NOVEMBER 2013

Empowering low income and economically vulnerable consumers

REPORT ON A NATIONAL CONVENING

Consumer Financial Protection Bureau

Message from Richard Cordray

Director of the CFPB

Financial products and services play an important role for millions of Americans as they work towards economic prosperity. They can help people save for the unknown, manage money safely, and invest for the future. When establishing the CFPB, Congress recognized that vulnerable populations are frequently unable to fully access the benefits of financial products and services. Congress therefore directed the CFPB to pay particular attention to the issues faced by traditionally underserved Americans.

At the CFPB, we take this mission very seriously. We established the Office of Financial Empowerment to focus on low-income and other economically vulnerable consumers. To ensure that our work is informed by the insights, research, and promising practices from across the country, the CFPB's Office of Financial Empowerment held a national convening on November 28-29, 2012. We were joined by more than one hundred representatives of financial institutions; federal, state and municipal government; industry innovators; researchers; funders; regulators; and consumer advocates. Participants shared ideas about the barriers that prevent millions of Americans from accessing the full benefits of financial products and services, and about ways to overcome those barriers. This input is helping to guide our work at the Bureau.

Moving forward, we have a broad plan to help the most vulnerable. We aim to support access to financial services, transparency to evaluate products, financial capability to choose wisely, and trusted advisors whom consumers can seek out for help. We are using our tools to shape the marketplace so that consumers no longer encounter deception, dead ends, debt traps, or discrimination. We recognize that we have much to learn about how best to help the most vulnerable populations. To build this knowledge, we will look to evidence-based research and those who serve vulnerable populations on the front lines.

While this work will be challenging, we are excited to work with nonprofits, other government partners, and financial institutions to ensure that all Americans can enjoy the benefits of access to quality financial products and services as well as economic opportunity in our country.

Sincerely,

Richard Cordray

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1. Executive summary

The Consumer Financial Protection Bureau helps consumer finance markets work by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives. The Office of Financial Empowerment, part of the Consumer Education and Engagement division of the Bureau, focuses on low-income and economically vulnerable consumers. To be financially empowered, consumers need access to high-quality financial products and services, sufficient information about choices in the marketplace, the capability to make good financial decisions that benefit themselves and their families, and – when required – access to trusted advisors to help navigate a complex financial marketplace.

The low-income and economically vulnerable population includes as many as 100 million people, many of whom are unbanked, underbanked, or have thin or no credit files.[1] These consumers are diverse by culture, geography, stage of life, and financial status. Over the last decade, initiatives to enhance the financial stability of this population have multiplied and shown promise. But there is as of yet no strategy on a national scale that addresses the unique consumer financial product and service needs of low-income and economically vulnerable consumers.

As a step toward helping to formulate this strategy and its implementation, the CFPB's Office of Financial Empowerment hosted a national convening in Washington, DC on November 28-29, 2012. This gathering built on a series of listening sessions and roundtables that Financial

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[1] FDIC, 2011 National Survey of Unbanked and Underbanked Households 4 (2012), available at http://www.fdic.gov/householdsurvey/2012_unbankedreport.pdf ("Unbanked households are those that lack any kind of deposit account at an insured depository institution. Underbanked households hold a bank account, but also rely on alternative financial services (AFS) providers.").

Empowerment staff conducted across the country in the preceding months. At the convening, CFPB Director Richard Cordray spoke, and panelists included representatives from financial institutions, federal, state and municipal government, industry innovators, researchers, funders, regulators, consumer advocates, senior CFPB staff and others. The plenaries and working sessions framed three themes: access to financial services and products, measurement of program outcomes, and pathways to scale.

This report is intended primarily to summarize the views expressed by participants at the convening as well as in the listening sessions and roundtables that preceded the convening. While the Bureau has learned much from those who shared their experience with us, this report seeks to capture rather than endorse their observations and conclusions.

1.1 Key insights

1.1.1 Access to financial services

Consumers with low incomes face a number of policy-related, institutional, and personal barriers that restrict their access to the financial system. Institutional barriers range from lack of physical access, identification requirements, unaffordable service fees, and lack of products that align with their needs. Participants suggested that financial institutions and service providers can pursue several strategies to counteract barriers to accessing basic financial services, including actions to:

- Better understand the needs of the consumer and create products that fit those needs,
- Meet consumers where they are, sometimes away from the branch in the community,
- Engage with partners that already serve low-income consumers, to build trust,
- Provide incentives for participation in the mainstream financial system,
- Craft technology solutions that work for low-income consumers, and
- Maintain engagement for consumers who are not technologically proficient or prefer the human touch.

1.1.2 Access to credit

Consumers with low incomes are less likely than other consumers to be able to access affordable credit; they often use high-cost alternative products to meet their needs. Several features of the credit market are particularly challenging for many consumers with low incomes. Some of the biggest barriers include their inability to qualify for loans because they have little, poor, or no credit history; lack of general understanding about credit and the type of loans that would be most useful; lack of knowledge about how to correct their credit reports or improve their scores; and a general perception that the credit system is inaccessible to them. Participants reported that consumers could greatly benefit from:

- Increased access to credit reports and scores,
- Specialized financial education, and
- More accessible and affordable products and services that are tailored to fit their credit needs and capacity to repay.

1.1.3 Financial outcome metrics

There is wide agreement among stakeholders in the empowerment field that it is extremely important to have accurate and descriptive outcome and impact metrics to measure consumers' progress. There is agreement as well on the need to improve and possibly standardize outcome measures so that various approaches can be compared. But it is difficult to establish uniform standards to measure progress toward financial empowerment because of the variety of strategies and interventions used and the multiple dimensions of human situations. Inside many service organizations, there are institutional challenges to generating consistent information. These include inexperience in evaluation, lack of capacity, lack of funding, and privacy concerns. To address some of the challenges, participants suggested:

- Dedicating more funding for evaluation and separating it from funding for service delivery,
- Clarifying why and how metrics help the initiative succeed,
- Engaging consumers and clients by using metrics,
- Understanding the client base and how it is evolving, and
- Timing the collection of program outcome data so that it serves the client, the service provider, and the researcher alike.

Convening participants identified several roles that government could play in rationalizing financial-empowerment data collection, including:

- Improving the accuracy and consistency of outcome data to make it more credible,
- Connecting practitioners with professional evaluators,

- Creating a financial health index that could be used as a standard in the field,
- Enhancing existing national financial surveys to include more empowerment indicators, and
- Creating a mechanism to expand knowledge-sharing within the empowerment field.

1.1.4 Scale: defining it, planning for it, achieving it

Participants defined scale in a variety of ways: penetration within a specific population; reaching large numbers of people; and/or increasing efficiency to reduce the unit costs of service delivery. Among the identified barriers to achieving scale were misaligned public policies, lack of sufficient infrastructure, and resource limitations that constrain growth. To address these barriers, participants suggested:

- Leveraging partnerships to increase capacity and efficiency,
- Aligning incentives for both users and key stakeholders to maximize benefit,
- Defining success measures and establishing benchmarks in advance,
- Improving information-collection systems to better analyze cost, and
- Using universal design principles to create efficient and equitable delivery systems.

Public policy can play a major role in advancing or hindering scale. An example of a limiting factor is the complex system of asset limits for recipients of public benefits; these vary by benefit type and from state to state. Concerns about these varying limits may cause consumers anxiety that impedes savings and participation in the financial mainstream. Because consumers have to observe different sets of rules depending on where they are or the benefits they rely upon, it is more difficult for providers to standardize and scale up empowerment strategies and interventions.

On the other hand, government can be a leader in advancing scale. Examples include efforts by the U.S. Department of Health and Human Services' Administration for Children and Families and the U.S. Department of Labor to incorporate financial empowerment and asset-building strategies into major assistance and employment training programs.

1.2 Next steps: Advancing the field of financial empowerment

The field of financial empowerment has come far in the last decade. New initiatives have multiplied, fostered by non-profits, governments and social entrepreneurs. Despite this progress, financial empowerment is still an emerging field. More rigorous research has begun to validate approaches that have been producing promising outcomes on a smaller scale. But there is much to be learned, and much more to be tested before the financial empowerment field can produce tangible, measurable improvements in the financial lives of millions of low-income and economically vulnerable consumers.

The Office of Financial Empowerment is a new team in a still-new agency with a broad mission. Our convening in November 2012 suggested ways in which we can accelerate the positive momentum that so many in the field have initiated. In the months and years ahead, the Office of Financial Empowerment will direct its attention toward deploying tools for the field; researching what works; exploring collaborations that can bring financial empowerment to a new level; and bringing the voice of low-income and economically vulnerable consumers into the Bureau’s work.

1.2.1 Tools for the field: Training for social services staff

Our work has been shaped by the listening sessions we have participated in around the country. We learned that case managers and front-line staff in the social services field, who were not specifically trained in financial empowerment skills, often felt unprepared and reluctant to discuss with their clients key issues such as budgeting, debt and savings issues.

To identify promising practices in the field, we commissioned a scan of programs that provide financial empowerment training to case managers. We have used that information to guide our creation of a training curriculum and a toolkit that case managers can use with clients. The toolkit aims to increase case managers’ ability to assess clients’ financial situations and provide the right tools or referrals at the right time. It will also help case managers understand how to link clients to the Bureau’s tools and resources.

In 2013, we are testing the curriculum and toolkit through community-based trainings for case managers, revising it as appropriate based on the feedback we receive. After testing and revision, we plan to make the full toolkit available to social services agencies and other service providers who can customize it to meet the needs of their staff and clients.

1.2.2 Research

The Bureau is engaged in a variety of efforts to advance our knowledge of the state of the field. Our initiatives range from broad scans of promising products and services, to rigorous evaluations of new approaches that respond to consumer demand in the marketplace.

FINANCIAL CAPABILITY

We have learned of a number of promising approaches to building financial capability that combine or "bundle" financial products and/or integrate these with financial services. However, we have found little rigorous research that indicates what is effective. To help fill this gap, we have contracted for a three-phase information-gathering project to inventory current initiatives, analyze selected projects, and pilot projects that aim to capture and build upon best practices we have identified.

TAX-TIME SAVINGS AND ASSET-BUILDING

During the 2012 tax season, we worked with the CFPB Office of Financial Education (OFE), the Internal Revenue Service and three selected sites around the country on an initiative to encourage those consumers eligible for the Earned Income Tax Credit (EITC) to save a portion of their refunds in qualified savings vehicles. In 2013-14, Empowerment and OFE will ramp up Bureau efforts by engaging more sites and providing communications and training tools for volunteer tax preparers and consumers.

ADVANCING MEASUREMENT OF PROGRAM EFFECTIVENESS

The many public and private programs that aim to increase the financial capability of low-income and economically vulnerable populations use a variety of standards and measures to assess their success. Responding to feedback from many stakeholders, the CFPB's Office of Financial Education is working with the Office of Financial Empowerment and Office of Research on a multi-year project to lay the foundation for metrics to assess the financial well-being of consumers. The Office of Financial Empowerment is reviewing public and private programmatic outcome measures to inform our work on integrating financial empowerment tools into existing service delivery systems. Our initial steps include:

- Reviewing public and private programs to identify existing outcome measures,
- Identifying the most appropriate measures to track success in federal programs, and
- Conducting outreach to stakeholders, including government agencies and the private sector, to identify strategies to better coordinate efforts.

1.2.3 Collaboration: Federal partnerships

Because federal services are accessed by millions of consumers, we see the potential to achieve large-scale impacts for low-income and economically vulnerable populations by collaborating with federal agencies to integrate financial empowerment tools into their delivery systems for services like job training.

Working initially with the departments of Health and Human Services, Housing and Urban Development, Labor, and Treasury, our approach attempts to leverage existing programs that serve specific populations, such as persons with disabilities, youth aging out of foster care, and other programs. Specifically, we will aim to integrate our strategies where existing government services address major life-cycle transitions, such as entry into employment. We will work to embed information and resources on consumer protection, access to financial products and services, money management, credit management, and saving and asset building.

We see these projects as only the beginning. The CFPB, its Division of Consumer Education and Engagement, and its Office of Financial Empowerment are committed to helping inform and improve policies and practices in order to reduce barriers for low-income and vulnerable populations, and to open up new opportunities for consumers to become more financially capable and secure.

2. Introducing the Office of Financial Empowerment

The Office of Financial Empowerment is one of six offices that make up the Division of Consumer Education and Engagement of the Consumer Financial Protection Bureau. Within the division, we work alongside and in close cooperation with the offices of Financial Education and Consumer Engagement, which serve the American public broadly, and three other population-focused offices: the offices for Students, Older Americans, and Servicemember Affairs.

The three population offices focus on clearly-delineated groups of consumers. The work of the Office of Financial Empowerment is guided by the Dodd-Frank Act mandate to provide "information, guidance, and technical assistance regarding the offering and provision of consumer financial products or services to traditionally underserved consumers and communities."[2] The term "traditionally underserved consumers" includes unbanked and under-banked consumers.[3] Our office attempts to encompass the variety of populations who lack full, affordable access to financial services, including people with low- to moderate- incomes; low wealth; thin credit files; or people who are in other ways financially excluded or vulnerable. These categories are not exhaustive, nor are they mutually exclusive. But by any measure, the

[2] 12 U.S.C. § 5493(b)(2).

