incomes ($1,599) than those who did not establish a score. The new median credit score was 624, which represented a substantial increase from no credit score at all, but was below the average for all U.S. consumers.

People who were unbanked at intake were 36.7% less likely to establish a credit score relative to those who had either a checking or savings account. It is worth noting two hypothetically relevant factors that were not found to be statistically significant in their effect on whether clients established credit scores: being unemployed, and being housing cost burdened.

Among 6,217 multi-session clients working on credit issues, 2,293 had higher scores at the end of the study period than when they started; 1,395 of these clients increased their score by at least 35 points. This analysis only includes clients who began their counseling engagement with an existing credit score, demonstrating that they had active lines of credit of varying status.

Overall, 36.9% of clients in this analysis achieved a mean credit score increase of 45 points (median was 41 points). People whose credit scores increased had, on average, higher monthly incomes ($2,053) and expenses ($1,786) than those whose scores did not increase. They also had lower starting scores, with a mean of 574. In addition, people with wage income were 41.3% more likely to make positive improvements in their credit score than those without wage income.

Figure 4 • Characteristics Linked to Establishing a Credit Score



DEBT OUTCOMES

To achieve debt outcomes, most counselors described a two-pronged approach, looking at (1) debt that could be written off or that was erroneously attributed to the client, and (2) debt that the client would have to pay off in order to remove it from her credit report. To pursue debt write-offs, counselors looked for debt that had exceeded the statute of limitations, debt that was accrued as a result of identity theft, or data entry errors on the part of creditors.

Counselors emphasized that they provided advice, but that each client had to make her own decision regarding the best course of action. Counselors then helped clients build debt payments into their budgets and contact creditors if necessary to start paying down their debts.

A total of 15,635 people worked on reducing their debt through FEC counseling; 8,551 of them attended more than one debt-related session and had sufficient data about their debt to be included in the analysis. At intake, their average non-mortgage debt was $28,946.

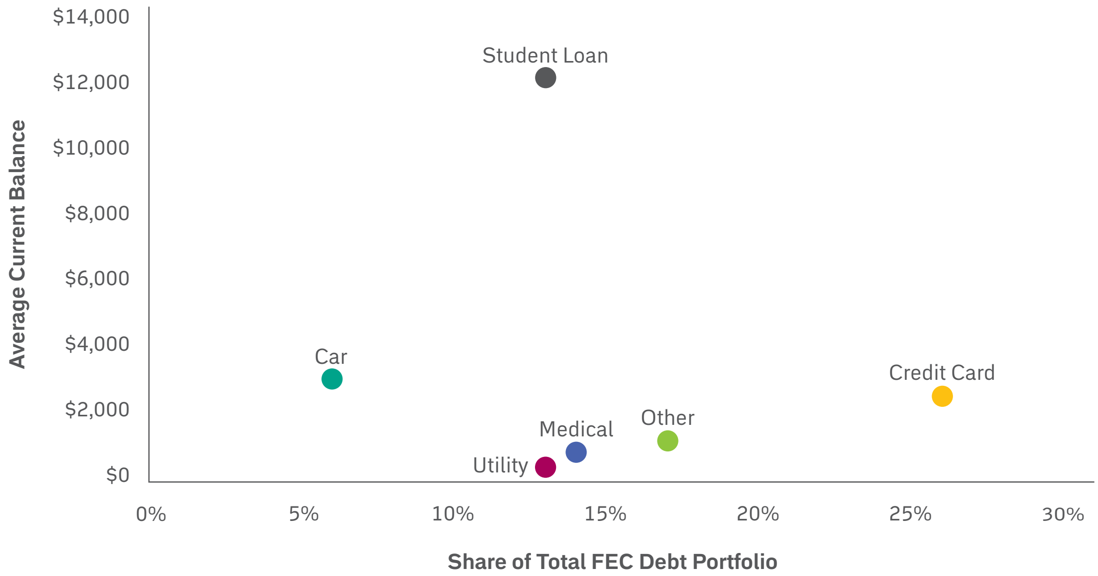
Figure 5 • Prevalence of Top Debt Types

	Percent of All Clients with Each Debt Type	Percent of Banked Clients with Each Debt Type	Percent of Unbanked Clients with Each Debt Type
Student loan	38.4%	43.1%	25.7%
Credit card	55.1%	62.8%	21.6%
Utility	39.9%	38.8%	52.3%
Other	37.7%	37.0%	48.1%
Medical	33.5%	33.2%	41.2%
Car	26.7%	29.5%	14.2%

Overall, 3,125 or 36.5% of multi-session clients in this analysis reduced their non-mortgage debt, by an average of $7,214 (median $1,773). In total, FEC clients reduced their debt by $22,545,564. Consistent with the analyses of other outcomes, each additional counseling session attended correlated with a 16.4% greater likelihood of reporting a debt reduction.