[3] *See* 12 U.S.C. § 5493(b)(1)(F).

number of consumers whose financial stability is tenuous constitutes a significant portion of the U.S. population.[4]

- According to 2011 US Census data, some 46 million people, including children, live in households that have incomes below the federal poverty level. [5] [6]
- An additional 60 million people, including children, live in households that have income that is, while higher, below twice the poverty level.[7]

In addition:

- A 2012 study calculated that 43.9 percent of households (132.1 million people) lack the savings to cover basic expenses for three months if unemployment, a medical emergency or other crisis leads to a loss of stable income.[8]
- The FDIC's 2011 "National Survey of Unbanked and Underbanked Households" found that 8.2 percent of households have no bank account, and 20.1 percent are "underbanked" meaning those households that have a checking and/or a savings account and had used non-bank money orders, non-bank check cashing services, non-bank remittances, payday loans, rent-to-own services, pawn shops, or refund anticipation loans (RALs) in the past 12 months.[9]

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[4] According to the US Census Bureau the estimated population of the US in 2012 was about 314 million. US Census Bureau, *Annual Estimates of the Population for the United States, Regions, States, and Puerto Rico: April 1, 2010 to July 1,* 2012, http://www.census.gov/popest/data/state/totals/2012/tables/NST-EST2012-01.xls (last visited Sept. 11, 2013).

[5] Carmen DeNavas-Walt, Bernadette D. Proctor & Jessica C. Smith, *Income, Poverty and Health Insurance Coverage in the United States*: 2011, at 13-14 (2012), *available at* http://www.census.gov/prod/2012pubs/p60-243.pdf.

[6] In 2012, the poverty level for a family of four was about $24,000 per year. US Census Bureau, *Poverty Thresholds Data* (2012), http://census.gov/hhes/www/poverty/data/threshld/thresh12.xls.

[7] DeNavas-Walt et al., *supra* note 5, at 18, table 5.

[8] CFED, *Assets & Opportunities Scorecard, Living on the Edge: Financial Insecurity and Policies to Rebuild Prosperity in America* 3 (2013), *available at* http://assetsandopportunity.org/assets/pdf/2013_Scorecard_Report.pdf.

[9] FDIC, *supra* note 1, at 4.

- Finally, about 25 percent of American adults – approximately 50 million people – lack sufficient traditional credit data to generate a FICO[10] score, and as a result may find it very difficult to obtain loans at affordable rates.[11]

This population is not only large -- it is extremely diverse. It is urban and rural, U.S.-born and immigrant, old and young. There is no single financial product, stage of life, or life event that defines and encompasses the low-income and economically vulnerable populations. Low-income consumers face many of the same challenges faced by other consumers, including those that are served by the CFPB's other population-focused offices – older Americans, students, and servicemembers. But economic fragility accentuates these challenges for many low-income and economically vulnerable consumers, creating daunting obstacles, day to day and month to month.

2.1 Defining financial empowerment

Part of the CFPB's mission is to empower *all* consumers in the financial marketplace. The Office of Financial Empowerment has identified four basic challenges experienced by low-income and economically vulnerable consumers.

ACCESS

Low-income and economically vulnerable consumers may face a lengthy list of obstacles and barriers in shopping for and obtaining financial services to help them reach their goals. Some barriers are physical or geographic – for example, the lack of financial institution branches in a low-income urban neighborhood or in a rural area, where public transportation is limited. Other barriers to access may include language; financial obstacles such as high fees or required minimum balances for deposit accounts; a lack of appropriate products; past problems

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[10] FICO, or the Fair Isaac Corporation, is a company that provides credit-scoring models to help financial services companies assess consumers' creditworthiness. FICO, *About Us*, http://www.fico.com/en/Company/Pages/about.aspx (last visited Sept. 17, 2013).

[11] FICO, *FICO Expansion Score*, http://www.fico.com/en/Products/Scoring/Pages/FICO-Expansion-Score.aspx (last visited Sept. 17, 2013) ("The FICO Expansion Score predicts credit risk for consumers without FICO scores by bringing together data in real time from alternative credit data sources.").

managing and maintaining positive balances in checking accounts; distrust of mainstream financial institutions; lack of required identification or proof of residency; or limited or no internet access.

FINANCIAL CAPABILITY

Because they lack financial resources, many low-income consumers have less opportunity to effectively engage with the mainstream financial system. The lack of formal financial education may make it still harder for them to use the financial system to meet their goals.

MARKETPLACE INFORMATION

Beyond a general level of financial education, consumers need specific information about the products and services available in the marketplace. However, low-income consumers are sometimes disadvantaged by language barriers, low levels of literacy or numeracy, disability, or other factors in seeking to access such information. These challenges may be amplified if consumers are exposed to aggressive, unclear, or misleading marketing practices that are present in certain segments of the market.

TRUSTED ADVISORS AND ADVOCATES

Given the volume and variety of financial products and services, most consumers can benefit from access to trusted, knowledgeable advisors at some point in their lives to help them navigate the marketplace. This is especially true for low-income consumers. Further, if they fall victim to fraud, identity theft, deceptive marketing, prohibited debt collection efforts, or other financial problems, low-income and economically vulnerable consumers may lack the resources or capability to remedy these problems by themselves. Here, too, a trusted advisor or advocate may be essential to financial empowerment.

2.2 Two dimensions of empowerment: Building financial capability and transforming the marketplace

One dimension of empowering low-income and economically vulnerable consumers includes ensuring they have information, tools, education, and resources to help them choose affordable, appropriate financial products and services, thus enabling them to build their financial capability and reach their life goals. It means fostering appropriate and informed choices to help them improve their financial lives.

Another dimension of financial empowerment is *protection*. Self-protection can be the most immediate form of consumer protection. The financial challenges faced by low-income and economically vulnerable consumers would be lessened if they were able to avoid problems in the first place, or knew what to do when they do experience a problem. But they, like all consumers, need a transparent and fair marketplace where the rules are enforced consistently and evenhandedly -- one where consumers know upfront the benefits and costs of their choices and where financial enterprises do not engage in unfair, deceptive, abusive or discriminatory acts and practices.

The CFPB has a unique set of tools to empower consumers to take control of their economic lives. Its rulemaking, supervision and enforcement powers extend both to certain large depositories like banks, thrifts, and credit unions, but also to non-banks like mortgage originators and servicers, debt collectors, private student lenders, and consumer reporting agencies.[12] The CFPB's consumer response team helps resolve complaints and fields tens of thousands of questions annually from consumers about their problems and concerns with financial services.[13] Consumers can find answers to about 1,000 frequently asked questions through AskCFPB on CFPB's website: http://www.consumerfinance.gov/askcfpb/.

[12] *See* 12 U.S.C. §§ 5512, 5514, 5515, 5531.

[13] 12 U.S.C. § 5534; *see also* CFPB, *Consumer Response: A Snapshot of Complaints Received* (2013), *available at* http://files.consumerfinance.gov/f/201307_cfpb_snapshot_complaints-received-july.pdf.

2.3 From listening sessions to the convening: Learning from the financial empowerment field

Notwithstanding the capabilities of the CFPB, we recognize that the Bureau alone cannot address the magnitude, diversity, and depth of financial vulnerability among low-income consumers. Fortunately, there are thousands of organizations across the country engaged in developing, testing, and implementing initiatives designed to help consumers achieve greater financial stability.

Soon after the Office of Financial Empowerment was established in 2012 we set out to learn about these efforts first-hand, from local practitioners. We conducted (and continue to conduct) listening sessions around the country to learn about the specific and most pressing financial challenges faced by low-income consumers, and, the local responses to these challenges. We learned about promising products, service strategies, and combinations of both, from human-service providers, financial institutions, regulators, community advocates, and researchers. Our initial listening tour gave us an on-the-ground perspective of the key issues facing the financial empowerment field.

The next step in our information gathering was to convene experts who are currently working in the financial empowerment field. On November 28-29, 2012, we brought together representatives of local and national nonprofit social service organizations, large and small banks, credit unions, community development finance institutions (CDFIs), funders, researchers, regulators, government agencies and policy advocates. Our broad goals were to assess the state of the field, determine priorities and potential for common work, and identify areas where the CFPB can add value.

Participants at the convening welcomed the opportunity to exchange ideas and actively engage across sectors and institutions. For example, in one plenary session we brought together the CDFI Fund -- which provides the resources to expand financial services to low-income consumers -- with the four prudential banking regulators. In another session, we brought senior officials of two cabinet-level agencies -- the departments of Labor and of Health and Human Services -- together with direct- service providers to low-income and economically vulnerable populations.

We held our convening at the CFPB headquarters in Washington, DC to better introduce attendees to the full range of the CFPB's tools. Our listening sessions around the country had taught us that the full scope of the CFPB's work and resources are not yet widely known, even by many well-informed consumer advocates, financial service professionals, and officials of state and local governments. To address this issue we featured a keynote presentation by the CFPB's Director, Richard Cordray, as well as plenary presentations by representatives of our offices of Supervision, Fair Lending, Enforcement, and Consumer Response. Our colleagues from the Bureau's offices of Financial Education, Research, Communications, Fair Lending, Supervision, Enforcement, and Consumer Engagement also facilitated and participated in working sessions.

We did not approach the convening with a single solution, nor did we expect to end with one. We defined three themes to guide our discussion - access, financial outcome metrics, and scale - because these themes are all inter-related and are equally critical to our overall goal of increasing financial empowerment. Our objective was to begin formulating strategies that will provide new, more expansive empowerment opportunities for the many millions of low-income and economically vulnerable consumers.

There are hundreds of promising initiatives underway across the country with the potential to improve the financial lives of people in this population. The CFPB's goal is to begin to answer key questions that will help the field achieve scale, including these: What program-level outcome data is available about promising approaches? What is needed to assess the validity of these initiatives and expand the availability of those that are most cost-effective? What are the existing and emerging access points and on-ramps to financial empowerment for low-income people? By bringing together a broad cross-section of engaged experts, our hope was to better frame these questions, to further shape the priorities for our office, and to identify opportunities for shared work with those already involved in the field.

2.4 Work in progress and on the horizon

Gail Hillebrand, the Associate Director for the CFPB Division of Consumer Education and Engagement, summarized our work in her welcoming remarks at the convening: "Financial Empowerment focuses on the programs, products, and policies that will help low-income and economically vulnerable consumers improve their financial lives."

DEVELOPING FINANCIAL-EMPOWERMENT TOOLS

Through our listening sessions, we learned that front-line direct service staff and case managers who serve low-income consumers often feel ill-equipped to inform their clients about resources that can help improve their financial lives, such as the Earned Income Tax Credit (EITC) or budget-management tools. Responding to this need, we have begun to develop toolkits for a training program to help these workers get the knowledge they need to serve confidently as trusted advisors and guides for their customers and clients.

RESEARCH

The Bureau is committed to expanding our knowledge about what works.

- We are continuing to hold listening sessions, roundtables, and other events around the country to gather insights and information from local practitioners and other stakeholders to assess progress and help strengthen the field.

- We have commissioned a scan to help identify and evaluate products, service-delivery models, and other approaches -- some at a small scale -- that have the potential to assist low-income consumers. In coordination with the Office of Financial Education and Office of Research, we are working on projects to test ways of enhancing consumer decision-making to increase financial stability. One effort aims to encourage use of free tax-preparation sites and to encourage savings at tax-filing time by prompting people to get ready to save before going to a tax preparation site.

PROMOTING FEDERAL COLLABORATION

Federal programs touch the lives of tens of millions of low-income and economically vulnerable consumers. For example, in 2012, 47 million Americans received benefits through the Supplemental Nutrition Assistance Program (formerly food stamps).[14] A number of federal agencies have recognized the value of the concepts and tools of financial empowerment and have

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[14] Cong. Budget Office, *An Overview of the Supplemental Nutrition Assistance Program* (Apr. 19, 2012), http://www.cbo.gov/publication/43175.

begun to incorporate them into their programs.[15] Our office is working to inventory these initiatives, to explore the development of common goals and program metrics, and to help make financial empowerment an integral part of their work.

The national convening provided many insights to inform our work. We look forward to continued collaboration with the dedicated practitioners, researchers, financial institutions, advocates, and supporters who are working every day to make financial empowerment a reality for low-income and economically vulnerable consumers.

[15] U.S. Dep't of Labor Office of Disability and Emp't Policy, *Financial Education, Asset Development, and Work and Tax Incentives*, http://www.dol.gov/odep/topics/FinancialEducationAssetDevelopment.htm (last visited June 19, 2013) ("Financial education and asset development are critical to improving the economic self-sufficiency of all workers, and may be especially important for people with disabilities.").

3. Access

3.1 Access to basic financial services

Empowering low-income consumers through access to financial markets has several fundamental elements. It includes ensuring that people have more affordable options to pay bills and make purchases; that they are able to send and receive money safely at a reasonable cost; that they can obtain and use fair, affordable credit; and that they can save. As CFPB Director Richard Cordray remarked to the convening participants:

> There is value to establishing and maintaining a relationship with the formal banking system... Over time you build a history, [where] you can build a profile which can lead to lower interest rates for you and greater access to credit and other benefits. [It's] very significant. And people who are outside the banking system tend to operate transaction by transaction. They lose all benefit of that relationship. They're anonymized.[16]

Despite the benefits of this relationship, the most recent FDIC study on unbanked and underbanked households found that 8.2 percent of U.S. consumers were "unbanked" as of 2011, while 20.1 percent were "underbanked," which meant that they used financial service providers other than banks and credit unions, some of which were high-cost.[17] Surveys have shown that at

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[16] Richard Cordray, Director, CFPB, Keynote Speech at Day Two of the CFPB Office of Financial Empowerment Convening (Nov. 29, 2012).

[17] FDIC, *supra* note 1, at 14-15.

least a portion of these households use alternative financial services by choice, because of convenience, the small incremental cost, or other factors.[18]

Convening attendees identified four main reasons why unbanked and underbanked households may benefit from having an account:

- **Cost savings:** The average unbanked consumer spends five percent of his net income on financial service fees. For a low-to-moderate- income worker, this amounts to about $1,000 in fees annually, or $40,000 over an average working life.[19]
- **Safety:** Without a safe physical place to keep their money, unbanked consumers are more likely to be victims of crime, because they often carry large sums of cash on their person or keep cash in their homes.[20] Deposits held in banks and credit unions are federally insured.
- **Disaster preparedness:** In the event of an emergency, unbanked families may have no safe way to access their money, and any cash kept in the home may be lost.[21]
- **Asset-building:** Without a bank account, consumers lack a convenient way to save, establish credit, and access other financial instruments such as loans.

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[18] FDIC, Addendum to the 2009 FDIC National Survey of Unbanked and Underbanked Households

Use of Alternative Financial Services 30 (2010), available at http://www.fdic.gov/householdsurvey/2009/AFS_Addendum.pdf.

[19] Matt Fellowes & Mia Mabanta, Banking on Wealth: America's New Retail Banking Infrastructure and Its Wealth-Building Potential 13-14 (2008), available at http://www.brookings.edu/~/media/research/files/reports/2008/1/banking%20fellowes/01_banking_fellowes.pdf

[20] Gregory Fairchild & Kulwant Rai, Perdido en la Traducción: The Opportunity in Financial Services for Latinos 12, 28 (2011), available at http://www.darden.virginia.edu/web/uploadedFiles/Darden/Tayloe_Murphy_Center/Research/LatinoReport.pdf.

[21] See Mollyann Brodie, et al., Experiences of Hurricane Katrina Evacuees in Houston Shelters: Implications for Future Planning, 96 Am. J. Pub. Health 1402 , 1405-06 (2006), available at http://www.ncbi.nlm.nih.gov/pmc/articles/PMC1522113/pdf/0961402.pdf (discussing a survey of Hurricane Katrina Evacuees which revealed that approximately 3 in 10 reported having usable credit cards or a usable bank account from which they could withdraw money).

What is the shape of the marketplace that will serve low-income consumers well? Like all consumers, low-income and economically vulnerable individuals need access to financial products and services that:

- Provide a way to track household income and expenses and to budget accordingly,
- Provide a safe way to build and store savings,
- Have adequate protections from money being lost or stolen,
- Are clear in their terms, without hidden fees,
- Provide a range of choices that are suitable, accessible and convenient,
- Do not produce surprises, tricks or traps, and
- Make it convenient and safe to pay bills.

3.1.1 Barriers to accessing the formal banking system

Barriers to the formal banking system are found among financial institutions, among low-income and economically vulnerable consumers themselves, and within the public-policy framework. These barriers contribute to lower participation rates and often to the unbanked and underbanked paying a higher cost for financial services. As the FDIC study documented, specific communities of color, including African-Americans, Native Americans and Latinos, are more frequently unbanked and underbanked than the general population.[22] Less widely noted is the disproportionate prevalence of people with disabilities among the unbanked and underbanked, reflected in part by their more frequent use of alternative financial products than the general population.[23]

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[22] FDIC, *supra* note 1, at 14-15.

[23] The Pew Charitable Trusts, *Payday Lending in America: Who Borrows, Where They Borrow, and Why* 11 (2012), *available at* http://www.pewstates.org/uploadedFiles/PCS_Assets/2012/Pew_Payday_Lending_Report.pdf (revealing that those unable to work because of a disability have used payday loans at higher rates than those who are employed, unemployed, homemakers, students, or retired).

3.1.2 Financial-institution barriers

ACCESS TO BRANCH NETWORKS

Physical access to financial institutions is a tangible barrier for some low-income and financially vulnerable consumers. Convening attendees observed that brick-and-mortar branches are costly for financial institutions to maintain, and they expressed a mix of opinions about the importance and viability of maintaining neighborhood branches at the same level as in the past. Some attendees noted that branches still play an important institutional role in low income and rural communities, and that branch access is very important to people who do not have the ability or sufficient comfort level to use online and electronic banking solutions.

Research shows that the distribution of bank branches across the country is uneven, and that in recent years the greatest decline in branch presence has been in low-income areas.[24] Nationally, "banks have shut 1,826 branches (on a net basis) since late 2008, and 93 percent of closings were in postal codes where the household income is below the national median."[25]

BANK POLICIES AND PRACTICES

Convening attendees reported that the financial requirements to become banked at a depository institution present barriers for some consumers, who may be deterred by minimum account balances and fees. While financial institutions are required to disclose fees, attendees observed that the information is not always presented in a manner that is clear to the consumer. Many banks do not open accounts for consumers whose accounts were previously closed by that bank or another bank for unreimbursed negative balances, which often result from overdraft or non-sufficient funds fees. A negative history with a specialized consumer reporting agency (ChexSystems, Early Warning Services, or others) that acts as a data depository for financial transaction activities may prevent some consumers from opening an account for an extended

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[24] David Hayes, Tahir Ali, & Tyler Hall, *Banks Follow the Money and Exit Lower Income Areas* 2 (2012), *available at* http://www.snl.com/InteractiveX/article.aspx.

[25] Frank Bass & Dakin Campbell, *Predator Targets Hit as Banks Shut Branches amid Profits*, Bloomberg News (May 2, 2013, 12:00 PM), http://www.bloomberg.com/news/2013-05-02/post-crash-branch-closings-hit-hardest-in-poor-u-s-areas.html.

period of time, possibly as long as five years.[26] Identity requirements present barriers for many immigrants. For a number of years, some banks and credit unions have been opening accounts for Mexican citizens using a combination of proof of residence, a *matricula consular*[27] and a U.S. Individual Tax Identification Number (ITIN).[28] However, not all institutions accept alternative identification, which makes it difficult for some people without full documentation to open accounts.[29]

At the convening, financial service providers that have developed lines of business dedicated to the underserved segment of the population described a process that starts with understanding the customer's needs, challenges, capabilities, and desires. Historically, there has often been a disconnect: providers have developed new starter products or product bundles aimed at reaching underserved consumers, but the products either don't entirely meet consumer needs, or are not structured with the right elements, thus requiring extra time and money to execute various basic financial transactions. Convening attendees observed that this disconnect often forces low-income consumers into the more expensive alternative market, effectively increasing their cost of access and reducing disposable income.

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[26] ChexSystems, *Frequently Asked Questions*, https://www.consumerdebit.com/consumerinfo/us/en/chexsystems/faqs.htm#FAQ_03 (last visited Sept. 12, 2013) (stating that "[e]ach report submitted to ChexSystems remains on our files for five years, unless the source of the information requests its removal or ChexSystems becomes obligated to remove it under applicable law").

[27] The official record and identification card for Mexican individuals living abroad. Secretaria de Relaciones Exteriores, *Matricula Consular (Mexican Consular ID Card)* 3-4 *available at* http://www.hwcli.com/documents/258.pdf (last visited Sept. 11, 2013).

[28] An Individual Taxpayer Identification Number (ITIN) is a tax processing number issued by the Internal Revenue Service. IRS issues ITINs to individuals who are required to have a U.S. taxpayer identification number but who do not have, and are not eligible to obtain a Social Security Number (SSN) from the Social Security Administration (SSA). *See* IRS, *General ITIN Information*, http://www.irs.gov/Individuals/General-ITIN-Information (last visited Sept 12, 2013).

[29] *See* Anna Paulson et al., *Financial Access for Immigrants; Lessons from Diverse Perspectives* (2006), *available at* http://www.chicagofed.org/digital_assets/others/region/financial_access_for_immigrants/lessons_from_diverse_perspectives.pdf (explaining that existing laws allow banks to choose whether to accept alternate forms of identification).

CONSUMER-RELATED BARRIERS

On the consumer side, there are multiple barriers to banking participation. A lack of trust or comfort level with banks is often cited. The FDIC survey found that 7.5 percent of unbanked households who do not have an account responded that they do not like dealing with or do not trust banks.[30] Among these households, 59.4 percent reported that they do not trust banks and another 20.4 percent that they do not feel welcome or comfortable at banks.[31] Some low-income consumers feel that the business model of banks focuses more on getting them to borrow money than on developing their assets and helping them to save their money.[32] Often, consumers report that they can't afford bank accounts because of high fees, or that they feel that they don't have enough money to make it worthwhile to have an account. Low-income immigrants may be deterred because they were shunned by banks in their native countries, or, in some cases, had suffered losses through bank collapses.[33]

Long-established social and cultural patterns play a part, as well. At a listening session attended by community representatives from East St. Louis, Illinois, a city where 98 percent of the population is African-American[34] and almost 55 percent are unbanked or underbanked,[35] we learned that some residents do not use banks because their parents, grandparents, and peers did not use them; in turn, they either did not see the need or were unable to change that pattern. We also learned that many residents go outside of the traditional financial system for their banking needs. For some, participants in that session said, "the corner grocery store" is their bank. While this approach may maximize convenience, it can frequently be a more expensive

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30 FDIC, *supra* note 1, at 28.

31 *Id.*

32 Federal Reserve Bank of Kansas City, *Unbanked and Underbanked Consumers in the 10th Federal Reserve District* 6 (2010), *available at* http://www.kansascityfed.org/publicat/research/community/Unbanked.Report.pdf.

33 Paulson et al., *supra* note 28, at 18-19.

34 US Census Bureau, *State & County QuickFacts: East St. Louis, Illinois*, http://quickfacts.census.gov/qfd/states/17/1722255.html (last visited Sept. 11, 2013).

35 BankOn USA, *Unbanked Profile: East St. Louis, IL*, http://webtools.joinbankon.org/community/profile?state=IL&place=East%20St.%20Louis (last visited Sept 11, 2013).

solution than becoming a customer of a bank or credit union because these nonbanks typically sell financial services "a la carte," whereas a financial institution may offer basic services as a bundle associated with an account product. The nonbank options may also be less safe and secure if they lack certain protections of the mainstream banking system, such as regulatory oversight, protection against theft and error, and federal deposit insurance.

PUBLIC-POLICY DETERRENTS

Recipients of Medicaid, Temporary Assistance for Needy Families (TANF), and other public-benefit programs face asset limits, which may deter them from opening accounts at financial institutions and build savings.[36] We heard from social service providers that individuals with disabilities who receive Supplemental Security Income (SSI) are afraid to save because if they exceed the threshold for liquid assets, their SSI benefits could be affected; this would include both the cash benefit and much-needed medical benefits (Medicaid).

3.1.3 How can financial providers expand service to underserved markets?

DEFINE THE RIGHT TIME HORIZON

Many of the financial services providers we heard from – whether commercial banks, thrifts or credit unions – talked about the challenge of reconciling the product needs of low-income consumers with the bottom-line needs of their institutions. Director Cordray noted that a focus on maximizing short-term profitability is not always the answer: "[a] lot of the problem is not having a long enough term horizon ... If you treat your customers in a way that's not sustainable [for the consumer], over time that is not a good business model and [your product] will not survive."[37] Participants at the convening, including financial-service providers, acknowledged the value of lengthening the business model's horizon for products tailored to the underserved, since profitability may take longer to achieve.

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[36] Rochelle Finzel, *Asset Limits in Public Programs*, 20 Legisbrief 1 (2012).

[37] Cordray, *supra* note 15.

PRODUCT CHARACTERISTICS: STICKY, SUSTAINABLE, AND SCALABLE

Financial institutions face a challenge whenever a potential product falls outside their typical business model. When creating new products, institution representatives said that they need to reasonably expect that their products and services will be sufficiently appealing for customers to establish and maintain a longer-term, sustainable customer relationship that will produce profits over time.

What Sticks?

Product "stickiness" is defined by its attractiveness, take-up, and retention rate. Service providers who participated in the convening reported that consumers, especially those who are first-time customers, are less likely to continue with a product if they perceive that maintenance fees are too high or that the financial institution is engaging in deceptive practices. To succeed, a product should be aimed at building consumer financial capability and confidence as well as loyalty to the product and brand.