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.

Figure 6 • Number Versus Size of Debts in Overall Client Debt Portfolio



SAVINGS OUTCOMES

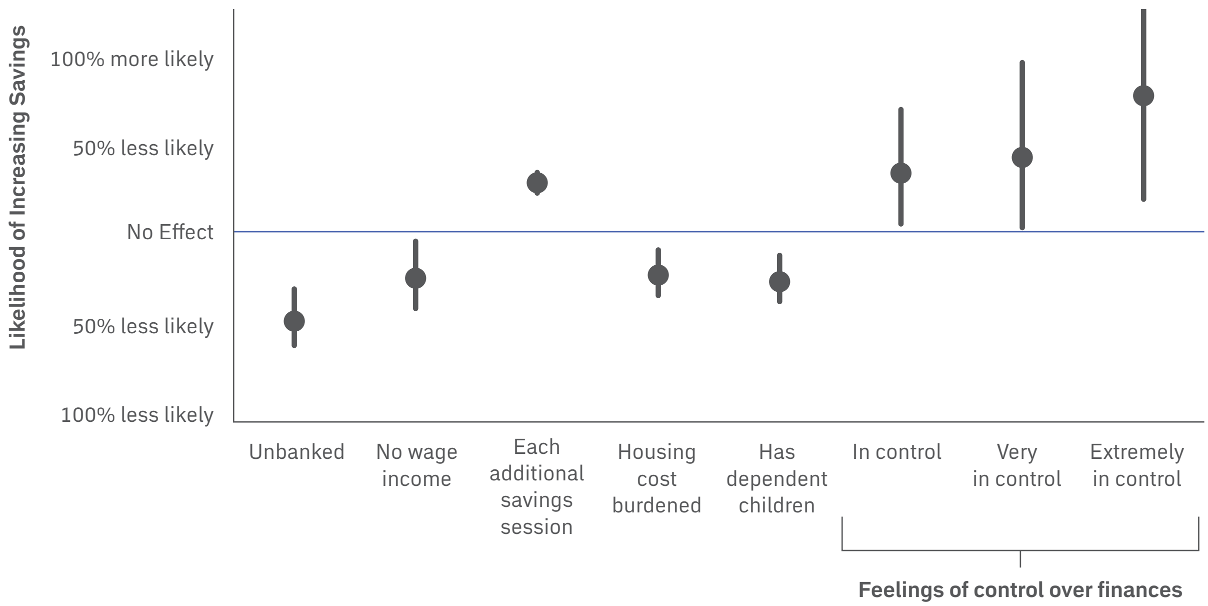
Counselors often started working toward savings outcomes with their clients by helping them create a budget, to help people identify a realistic amount they could save. In addition to developing realistic savings goals, counselors introduced clients to alternate savings schemes such as the "envelope meth-od" (i.e., setting a set amount aside in an envelope at regular intervals) or opening a certificate of deposit for medium-term savings goals. Beyond these concrete skills, counselors encour¬aged people to shift their attitudes toward savings relative to other expenses by encouraging them to "pay [themselves] first."

Overall, 28.1% of multi-session clients working on savings 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 their savings by at least 2% of annual income, a threshold outcome. Clients with wage income were 40.6% more likely to increase their savings than those without. People with housing cost burdens were 27.0% less likely to increase their savings.

Figure 7 • Ability to Increase Savings from Different Starting Points

	% of Multi-Session Clients who Increased Savings	Average Savings Increase
Started with less than $1 in savings	24.7%	$1,299
Started with less than $500 in savings	27.4%	$1,267
Not at all, a little, or somewhat confident that they could pay an unexpected expense or emergency of $500	26.6%	$1,279
Very or extremely confident that they could pay an unexpected expense or emergency of $500	32.7%	$2,524

Figure 8 • Characteristics Linked to Increasing Savings



PSYCHOSOCIAL OUTCOMES

Focus group participants described how participating in FEC services and achieving FEC outcomes had affected their lives in myriad ways, ranging from achieving long-term goals such as homeownership to developing negotiation or budgeting skills and gaining a sense of confidence and self-efficacy. Some participants cited specific, measurable outcomes including increases in their credit scores or a precise number of debts reduced, while others focused on the sense of financial freedom or empowerment they achieved as a result of these outcomes.

The focus group discussions reveal that working with the FECs made significant contributions to participants' financial health in ways not measured by the outcomes data. The broad categories of non-material or financial health outcomes participants reported were: reduced financial stress and improved emotional health; confidence and self-efficacy; and development of financial decision-making skills.

LEARN MORE

Information in this brief is excerpted from the CFE Fund's *An Evaluation of Financial Empowerment Centers: Building People's Financial Stability As a Public Service*. Read the full evaluation to learn more about other related topics, including more detail on the FEC model, and details on financial counseling outcomes and how they support financial stability.

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