For example, in the case of prepaid cards, recent studies by researchers from the Federal Reserve Bank of Philadelphia and the Center for Financial Services Innovation found that the average active life of general-purpose reloadable cards is often less than six months.[38] In some cases, such as cards issued by retailers, the lifespan is much shorter, averaging just two months.[39] This is important to card providers because the fixed costs associated with establishing a reloadable prepaid card used by a consumer must be recovered over a time span that is only 5 percent to 15 percent the length of a typical checking account.[40]

For prepaid cards used by employers to deliver payroll, for example, 16 percent of consumers take 80 percent or more of the value off the card via cash withdrawal. Cards used in this way are

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38 Stephanie M. Wilshusen Robert M. Hunt & James van Opstal, *Consumer Use of Prepaid Cards; A Transaction-Based Analysis* 18 (2012), http://www.philadelphiafed.org/consumer-credit-and-payments/payment-cards-center/publications/discussion-papers/2012/D-2012-August-Prepaid.pdf.

39 *Id.*

40 *Id.*

essentially a plastic substitute for cashing a paycheck.[41] This means that financial institutions have less opportunity to take advantage of income from interchange fees, and that consumers are less likely to take advantage of the transaction convenience of the card. In order to make these cards financially viable, it is not unreasonable to conclude that the institutions that provide them have an incentive to add convenience features that could lead to greater customer engagement and retention.

Meeting Consumers Where They Are

Providers of financial services aimed at low-income and underserved consumers increasingly recognize the need to reach them at the appropriate place, the appropriate time, and with the appropriate product. They leverage existing non-bank resources, including partnerships with public and private institutions, to provide products and services where consumers are, where they go, and through channels they trust. The exact approach individual financial institutions take to increase their share of this market varies by type of institution, business model, target consumer, and the geographic scope of their markets (national, regional, or local). But the common thread is greater partnership and community engagement.

The "Right" Place

One strategy is to bring the financial institution to the places where consumers routinely conduct other business. Three examples we heard from listening sessions illustrate the point.

- On a small scale, one credit union in the Midwest has strategically deployed "full-service" kiosks in grocery stores that serve low-income consumers. These kiosks offer check-cashing, bill payment, money orders, reloadable prepaid cards, and other services not only to the credit union's members but also to underserved or unbanked consumers who are not members. An additional advantage to using the kiosks is that they can be picked up relatively easily and moved to other locations if needed.
- Another credit union in the Midwest has co-located a branch in a nonprofit multi-service agency. There, it can reach consumers who are receiving services such as job training. Among its products is a payday consolidation loan, which is specifically designed to meet the needs of the nonprofit agency's clients. By consolidating multiple debts into a single

[41] *Id.* at 22.

loan and extending the term, consumers can get lower total monthly payments and are better positioned to fully repay their debts.

- On a national scale, prepaid card providers are distributing their products through large retail chains with thousands of locations that serve low- and moderate-income consumers.

The "Right" Time

For a segment of the unbanked and underbanked population, merely providing products in the right place is not sufficient. Timeliness is also important. At our listening sessions in New York City, we met with representatives of a wide range of social service, legal services, housing, and other agencies that co-locate or link financial counseling and coaching to the delivery of other services. Embedding or nesting empowerment services into the existing social service delivery system is emerging as a key strategy around the country, practiced both by local governments and nonprofit institutions. Communities such as New York City that have already begun to employ this strategy are looking both to expand and replicate their financial empowerment efforts more quickly, and to achieve improved outcomes in existing programs by bundling services.[42]

The "Right" Partners

Financial institutions also have found partnering with nonfinancial entities to be effective in reaching low-income consumers. Participants at the convening stressed the value of marketing and outreach through partnerships with trusted entities. Media that caters to specific ethnic populations, membership organizations, and schools are channels that can help financial institutions reach scale with their products. Municipal entities are often crucial partners; as described at the convening, the Kindergarten to College initiative in San Francisco would not

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[42] New York City Dep't of Consumer Affairs Office of Fin. Empowerment, *Municipal Financial Empowerment: A Supervitamin for Public Programs* (2012), *available at* http://www.nyc.gov/html/dca/downloads/pdf/SupervitaminReportSeries.pdf.

have been possible without an effective collaboration between the city, a major bank, and the local public school system.[43]

Participants cited as an important lesson that in most cases of partnership between a financial institution and a public or community organization, it is important that goals, incentives, timeframes, and expectations of profitability and sustainability be thoughtfully aligned.

INCENTIVES AND RESOURCES FOR FINANCIAL INSTITUTIONS TO EXPAND ACCESS

Through the enactment of certain public policies over the past four decades, the federal government has created regulatory and financial incentives for financial institutions to expand their services to meet the needs of low-income consumers. For example, banks and thrifts may receive credit under the Community Reinvestment Act for expanding their services to low- and moderate-income consumers, either directly or through community organizations.[44] The Community Development Financial Institutions (CDFI) Fund has several programs: The Bank Enterprise Award (BEA) program provides cash awards to banks that can demonstrate increased investment and services to low-income communities, while the Fund's "core" program makes competitive grants available both to banks and credit unions that it has certified as predominantly serving low-income communities.[45] There are over 900 CDFIs in the U.S., of which about 300 are banks and credit unions.[46]

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[43] City of San Francisco Office of Fin. Empowerment, *Kindergarten to College*, http://sfofe.org/programs/k-to-c (last visited Sept. 11, 2013).

[44] *See* Fed. Reserve, *Community Reinvestment Act*, http://www.federalreserve.gov/communitydev/cra_about.htm (last visited June 20, 2013) ("The Community Reinvestment Act is intended to encourage depository institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods, consistent with safe and sound operations.").

[45] See, CDFI Fund, *What We Do*, http://www.cdfifund.gov/what_we_do/overview.asp (last visited Sept. 11, 2013); *see also* CDFI Fund, *Fact Sheet: Bank Enterprise Award Program* (2013) *available at* http://www.cdfifund.gov/docs/factsheets/CDFI_BEA.pdf ("Through monetary awards and the allocation of tax credits, the CDFI Fund helps promote access to capital and local economic growth in urban and rural low-income communities across the nation.").

[46] Michael Swack, Jack Northrup, & Eric Hangen, *CDFI Industry Analysis Summary Report* 1 (2012), *available at* http://carseyinstitute.unh.edu/sites/carseyinstitute.unh.edu/files/publications/Report-Swack-CDFI-Industry-

Within the credit union industry, the National Credit Union Administration (NCUA) has a special "low-income designation" for institutions that serve a majority of members who meet its regulatory definition.[47] A recent change in regulations increased the number of credit unions with this designation from about 1,000 to over 1,900.[48] The low income designation means a credit union is eligible for the Community Development Revolving Loan Fund's grants and low-interest loans; can obtain supplemental capital; is exempt from the 12.25 percent statutory cap on member business loans; and can accept non-member deposits from any source.[49]

PREPAID CARDS AND MOBILE TECHNOLOGY

Prepaid Cards and Branch Banking

Because physical branch networks are limited and costly to build and maintain, financial institutions may have an incentive to employ emerging technologies to expand service to low-income, unbanked, and underbanked consumers. The profusion of new products and delivery channels offers the potential to expand services in a relatively cost-effective way.

Some financial institutions have developed their own suite of products targeted to unbanked or underserved consumers, including prepaid cards. The products are available to all customers but are used specifically by some banks to serve potential customers who do not qualify for their "standard" products, particularly checking accounts.[50] This strategy has been employed by some financial institutions that offer "second-chance" accounts to consumers whose accounts

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Analysis.pdf. Other CDFIs include microenterprise funds, non-profit lenders and community development venture funds.

[47] A credit union qualifies for low income designation when a majority of its membership has family income of 80 percent or less than the median family income for the metropolitan area where they live or national metropolitan area, whichever is greater. Nat'l Credit Union Admin. Office of Small Credit Union Initiatives, *Low-Income Designation Fact Sheet* 1 (2013), http://www.ncua.gov/Legal/Documents/LowIncomeDesignationFactSheet.pdf.

[48] Nat'l Credit Union Admin., *NCUA's Low-Income Credit Union Initiative Boosts Growth, Community Investment*, http://www.ncua.gov/News/Pages/NW20130807LowIncome.aspx (last visited Sept. 11, 2013).

[49] Nat'l Credit Union Admin., *Low-Income Credit Union List Hits 1,874*, http://www.ncua.gov/News/Pages/NW20121018LICU.aspx (last visited Sept 11, 2013).

[50] US Dep't of the Treasury, *Banking on Opportunity: A Scan of the Evolving Field of Bank On Initiatives* 12 (2011), *available at* http://www.treasury.gov/resource-center/financial-education/documents/banking%20on%20opportunity%20nov%2011.pdf.

were previously closed because of unreimbursed negative balances owed to the bank, often resulting from overdraft and non-sufficient funds fees.[51] Others are exploring whether prepaid cards provide an on-ramp for customers to transition to other bank products in the future. However, convening attendees observed that whether prepaid cards are "sticky" enough to lead to a deeper banking relationship is still an open question.

In any case, some convening participants stated that offering the cards may not eliminate the need for contact with a branch. Several representatives of financial-service providers discussed the importance of their customers having access to a human being, particularly when they are first introduced to a new product, or when they have a question or a problem. This is not only important for building loyalty; it also may offer an avenue to provide financial education.

Expansion of the Prepaid Card Industry

Prepaid card usage is growing at an explosive rate, and it extends far beyond "traditional" bank offerings. These cards are provided by a variety of vendors, and they are distributed in large numbers of retail stores. The category includes both "closed-loop" cards, such as many gift cards that can only be used for a particular vendor or system, and general-purpose reloadable (GPR) cards, which are "open-loop" and can be used widely.[52] According to the Mercator Advisory Group forecasts, "open-loop market loads in the United States will have a compound annual growth rate (CAGR) of 21% through 2015, reaching a total of $388.7 billion."[53]

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[51] CFPB, *CFPB Study of Overdraft Programs* 27 n.cc (2013), *available at* http://files.consumerfinance.gov/f/201306_cfpb_whitepaper_overdraft-practices.pdf.

[52] An open-loop prepaid card is a card with a network logo on it (Visa, MasterCard, American Express, or Discover) that can be used at any location that accepts that brand. A closed-loop prepaid card generally does not have a network logo on it. Consumers can only use these cards at certain locations – for example, at a specific store or group of stores for a gift card, or a public transportation system for a transit card. CFPB, *What Are Some of the Main Types of Prepaid Cards?* (last modified May 18, 2012), http://www.consumerfinance.gov/askcfpb/.

[53] Mercator, Advisory Group. *U.S. Prepaid Cards Market Forecasts, 2012-2015*. 8 (2012)

Prepaid cards vary widely in their features and terms, including initial purchase fees, reload charges, balance inquiry charges, safety of balances, and more.[54] In our listening sessions, we learned that marketing of celebrity-endorsed prepaid cards is widespread within certain segments of the low-income population, such as young adults, and that some of these cards are often more expensive than the typical offerings. The Bureau's advance notice of proposed rulemaking (ANPR) on prepaid cards and electronic funds transfers sought comment on a variety of consumer protection issues connected with prepaid cards, including the cards' costs, benefits and risks to consumers.[55] For example, the Bureau sought public comment on the extent to which the regulation that applies to electronic funds transfers should apply to GPR prepaid cards as well as whether there is a need for greater transparency through disclosure.

Mobile banking

Mobile banking is attracting great interest both in the U.S. and internationally. According to the Federal Reserve Board's "Consumers and Mobile Financial Services 2013" survey, 87 percent of all consumers have mobile phones—52 percent of which are smart phones—and approximately 28 percent of mobile phone owners have used mobile banking in the past 12 months.[56] Online bill pay is widely available with or without the use of mobile technology. But for a growing number of consumers who bank at institutions offering mobile conveniences such as remote-deposit capture, there is even less need to go to a physical branch. To financial institutions, offering mobile options is a potential way to extend their services without expanding their branch networks.

This trend is particularly intriguing with respect to the low-income and unbanked and underbanked markets. The Federal Reserve Bank survey found that an estimated 59 percent of

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[54] The Pew Charitable Trusts, *Loaded with Uncertainty. Are Prepaid Cards a Smart Alternative to Checking Accounts?* 2-4 (2012), *available at* http://www.pewstates.org/uploadedFiles/PCS_Assets/2012/Prepaid_Checking_report.pdf.

[55] Electronic Funds Transfer (Regulation E), 77 Fed. Reg. 30,923, 30,923-30,925 (May 24, 2012). (Codified at 12 CFR 1005), *available at* https://federalregister.gov/a/2012-12565.

[56] Bd. of Governors of the Fed. Reserve Sys., *Consumers and Mobile Financial Services 2013*, at 1 (2013), *available at http://www.federalreserve.gov/econresdata/consumers-and-mobile-financial-services-report-201303.pdf*.

consumers who are unbanked have access to a mobile phone, half of which are smart phones. [57] In addition, the survey found that among underbanked consumers, 90 percent have a mobile phone, 56 percent of which are smart phones.[58] As one convening participant put it, underserved consumers are "over-indexed on mobile and under-indexed on time and convenience." This penetration pattern appears to offer the potential to expand access to more underserved populations.[59]

3.1.4 Innovation and the Consumer Financial Protection Bureau

The pace of change in financial services and products is rapid and accelerating. There is a natural tension between allowing the market to innovate and initiate change, and providing sufficient regulatory oversight to make sure consumer interests are protected. As Director Cordray remarked, "the danger and the concern we have is, 'Can we keep up effectively with the pace of change from a regulatory standpoint'? Can we harness that change in a way that is going to be positive for consumers?" [60]

One approach that the CFPB has adopted is to foster and facilitate innovation through its Project Catalyst. Director Cordray went on to say, "The regulatory regime itself can shape and guide change." However, innovation in financial services and products is not always beneficial to consumers. "We've seen plenty of innovation in the financial realm that was harmful to consumers," he commented. "We've seen a variety of new products, new ways of delivering products, new ways of delivering money to people that are predatory, that are exploitative, that

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[57] *Id*. at 2.

[58] *Id*.

[59] *Id*. at 4.

[60] Cordray, *supra* note 15.

leave consumers worse off than when they found them."[61] Accordingly, the CFPB is working to encourage innovation that benefits rather than harms consumers.[62]

3.1.5 Technology with a human face: Combining low-touch and high-touch

The financial services industry has embraced technology as a means to expand its reach and better serve its customers. Some technological solutions may provide the ways and means to scale up service to underserved consumers cost-effectively. While some low-income and other economically vulnerable consumers are well positioned to take advantage of technological options, for others overcoming the barriers to full participation in the "mainstream" financial system may continue to require access to a physical location, and even more importantly, to a human being.

The choices in the financial system can be as confusing as they are vast. Disclosures may be difficult to understand for those with limited English-language proficiency. An absent, flawed or erroneous credit history may be hard to remedy or overcome. For some, the lack of broadband connectivity may be a frustrating barrier. For these and many other reasons, the assistance of a trusted and knowledgeable intermediary can make all the difference in improving a consumer's financial life. Access to a financial counselor, a coach, or simply a well-informed caseworker can fill this gap. For financial institutions interested in expanding their services to the underserved, these intermediaries can be valuable allies. Developing these resources has been an early priority of the Office of Financial Empowerment, as reflected in the projects described in the last chapter of this report.

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[61] *Id.*

[62] CFPB, *Project Catalyst*, http://www.consumerfinance.gov/ProjectCatalyst/ (last visited Sept. 11, 2013).The mission of Project Catalyst is to support innovators in creating consumer-friendly financial products and services.

3.2 Access to credit

3.2.1 Weathering emergencies with scant assets

For consumers with limited savings in reserve, access to affordable credit is crucial to alleviating economic vulnerability and achieving financial stability. Many consumers face unanticipated expenses that exceed their typical weekly budget. This is doubly challenging for the 25 percent of the adult population who work full-time but are not earning enough money to meet their family's basic economic needs.[63] These extra expenses can become small emergencies (for example, a car breakdown or loss of a day's pay) for those who have less of a cushion with which to weather financial setbacks.

Savings can buffer economic shocks and alleviate the need for credit, but recent studies indicate that almost half of all Americans have insufficient emergency savings. The 2012 CFED Assets & Opportunity Scorecard reported that 43.9 percent of all households, including 62.6 percent of households of color, are "liquid-asset poor," meaning they lack the savings to cover basic expenses for three months if unemployment, a medical emergency or other crisis leads to a loss of stable income.[64]

People receiving public benefits may also pay a penalty for saving, because of limits on the amount of assets they may hold and remain eligible. Asset limits on public-benefit eligibility are designed to ensure that only people who truly need the benefits receive them. However, these limits have created unintended negative consequences for those receiving benefits: they create a barrier to financial security and upward economic mobility.[65] One convening participant noted that individuals with disabilities are often "forced to remain at the bottom of the economic ladder, just to ensure that life-saving medical benefits are not cut off."

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[63] Wider Opportunities for Women, *Living below the Line: Economic Insecurity and America's Families* 1 (2011), *available at* http://www.wowonline.org/documents/WOWUSBESTLivingBelowtheLine2011.pdf.

[64] CFED, *Liquid Asset Poverty Rate*, http://scorecard.assetsandopportunity.org/2013/measure/liquid-asset-poverty-rate (last visited Sept. 12, 2013); CFED, *Liquid Asset Poverty by Race*, http://scorecard.assetsandopportunity.org/2013/measure/liquid-asset-poverty-by-race (last visited Sept. 12, 2013).

[65] Finzel, *supra* note 35, at 1.

For these as well as other consumers, access to credit – especially small-dollar loans – is vital, because they have little money in reserve to cover an unexpected expense. There is some indication that over the past three years, more low-income consumers have been using credit cards to pay for basic living expenses such as rent or mortgage, food and utilities.[66] Research shows that people incurring significant credit card debt experience high levels of financial stress and decreased financial stability.[67] However, credit cards may be the most affordable option for these consumers because other forms of credit are less available. To access relatively affordable sources of credit, consumers generally need credit scores that will allow them to qualify for conventional consumer loans with longer terms and more favorable interest rates.

3.2.2 Credit scores and credit reports: Gateways to access

FICO, or the Fair Isaac Corporation, is a company that provides credit-scoring models to help financial services companies assess consumers' creditworthiness. Despite the importance of credit scores, FICO estimates that 25 percent of adult consumers (about 56 million individuals), have "thin" or no credit files. Vantage Solutions is a competitor to FICO established by the three consumer reporting agencies (CRAs), Experian, Equifax and TransUnion. Vantage reports that its most recent models substantially increase the number of scorable consumers, adding 30 to 35 million scorable records. It is uncertain the extent to which the Vantage model will gain traction in the market.

Whether lenders use FICO or Vantage models, there are millions of consumers who do not qualify for mainstream credit because they have low scores or because their creditworthiness cannot be assessed under the existing scoring models. As a result they may be pushed toward using high-cost credit products that will consume more of their disposable income, or toward choosing not to pay certain bills, thus further hurting their financial standing.

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[66] Amy Traub & Catherine Ruetschlin, *The Plastic Safety Net: Findings from 2012 Survey on Credit Card Debt of Low and Middle Income Households* 1 (2012), *available at* http://www.demos.org/sites/default/files/publications/PlasticSafetyNet-Demos.pdf.

[67] *See generally,* Lucia F. Dunn & Ida A. Mirzaie, *Determinants of Consumer Debt Stress: Differences by Debt Type and Gender*, (2012) available at http://www.chrr.osu.edu/content/surveys/cfm/doc/DSI-Working-Paper-07-19-12.pdf

3.2.3 Consumers suffer by not understanding credit reporting

Despite the significance of one's credit record for overall financial capability and well-being, many consumers do not understand the importance of their credit records, are not aware of their credit histories or scores, or do not take action to manage their credit history. In part, this is driven by a credit reporting system that is unfamiliar to most consumers. A recent CFPB study on CRAs reported that only about 20 percent of consumers obtain their credit reports each year, and that a majority of those pay a fee to get their report even though all consumers have a right to a free annual credit report.[68] Moreover, as several convening attendees pointed out, many consumers continue to be confused by credit report-related information. For example, they may not understand the difference between a credit report and a credit score or how a score is calculated; the difference between the "educational" scores consumers receive from the CRAs and the scores that lenders use in making credit decisions; the implications of negative history for a file; or how to build and manage credit in general.[69] Consumers may also be unaware of the other implications of a compromised credit history. For example, many employers and landlords use credit reports to screen applicants.[70]

Other research confirms the need for more education about credit reports and scores, especially among low-income consumers. In 2009, researchers looked at how low- and moderate-income consumers perceive their credit scores and how those perceptions shape financial outcomes. An intake survey asked nearly 1,800 participants what they thought their credit score was, and their

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[68] See CFPB, Key Dimensions and Processes in the U.S. Credit Reporting System: A Review of How the Nation's Largest Credit Bureaus Manage Consumer Data 27 (2012), available at http://files.consumerfinance.gov/f/201212_cfpb_credit-reporting-white-paper.pdf.

[69] See CFPB, Analysis of Differences Between Consumer – and Creditor – Purchased Credit Scores 8, 20 (2012), available at http://files.consumerfinance.gov/f/201209_Analysis_Differences_Consumer_Credit.pdf (explaining how CRAs offer educational credit scores to consumers that may be different than the scores used by lenders).

[70] CFPB, supra note 67, at 5 (citing a Society for Human Resources Management survey which found that "almost 60% of its member employers used credit reports to screen applicants for at least some of their positions").

answers were compared with FICO credit scores calculated for those individuals.[71] The results of their survey reinforced the pressing need to build awareness and understanding of credit scores. Specifically:

- 35 percent of participants didn't actually know what a credit score was.
- Of those with FICO scores, only 76 percent attempted to estimate a score.
- 73 percent of participants underestimated their own credit scores. On average their estimates differed from their calculated credit score by 111 points. [72]

Having erroneous information or no knowledge about credit scores can prove costly. Controlling for income and credit scores, those participants who underestimated their scores were less likely to comparison-shop for financial products and services and much more likely to pay higher interest rates than those who better understood their credit scores. [73] These findings were generally consistent with what we learned through our listening sessions around the country. Financial empowerment counselors told us that many of their clients were afraid to check their scores and assumed that they were worse than they actually proved to be.

LIMITED PAYMENT HISTORY AND INACCURACIES HURT VULNERABLE CONSUMERS

The credit reports of many underserved consumers may suffer because not enough positive payment history is reported for them. Generally, lenders for mortgages, credit cards, student loans, auto and other consumer loans report payment history, both positive and negative, to consumer reporting agencies each month.[74] Reported on-time payments for these loans normally contribute to a positive payment history and can influence credit scores. Fewer low-income consumers have mortgages and credit cards, for which payments are regularly reported.

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[71] Benjamin Levinger, Marques Benton & Stephan Meier, The Cost of Not Knowing the Score: Self-Estimated Credit Scores and Financial Outcomes 3 (2011).

[72] Id.

[73] See id. at 4 (The survey results “present a mechanism that may explain why some consumers agree to suboptimal credit terms: an underestimation of their credit standing may lead to the acceptance of terms which are more in line with their incorrect self-assessment than with their actual creditworthiness.”).

[74] Federal Reserve Bank of Philadelphia, Understanding & Improving Your Credit Score 2 (2012), available at https://www.philadelphiafed.org/consumer-resources/publications/your-credit-score.pdf.

While low-income consumers frequently pay rent and phone bills, this type of payment history is less likely to be reported. The consequence may be that underserved consumers who do make regular monthly payments have fewer opportunities to build positive histories.

Errors contained in credit reports can hurt consumers. A 2013 Federal Trade Commission (FTC) report on a decade-long study of credit-report accuracy found that 21 percent of consumers had a confirmed material error on at least one of their three credit reports.[75] Approximately 5 percent of the consumers in the study had an error that, when corrected, placed them in a different credit-risk tier, which could mean paying a lower interest rate on their loans for automobiles, homes or credit cards.[76]

3.2.4 Improving accuracy and transparency

Practitioners at the convening argued that credit reports should be made more transparent. Unless consumers are familiar with the specifics of a report, it may be more difficult for them to understand the nature of an error and how to fix it.

One suggestion from convening participants was to attach a "probability of accuracy" (or of an error) to each biller in a consumer's report that reflects the frequency with which that biller's tradelines have been disputed and corrected. This would be a tip-off to consumers to look closely at whether that tradeline is accurate on their reports and to lenders to possibly discount such tradelines in their credit assessments. [77] Participants suggested it would be helpful for the CRAs to maintain and refer to a list of creditors whose information is disputed particularly often. This could also foster more accurate reporting on the creditor side. Finally, one solution that lies with consumers is for them to regularly check their reports and dispute errors they discover. In doing so, they are more likely to avoid damage to their reports.

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[75] Fed. Trade Comm'n, *Report to Congress Under Section 319 of the Fair and Accurate Credit Transactions Act of 2003*, at i (2012), *available at* http://www.ftc.gov/os/2013/02/130211factareport.pdf. A material error is defined as an "inaccuracy in information that is commonly used to generate a credit score".

[76] *Id.*

[77] Tradelines are credit accounts which are reported to the credit reporting agencies. Each tradeline on a credit report contains detailed information about the account. Experian, *Credit Advice*, http://www.experian.com/ask-experian/20080806-tradelines-and-your-credit-report.html (last visited Sept. 12, 2013).

3.2.5 Improving credit profiles

ALTERNATIVE CREDIT REPORTING DATA

One possible way to help consumers build or strengthen their credit profiles -- or at least put consumers with thin or no credit files "on the map" -- is for CRAs to incorporate additional, alternative data such as regular telecom and rental payments. Some proposed solutions call for partnerships -- for example, between telecom companies and CRAs for "full-file reporting" or between financial counselors and financial institutions that provide a credit-building product. Convening participants suggested that one possible model to help consumers is similar to a pilot offered by Credit Builders Alliance and Experian Rent Bureau; they are working with affordable-housing organizations to report rental payments in order to build positive payment histories for the tenants.

OBSTACLES TO CONSUMERS OBTAINING CREDIT REPORT INFORMATION

Some convening practitioners argued that the policies and contractual limitations of CRAs hinder counselors as well as the many companies trying to develop innovative web-based money management and educational tools. Participants observed that nonprofits providing financial counseling may be prohibited from sharing with their clients certain proprietary credit scores developed by third parties. For example, CRAs restrict FICO credit scores from being provided to some third parties, which has impacted credit counselors and credit builders. Contracts with CRAs may also prevent nonprofit financial counselors from providing the consumer with an actual copy of the credit report, although they are allowed to share the information contained in the report. Companies seeking to develop alternative scores often have a hard time acquiring sufficient data to build new models.

It was clear from the discussions at the convening that there is not a uniform understanding regarding what information can be shared between CRAs and counselors and how that information can be used to assist consumers in building their credit. The CFPB may be able to play a constructive role in helping to bridge this information gap and provide greater transparency to the field.

3.2.6 Building the capacity of consumers: action and education

Improving access to credit does not rely solely on industry changes. Practitioners recommended things consumers should know and actions they should take to build or ensure an accurate credit file and a good score.

CONSUMERS AND CREDIT REPORTS

Participants offered a check-list of dos and don'ts for dealing with credit reports.[78]

- An important first step for consumers is to request free copies of their credit reports from each of the three largest CRAs each year online through annualcreditreport.com or via mail or phone.
- If something in the credit report appears wrong, the consumer should dispute the error by writing to both the CRA and the furnisher of the information, including copies of supporting documents whenever possible.
- If consumers do find negative or inaccurate information in their reports and decide to get help, they should avoid organizations or companies that promise to "repair" or "fix" their credit for an upfront fee. Consumers should also be informed that consumer reporting agencies do not remove accurately reported negative information such as late payments except with the passage of time.[79]

MANAGING CREDIT

Participants offered various suggestions for consumers to better manage their credit and in turn improve their credit scores.

- Pay all bills on time.

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[78] For CFPB guidance on accessing credit reports, *see* CFPB, *Check Your Credit Report at Least Once a Year*, http://files.consumerfinance.gov/f/201207_cfpb_consumer-advisory_check-your-credit-score-every-year.pdf (last visited Sept. 12, 2013).

[79] Consumers that have a specific issue with inaccurate information on their credit report can file a complaint with the CFPB by phone at (855) 411-CFPB (2372) or on the CFPB website at http://www.consumerfinance.gov/complaint/

- If possible, identify products that are designed to build credit without substantially increasing debt, such as credit-builder or cash-secured loan products. Find ways to build a credit profile through credit products or other services that report positive as well as negative payments. For example, a handful of utility, telecommunications, and rental companies will report on-time payments.
- Avoid maintaining high revolving balances as a percentage of revolving credit limits.
- Avoid applying for multiple types of new credit in a short time, especially if one is preparing to get a mortgage or a car loan.[80]

THE ROLE OF FINANCIAL EDUCATORS AND COUNSELORS

Convening participants highlighted the need for financial educators to know their audience and respond with appropriate methods, which could include:

- Identifying and utilizing teachable moments,
- Offering "rules of thumb" common-sense guidelines to help people manage their finances to reduce negative incidents reported to CRAs,
- Supporting opportunities that use peer encouragement and positive pressure to motivate and hold one accountable to one's goals, especially as relates to activities that lead to building credit, and
- Pairing education with a financial product such as a credit-builder loan.

Educating consumers on how to build credit has attracted increasing attention from non-profits, financial institutions, government and funders. Academics have increasingly focused on the importance of building credit to financial capability; they have increased their research on practitioners who incorporate more tools and methods to help consumers establish a credit history and improve their credit score. Within the CFPB, the Office of Financial Education is engaged in efforts ranging from developing and disseminating educational materials to exploring emerging research approaches to this specific aspect of financial education.

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[80] According to CreditKarma, "Consumers should be informed that comparison shopping for a certain product, like a car loan or mortgage, which may cause multiple creditors to draw their credit record, will generally not negatively impact their credit profile."CreditKarma, *Hard Inquiries and Soft Inquiries*, https://www.creditkarma.com/article/hard_inquiries_and_soft_inquiries (last visited Sept. 12, 2013).

CREDIT-BUILDING PRODUCTS AND PROGRAMS

Participants cited a number of approaches and possible pathways to building credit. These include:

- Secured credit cards and joint credit-card applications,
- "Bundled products" such as a small loan or a secured credit card, coupled with a savings component,
- A credit-building product combined with a service such as financial coaching or counseling,
- "Starter" credit-builder loans that report payments,
- Payday consolidation loans,
- The Experian Rent Bureau pilot, in which affordable-housing organizations will report rent payment history to Experian, and
- Lending circles and peer lending.

The Office of Financial Empowerment has begun research to better understand a number of these products and approaches. Our project, Building Financial Capability through Product Design and Program Delivery (FinCap), is described in greater detail later in this paper.

4. Financial outcome metrics

4.1 The challenge: Defining, measuring, and increasing financial success

The CFPB is a data-driven agency. Data shapes our regulatory, supervisory, enforcement, and policy work; it also guides us in developing educational and informational resources for consumers.

From our convening and our listening sessions, we heard consistently that achieving financial empowerment at scale will depend on entities that provide financial empowerment services collecting, analyzing, and effectively incorporating outcome data into the development of service interventions, policies, and products. It is not enough to identify approaches that work; it is essential to understand how they work, and in what context, if we as a society are to develop and expand efforts to assist low-income and economically vulnerable consumers. By engaging with stakeholders, we have sought to ascertain the current state of outcome and impact information collection, and to understand the most productive role of the Bureau in advancing financial empowerment.

4.1.1 Uniform standards and success indicators have been elusive

We have heard repeatedly about the importance of outcome metrics and the need to improve the standards for what information is collected by service providers to evaluate programs, and the need to standardize the method of collection. But perspectives and interests around collecting and using data vary among policymakers, public and private funders, the agencies and programs that depend on their support, financial institutions, and consumers. Various organizations have recognized the dilemma for years. But the financial empowerment field is still far from establishing uniform standards and success indicators. This is an area in which we anticipate that the CFPB can add value.

4.1.2 Success for individuals, for communities, and in the marketplace

Assessing the success of empowerment strategies in improving the financial stability of individuals and families is fundamental. But some practitioners call attention to determining whether we *as a nation* are improving financial stability and economic mobility for various segments of the population. These macro- and micro-level perspectives are both relevant and related: As one researcher pointed out at the convening; "besides the measures of the individual financial health of a person, there are macro-level measures that would look at broader things like access to safe and affordable products by geography or take-up rates."

Between the individual and the national levels, there is the neighborhood or community level. Some organizations stressed the importance of incorporating the perspectives of consumers of empowerment services in deciding what to measure as they evaluate their programs. They believe that acceptance and utilization of financial empowerment strategies can be enhanced by working with local organizations and using participatory methods of evaluation. Moreover, many agree that efforts to promote financial capability and economic self-sufficiency suffer from operating in silos, despite their common goals. They believe that recognizing the commonality of goals and using a more standardized set of program performance metrics would lead to better measures of the quality of services and programs.

There is an important connection between the goals of financial empowerment initiatives at the individual or community level and the mission of the CFPB. The Bureau is accountable to encourage a financial marketplace that is safe, transparent, and fair for consumers through research, supervision, regulation, education, innovation, and enforcement.[81] We need to know whether our efforts to address harmful market practices improve access to safe and transparent financial services are reaching and helping individual consumers. If the CFPB succeeds in

[81] *See generally*, CFPB, *Consumer Financial Protection Bureau Strategic Plan: FY 2013 – FY 2017* (2013), *available at* http://www.consumerfinance.gov/strategic-plan/ (detailing the CFPB's mission, goals, and methods for achieving those goals).

influencing the broad marketplace, our work should become evident in increased opportunities for low-income, economically vulnerable, and other consumers to improve their financial well-being.

4.1.3 From "Program Deliverables" to an integrated approach

It is a truism that "what gets measured is what gets done." Through our stakeholder engagement, we know that many social-service programs specialize in improving a single aspect of an individual's economic life, such as employment or income. Typically, success is measured in terms of the specific outcomes defined by a program's funder. But convening participants agreed that this approach does not go far enough in measuring an individual's success; rather, a more holistic approach is called for.

One presenter at the convening illustrated the disconnect between defining success in terms of a specific program-related outcome and a broader definition that encompasses an individual's overall financial well-being. The example given was of a person in a federal workforce program where success may be defined by his or her obtaining steady employment at the minimum wage. But the limits of this perspective become clear when viewed through the lens of financial capability. If the newly employed worker does not know how to manage the new earnings or is unaware of the benefits and affordable options for basic financial services, he or she may end up paying more fees than necessary to get cash or pay bills. High fees combined with other increases in expenses associated with maintaining employment (e.g., childcare or transportation) could leave the consumer worse off financially. An effective measure of success could reveal this information.

A growing number of municipal governments and nonprofits are working to assess the value of integrating financial coaching and counseling into the delivery of social services. The major delivery systems offer many potential "touchpoints" for reaching low-income and other economically vulnerable people -- times and places where frontline workers can help clients or customers modify their financial decision-making patterns and access better options. Because government and private agencies provide various benefits and services for people in crisis, they touch many segments of the low-income and economically vulnerable population at key transitions in their lives. Some of the populations these programs reach include:

- New or returning entrants to the workforce who are receiving job training,

- People who are homeless or facing foreclosure or eviction and need emergency food or shelter,
- Community college students receiving financial assistance,
- Domestic-violence survivors who need shelter and support,
- Youth aging out of foster care,
- TANF recipients, and
- People with disabilities.

These numerous life events and circumstances present important opportunities for reaching low-income consumers. But municipal practitioners at the convening emphasized that integrating financial empowerment strategies will have limited success unless agencies and case managers find that this approach does not simply add to their workload, but rather helps them achieve their own "program deliverables" and positive client outcomes.

Financial empowerment efforts are most likely to succeed when the needs of the consumer or client, the nature of the social service program, and the proper moment to provide education and financial capability services are all aligned and the client is empowered to make decisions regarding his or her life. That is why the financial coaching approach, which has shown early promise and is spreading, emphasizes the importance of helping clients to *define their own goals* and to view the role of the coach or counselor as assisting them in reaching those goals. [82]

4.1.4 Similar goals, different language

Although there is general agreement that success in financial empowerment should be viewed broadly, there is no consensus about what the broader *definition* of success should include. A variety of terms are used to name the desired goal: financial stability, economic self-sufficiency, financial capability, economic security, financial empowerment. The range of indicators and measures used by various organizations is indeed broad; one organization has developed an evaluation model using participatory methods and a set of more than 80 indicators and 240

[82] "Financial coaching is a process whereby participants set goals, commit to taking certain actions by specific dates, and are then held accountable by the coach." J. Michael Collins, Peggy Olive, & Collin M. O'Rourke, Financial Coaching's Potential for Enhancing Family Financial Security, J. Extension at 1 (forthcoming), available at http://ssc.wisc.edu/~jmcollin/JOE_12.pdf.

data collection points which are used by a number of programs.[83] The table below lists some of the indicators cited by convening participants.

TABLE 1: FINANCIAL CAPABILITY INDICATORS

Commonly Used Financial Capability indicators
Increase in income in relation to expenses
Improved credit scores
Increased employment stability
Increase in net worth
Decrease in debt
Increase in savings
Opening and using a bank or credit union account
Opening and contributing to a retirement account
Reducing the cost of financial services
Improved budget management
Changes in financial attitudes about saving and spending
Changes in saving and spending patterns

Convening participants identified three broad measures of financial empowerment that appear to be the most commonly used: increase in income left over after expenses; increase in net

[83] Jessica Anders et al., *Measuring Outcomes of Financial Capability Programs: Success Measures Tools for Practitioners* 7 (2011), *available at* http://www.successmeasures.org/sites/all/files/FinancialCapabilityOnlineFinalOct2011.pdf.

worth; and improvement of credit scores. Though these measures seem straightforward and easily defined, some practitioners believe that they are too limited to capture financial empowerment or capability – that they ignore factors such as security, vulnerability, and access to the financial system and to appropriate products. Moreover, some practitioners argue that success looks different in the context of the various life events or transitions of the consumer. For example, success for someone on the verge of bankruptcy may look different than success for a new entrant to the workforce.

4.1.5 Consumer behavior and attitudes

One presenter suggested that rather than putting forth a single definition of financial empowerment, it may be more useful to have broad categories, based on consumer behavior and linked to clear, defined financial outcomes. On the other hand, some practitioners and researchers argue that consumer attitudes and outlook matter, even though they are less frequently measured. Confidence in financial decision-making, satisfaction with the services or products, attitudes about money, levels of stress – these and many more factors may influence a person's management of his or her financial life, but are rarely captured in outcome measures. One concrete example offered was that of a person who had opened a bank account. While opening the bank account may be an important first step toward economic security or mobility, the consumer's change in behavior as a result of her own satisfaction in making a positive financial decision could be a *more* significant long-term outcome. This change, however, is not easily measured unless the consumer is part of a controlled study of changes in attitudes and behavior.

4.1.6 Challenges and "moving the needle"

EXTERNAL CHALLENGES: MARKETS AND POLICIES

There are numerous challenges both in collecting information about financial capability and in demonstrating positive impacts yielded by particular approaches, conditions, or products. Barriers to accessing affordable market options may make it hard to apply certain success measures. For example, if a consumer has limited access to a bank or credit union – whether because of transportation issues, disability, or financial barriers like adverse banking history or minimum balance requirements – it may be unreasonable to use opening and maintaining a savings or checking account as a measure of success. In our listening sessions and at the convening, we heard that asset limits for recipients of Temporary Assistance for Needy Families (TANF), Medicaid, Supplemental Nutrition Assistance Programs (food stamps) and other income-support programs are powerful deterrents to savings accumulation, and therefore, to building financial capability and transitioning from assistance programs.[84] In theory, informing clients of their right to save a modest amount can partially mitigate the obstacle; however, the potential consequences of losing eligibility for these programs may simply be too frightening for recipients to maintain a savings account. Thus, asset limits may discourage people considering or receiving public benefits from saving for the future.[85]

CHALLENGES WITHIN THE FIELD

Our stakeholders have told us that there is general acceptance of the need for evaluations and measures of outcomes and impact to advance the field. But whenever the details are discussed, a number of barriers to action emerge:

- Inexperience with using outcome metrics often means that an organization's staff does not understand why information must be collected or why questions are asked in a certain way.
- An organization's leaders may fail to use the results of evaluations to shape program policy or implementation. If a social service program collects outcome data, it is important for the staff who are asked to collect it to understand how it may be used to improve the program over time.
- Collecting evaluation data is often viewed as a drain on overcommitted staff resources, relevant only to funders.
- Funding for outside evaluations or evaluation summaries is lacking.
- Clients may be concerned that the information they disclose will be used to disqualify them from other sources of assistance; for example, this is a major issue within the disability community.
- Caseworkers may be hesitant to ask clients certain questions recognizing that clients may be embarrassed about their financial decision-making, or unaware of the finances of others in the household or family.

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[84] Asset limits are generally a ceiling on the amount of savings a person can hold and still remain eligible for the benefit. *See generally* CFED, *Lifting Asset Limits in Public Benefits Programs* (2013), *available at* http://cfed.org/assets/scorecard/2013/rg_AssetLimits_2013.pdf (arguing that asset limits in public benefit programs are "a relic of entitlement policies that in some cases no longer exist" and should be lifted).

[85] *Id*. at 15.

- Some organizations may be hesitant to undergo rigorous evaluation because they worry their established programs might be found ineffective.

ADDRESSING THE CHALLENGES

Practitioners and researchers have offered a number of recommendations to address the challenges of collecting and using outcome metrics:

- **Separate the funding of evaluation from service delivery**. Apart from alleviating the financial burden on program operators, funding evaluation separately from service delivery allows for a more independent and useful evaluation process. Program managers often find it difficult to reflect, acknowledge or identify the problems, failings, or even successes of their programs.
- **Clarify the rationale and benefits of collecting outcome metrics.** Program operators and caseworkers may be more willing to collect information on outcomes if it is made clear to them why it is being collected. Demonstrating a real connection between measuring outcomes and improving programs and results for clients can further the goal of measuring the impact and effectiveness of financial empowerment initiatives.
- **Engage clients and use results to benefit them**. Improving client outcomes may be aided by adding client voices in information collection and usage. Both group and one-on-one techniques may be useful.
- **Know the customer, the client base, and how it is evolving.** Organizations and evaluators need to understand who is being served and how their needs have shifted. They need to respond accordingly in developing their methods for collecting data and measuring effectiveness.
- **Information gathering should be timed appropriately.** It is best to obtain necessary baseline information at intake, but avoid the unnecessary collection of information that is unlikely to change in the short term.
- **Metrics should be linked to the specific goals or help sought by the consumer.** This can both reduce the total amount of information collected and make what is collected more relevant to helping the consumer improve his or her life.

CONSUMER PRIVACY

Attendees pointed out that privacy issues are especially thorny, and that they do not lend themselves to easy solutions. Privacy rules and laws limit the ability of organizations and researchers to collect, disclose, or share personal information – for good reason. In our listening sessions, practitioners told us how difficult it is to obtain an overall picture of their clients' financial situation, which means that they may not be able to provide the best possible advice and assistance to integrate services effectively. Developing inter-agency memoranda of understanding for information-sharing and establishing procedures and protocols for seeking permission from clients and for protecting confidentiality could help. But implementation is difficult and costly.

USE OF PROXY INDICATORS

In outcome evaluation it is not uncommon to use proxy indicators to measure change when direct data is not available. Identifying and assuring the accuracy and effectiveness of proxies is sometimes difficult. However, several convening participants suggested that social services providers, and the organizations and individuals who fund their programs, should do more to identify and use proxies to measure the effectiveness of empowerment interventions just as proxies can be used in other contexts, for example to measure product safety.

4.1.7 Advancing the field: standardizing, sharing, and aggregating information

Despite – or because of – the fragmentation and diversity of efforts to collect information that could help to evaluate the imprint of financial empowerment programs, many practitioners have expressed an appetite for standardizing both how information is reported and what is reported. One convening attendee expressed an often-heard wish of practitioners:

> *For the philanthropic community or the federal agencies that are funding these initiatives [to] somehow build consensus on a handful of data elements that could be actually useful in getting to outcomes…[and] then also giving some indication of long term impact.*[86] *Unless we find some way to come together and aggregate that information… we're going to be fractured and fighting for really limited dollars.*

However, the issue is not simply one of competition for funds: It speaks to the utility of program information to improve client outcomes. It is not uncommon for organizations and agencies with unique programs or strategies to collect different types of information about the same client. If these entities had the same information about the people they serve, it could help develop a more holistic view of client financial-stability outcomes and, possibly, reduce the costs of service. More broadly, standardizing data may also make it possible to accurately analyze conditions and changes in the market, which may inform changes in policy that would offer new opportunities and better protect consumers.

One caveat emerged from these discussions at our convening. Representatives of financial institutions expressed mixed views on standardizing data. While they believed the concept has value, their support was qualified by the need to know for what purpose the information would be collected, how it would be used, and how it relates to their regulatory and legal obligations pertaining to customer or member privacy.

RECOGNIZING CULTURAL DIVERSITY

The low-income and economically vulnerable population is extremely heterogeneous.[87] The drive to create standardized categories and outcome data that programs collect should not negate the efforts to obtain more granular information that may be needed to best serve certain segments of the population. As participants heard from several convening presenters, there is

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[86] In this context we understand outcome data measures to describe changes for program participants, whereas impact data measures are the difference between outcomes for participants as compared to non-participants. In other words, "impact" suggests a causal effect, whereas "outcome" is an observed state of being for program participants.

[87] *See generally* Margaret C. Simms, Karina Fortuny, & Everett Henderson, *Racial and Ethnic Disparities Among Low-Income Families* (2009), available at http://www.urban.org/UploadedPDF/411936_racialandethnic.pdf (noting the importance of acknowledging the racial and ethnic differences among low-income families).

substantial diversity *within* certain groups like immigrants – even those from the same country -- or Native Americans, reflecting distinctly different cultural, linguistic, and other characteristics. Current information-gathering practices may not provide the specific information necessary to assess problems, develop effective marketing campaigns, or determine outcomes or impacts within these groups. Participants observed that cultural sensitivity and understanding the needs of different populations are critical to defining success for these consumers.

4.1.8 Potential roles for government: Consult, convene, and coordinate

Some practitioners argue that government should help providers of financial empowerment services to standardize, aggregate and, share outcome data to increase program effectiveness. At least one municipal government, the City of New York, is already working toward this goal, attempting to coordinate data across systems and agencies in order to compare client stability measures with program outcomes.[88] One benefit it hopes to demonstrate is a reduction in the cost of delivering services.

The challenges may be greater at the federal level, but the rewards could be major advances to the empowerment field, as outlined below.

- **Improving Data Credibility.** Nonprofit practitioners expressed concern that public and private funders currently give limited credence to the qualitative, non-numerical information they collect. These practitioners believe that anecdotal and qualitative data are important in determining outcomes; some argue specifically that a participatory evaluation process enhances the picture derived from metrics. However, they agree that is difficult to demonstrate success without accepted standards of accuracy, verifiability, and reliability. They noted that developing guidance on when and how the various types of information can be used would be very helpful to the empowerment field. It was suggested that the federal government could begin to develop minimum information-collection standards by gathering and analyzing information from nonprofits about their current guidelines and protocols.

[88] New York City Dep't of Consumer Affairs Office of Fin. Empowerment, *supra* note 41, at 19.

- **Evaluation.** The evolution of projects and programs from start-up to scale-up presents challenges. Different stages involve different types of research and evaluation. One participant suggested, "If [government] can bring together expert voices so that they can connect people who want to have their programs evaluated with the people who know how to do that, that would be a really great opportunity."

- **Creating a "Financial Health Index."** The convening reinforced a lively discussion in the financial empowerment field about creating a financial health index as a way to capture or measure consumers' financial capability or well-being. The idea originated with university research on financial capability. Precisely what the index should be and what it would mean are not yet established in the field. However, many convening participants agreed that there should be a standard or a goal that consumers can measure themselves against. This would be useful not only for individuals to gauge their situation and improvement over time, but would also help practitioners, policymakers, and financial innovators. For example, if a certain set of financial characteristics were set as markers of financial well-being, programs and policies could be devised to drive toward those measurable goals. Setting clearly articulated and agreed-upon goals could also focus and spur innovation in the marketplace.

  Participants remarked that a financial health index could be used as both a diagnostic tool and as a means to provide a whole menu of outcomes and measures related to enhancing consumers' financial well-being. There was agreement that the index should interact in some dynamic way with individual factors such as market choices and costs, as well as barriers and differences among consumers. Representatives of financial institutions offered a cautionary note. They expressed concern about possibly being seen as indirectly responsible for bad choices made by consumers who use one of their products and services but have a negative outcome.

- **Enhancing current financial information-collection surveys.** Some financial empowerment practitioners argued that major national surveys of financial services and needs would provide a fuller picture of the condition of consumers if they incorporated qualitative information. They suggested that the federal government could help identify and define what is missing from current data-gathering efforts like the Survey of Consumer Finances, and propose ways to add qualitative information to these existing sources of information.[89]

- **Knowledge-sharing to build the field.** One suggested role for the government was to create a mechanism for researchers and practitioners to share and learn from each other's work. This could take the form of a learning platform modeled after the disease information clearinghouse of the National Institutes of Health (NIH).[90] Participants stated that it would be extremely useful for the government to enable the field to share data and evaluations in real time.

4.1.9 Learning from international experience

The international field of financial inclusion offers possible lessons for financial empowerment in the United States. One convening attendee remarked that the international field envisions "a world in which all households and businesses can access and use a broad range of appropriate financial services that increase economic opportunity and reduce vulnerability to shocks, and are responsibly and sustainably provided by institutions permitted to do so." The attendee pointed out that, like the CFPB, international practitioners look both at the supply and demand sides of the financial services marketplace. From this perspective, measuring success is not only about increasing the financially capability of individuals, but determining whether they have access to a responsible market in which overall financial health can be sustained.

Convening participants remarked on the approach taken in international microfinance, a primarily nongovernmental strategy to bring financial services to the poor. In this field, implementing an open platform to share data, research approaches, and findings has shown

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[89] The Survey of Consumer Finances is a survey normally conducted every three years by the Federal Reserve Board that measures families' balance sheets, pensions, income, and demographic characteristics. Fed. Reserve Board, *2013 Survey of Consumer Finances*, http://www.federalreserve.gov/scf/ (last visited Sept. 12, 2013).

[90] NIH offers online clearinghouses for a number of diseases and disorders such as the National Diabetes Information Clearinghouse. Nat'l Inst. Of Diabetes and Digestive and Kidney Diseases, *National Diabetes Information Clearinghouse*, http://diabetes.niddk.nih.gov/ (last visited Sept. 17, 2013).

promise in improving the quality, standardization and accessibility of data.[91] Various consultative groups have also developed performance indicators to measure financial inclusion at the macro level. One example used by the Global Partnership for Financial Inclusion is the number of bank accounts per 1,000 adults.[92] It was noted that establishing standards for the "social return" on investment by microfinance providers has advanced further than establishing standards for client outcomes.

One suggestion from convening participants who work internationally was to create incentives for organizations to improve the completeness and accuracy of their information collection efforts. Internationally, investors have served as the impetus behind the push for standards. In the U.S., public and private funders could prove to be the catalyst.

Mexico was cited as an example of a government playing a coordinating function. It has promoted standardization across agencies, harmonized its own reporting requirements, assembled data from as many relevant sources as possible, and put data on an open platform. Before doing a national survey, the Mexican government pulled together all data relevant to financial inclusion. [93]

It was clear from the discussion at the convening that for those working internationally in the financial inclusion field, there is both the incentive and the desire to be creative in measuring effectiveness. Stakeholders in the domestic financial inclusion field can perhaps learn from international colleagues and possibly replicate their efforts.

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[91] Consultative Group to Assist the Poor, *Good Practice Guidelines for Funders of Microfinance* 16 (2006), *available at http://www.cgap.org/sites/default/files/CGAP-Consensus-Guidelines-Good-Practice-Guidelines-for-Funders-of-Microfinance-Oct-2006.pdf*.

[92] The World Bank, *Depositors with Commercial Banks (per 1,000 Adults)*, http://data.worldbank.org/indicator/FB.CBK.DPTR.P3 (last visited Sept. 12, 2013).

[93] *See generally*, Alliance for Financial Inclusion, *Measuring financial inclusion in Mexico: CNBV's approach to obtaining better data for decision makers* (2011), *available at* http://www.afi-global.org/sites/default/files/afi%20case%20study%20mexico_0.pdf (evaluating how effective data collection efforts have been in promoting financial inclusion in Mexico).

4.1.10 The role of the CFPB

The Bureau plays multiple roles in helping to financially empower consumers. Identifying risks to consumers, writing rules that are effective and efficient, and enforcing federal consumer protection laws all contribute to leveling the playing field for consumers of both bank and nonbank products and services.

Through its Consumer Response system, the CFPB receives and follows up on individual complaints about consumer interactions with financial service providers, offering a unique and responsive service to address specific consumer issues. [94] In addition, the Bureau categorizes and publishes aggregated complaint data with an eye to protecting individual privacy. The CFPB also offers a platform for consumers to tell their stories, which creates an important resource for people to share their experiences.[95] Finally, the CFPB's information-gathering enables it to shine a light on policies and practices that both hinder and advance financial empowerment for low-income and other economically vulnerable people.

[94] To submit a complaint, visit consumerfinance.gov/complaint/.

[95] To "Tell Your Story" visit https://help.consumerfinance.gov/app/tellyourstory.

5. Scale: Defining it, planning for it, achieving it

5.1 Defining scale

Many promising programs to build financial capability are emerging across the country. Some use new technologies, while others are designed around current understanding of how consumers make decisions. Still others focus on leveraging existing networks. All seek to create impact and drive change; most claim to be working to achieve scale. For the Office of Financial Empowerment, charged with addressing the needs of tens of millions of low-income and economically vulnerable consumers, the issue of scale is central to our work.

However, in the words of one presenter, "scale is in the eye of the beholder." Scale is often determined by the objectives of a project or product and the number of people it targets. For some, achieving scale means reaching a group of consumers in one defined community or a certain age group within a municipality or state. Some innovators focus on lowering operating costs as a path to taking a program or product to consumers nationwide.

To further the discussion, convening participants agreed to a simple working definition. They defined scale as "the ability to develop a program or product that effectively and efficiently reaches its goals and positively impacts an increasing number of people." But moving beyond this general definition enters more challenging territory, because program goals may be vastly different. Stakeholders frequently view success differently, often as a function of a particular program or platform.

5.1.1 Perspectives of government, business, and the nonprofit sectors

For the nonprofit sector, scale is frequently determined by the mission of the organization. Achieving scale could mean effectively serving a relatively small sub-section of the total population, but serving a significant majority of individuals most in need or hardest to reach. Others believe scale may be achieved by finding effective ways to bring down the cost of replicating services, such as through technology or partnerships. Within the private sector, scale may be a function of the size of the market and the market-penetration threshold at which an activity or product becomes profitable. Government entities have a different set of requirements that are centered on access and equity; because public resources are used, achieving scale generally means providing comparable services to either all residents of a municipality, state, or nation, or all people within a specific subgroup based on qualification such as income level or disability. This presents unique challenges that most nonprofits or business entities do not face.

Achieving scale is not an end in itself. For example, as Director Cordray noted, "during the financial crisis, many innovations in the mortgage market achieved scale, but at the cost of great harm to consumers."[96] Moreover, scale achieved through standardization may leave behind segments of the low-income and vulnerable populations with differing needs rooted in diverse cultures or circumstances.

5.1.2 Preparation and strategic planning

Regardless of the sector, size of the population or market, and type of innovation, we heard consensus about certain preconditions for developing a scalable initiative.

- First, there must be a defined need among the target population for the program, product, or service.
- Second, adequate institutional support and financial resources must be available for start-up or expansion.
- Third, there must be strategic plans in place to address the barriers that will limit success.

[96] Cordray, *supra* note 15.

MAKING THE CASE FOR CONSUMER ACCEPTANCE AND INSTITUTIONAL SUPPORT

Attendees identified several important factors in meshing the interests of consumers and institutions in order to achieve a level of scale.

- **Make the "value proposition" clear and relevant to potential users.** Convening attendees agreed that new users of a product or service must clearly perceive its value in their own lives. It is helpful when consumers see others of their group using the product, or when it is perceived to have become "mainstream." This acceptance reinforces consumers' confidence in the value of a product or service and in their decision to use it.

- **Perceptions Matter.** Research shows that people of low-to-moderate means are more likely than the general population to base their decision-making on values such as belonging, respect, and trust.[97] In order to build their customers' trust and respect, financial institutions would do well to get to know their customers specific needs and goals. At least initially; convening attendees recommended that they should avoid using common bank practices such as up-selling products to people who are just getting by. They should give ample attention to the diversity and engagement of new customers to make sure that they feel genuine respect and a sense of belonging.[98]

- **Prepare for the level of demand.** Failing to anticipate and prepare for the level of demand can doom the expansion of a new program or product. As attendees pointed out, some initiatives achieve great success during the startup phase but fail subsequently to maintain or build upon it because, among other factors, institutional support and commitment did not match the potential demand. Thus, initial successes may not translate into long-term impact and sustainability.

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[97] Edna R. Sawady and Jennifer Tescher, *Financial Decision Making Processes of Low-Income Individuals* 8 (2008), *available at* http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/ucc08-2_sawady_tescher.pdf.

[98] *Id.*

- **Develop an effective communications strategy**. Too often, promising programs and products are not well communicated to the public or target population. Suggested strategies included these:
    - Identify the best touch points and appropriate channels and modes of communication. It is especially important that the target population gets information about a new program from trusted sources.
    - Build public awareness throughout the deployment. It is not enough to communicate only at the time of launch. As a program or product moves from its initial stage to reach larger groups, it is important to keep "telling your story." Communications and marketing at successive stages of implementation can help reach new populations and promote impact.
- **Identify and leverage partnerships.** As several attendees observed from their own experience, numerous multi-sector partnerships may be required to scale up a project. For example, a financial institution, municipal agencies, a school system, and community organizations were all enrolled in the Kindergarten to College (K2C) savings program in San Francisco (described in more detail below).
- **Align incentives.** Providing the right incentives to key stakeholders and potential users is a critical first step. Obviously, the users of a new product or service must perceive and receive a benefit. The incentives of partners must be aligned as well. For example, a municipal government or social service agency may want to increase the number of its social-service clients who are "banked" as a means to promote financial stability, while a participating financial institution may want to expand its customer base. Both objectives may be compatible.
- **Define success and establish benchmarks.** Determining the benchmarks for success is essential to early strategic planning. Establishing milestone of success for every stage from proof-of-concept to major expansion will help determine the impact on the target population.
- **Measure Program Outcomes.** It is important to invest in and plan for the research and the development of metrics that will be needed to evaluate their program and research throughout implementation. This aids in analyzing potential costs as well as impact as the initiative is expanded.

- **Consider universal design.** As advocates in the disability community pointed out during our convening, developing a program with broad appeal allows it to reach people with diverse needs across a wide range of demographics. Even in programs that aim to reach a small community, it is important to recognize that consumers will have many different needs. Designing an initiative to be universally compatible makes it possible to reach larger numbers of people and at the same time minimize possible repercussions from failing to meet the needs of important consumer segments.[99]

- **Incorporate insight from the science of consumer decision-making.** Research has shown that when consumes have to decide on whether to accept a savings offering, they are much more likely to participate if they have to choose to opt out rather than opt in.[100] This behavior is most prominently demonstrated in employer-offered retirement programs, where it has been found that the rate of participation is significantly higher under automatic enrollment. Moreover, the default contribution rate suggested by the employer can heavily influence the employee choice about how much to save.[101]

IDENTIFYING BARRIERS AND CHALLENGES

Policy, infrastructure, and resource barriers can limit the scaling of initiatives. Practitioners stressed that almost all of these barriers can be addressed, but they are all interconnected, so that failing to address any one area could impact others.

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99 The term “universal design” was coined by the architect Ronald Mace, who challenged the conventional approach of designing for the average user and provided a design foundation for more accessible and usable products and environments. Mace defines universal design as "the design of products and environments to be usable to the greatest extent possible by people of all ages and abilities." Molly Follette Story, James L. Mueller & Ronald L. Mace, *The Universal Design File: Designing for People of All Ages and Abilities* 2 (1998), *available at* http://www.ncsu.edu/ncsu/design/cud/pubs_p/pudfiletoc.htm.

100 Brigitte C. Madrian & Dennis F. Shea, *The Power of Suggestion: Inertia in 401(K) Participation and Savings Behavior* 1 (2000), *available at* http://www.nber.org/papers/w7682.pdf.

101 *Id*.

- **Regulatory concerns.** Failing to incorporate or adjust to existing policies and regulatory guidelines could create long delays or limit the expansion of an initiative. Developing a complete picture of the regulatory landscape during the research and planning process can make it easier to navigate hurdles and reduce unnecessary investment that could impede progress.
- **Infrastructure.** It is essential to identify infrastructure needs and systems challenges early in the planning process. Failing to plan for and build needed infrastructure typically leads to unforeseen costs or a poor end-user experience. Both outcomes could lead to failure.
- **Resource limitations.** For government, business, and nonprofit entities alike, identifying and planning for resource limitations always impacts the success or failure of an initiative. For example, when taking a program from the pilot phase to scale, it is rare that significant additional resources are not required. It is important to understand the potential costs involved in reaching growing numbers of consumers.

5.1.3 Government initiatives

Federal, state, and local government agencies serve millions of consumers each day, providing services that range from financial protection to workforce development to housing programs. Crafting a package of financial empowerment services that leverages these government programs has the potential to quickly take a promising program from serving hundreds or thousands of people to millions. The convening included presentations by the leaders of two prominent, local financial empowerment initiatives aimed at achieving scale by incorporating services into public programs that reach large numbers of consumers.

CITY OF SAN FRANCISCO: KINDERGARTEN TO COLLEGE (K2C)

The City and County of San Francisco's Kindergarten to College (K2C) program illustrates the application of lessons learned in the scaling process. K2C is the first publicly funded, universal children's college savings account program in the United States. At the convening, the San Francisco City Treasurer said his city's plan to promote savings called for reaching *all* children entering San Francisco public schools in the city. Early in the planning process, city officials identified both the infrastructure and policy challenges they would face. There was a clear need to develop a platform and underlying structures that would make it possible to provide accounts effectively and efficiently to a large target market – namely, the families of every child in the city entering kindergarten each year.

Officials recognized that collaborating with key partners was a critical first step. This required extensive programmatic changes and capacity-building within the participating schools. It meant collaborating with another stakeholder – in this case, a bank that could provide both infrastructure and capacity, and whose goals of building its customer base aligned with the city's goals of helping families gain access to financial services. Equally important – in order to get the word out – the city partnered with local community organizations that were trusted by and connected with the target population.

Finally, planning for the user experience was vital. To successfully reach scale, kindergartners and their families had to access and use the accounts easily. The city recognized that consumer interaction had to be simple and appealing or else they would not use the product. The city invested considerable time in making the sign-up process accessible, and it structured a match program to encourage regular monthly saving by consumers.

NEW YORK CITY: "SUPERVITAMINS" TO ACHIEVE SCALE

In New York City, the Department of Consumer Affairs (DCA) houses its Office of Financial Empowerment along with its consumer protection functions. According to the Commissioner of Consumer Affairs, who presented at the convening, the city has a multi-pronged approach to enhancing economic stability. It has created a number of Financial Empowerment Centers that connect consumers to safe banking opportunities and to quality financial counseling and education, with a goal of stimulating positive behaviors including savings and wealth-building. It has also developed its new "Supervitamin" approach that builds financial-capability services into multiple city programs. Having identified effective approaches to providing basic financial services, the office works to incorporate financial empowerment into the primary anti-poverty services that many thousands of low-income people rely on, such as homeless prevention, housing counseling, emergency food distribution, legal services, and programs for people transitioning from public assistance.

DCA emphasizes that its approach has not been to convince potential partners to "provide an extra seat at their table." Instead, it has been to weave financial empowerment into the everyday work of these agencies. By integrating these services into the multiple streams of programs and resources, it is now able to scale its financial empowerment services, while helping to drive outcomes for other city agencies and programs that serve low-income consumers.

Implementing the financial empowerment initiative through the Department of Consumer Affairs also enhances another key dimension of financial empowerment. City government comes into contact with many financially vulnerable consumers who have been the targets of deceptive and other illegal consumer or financial practices. As a result, DCA is able to link its overall consumer protection function specifically with financial empowerment.

5.1.4 National perspectives: Federal policies and program opportunities

ASSET-LIMIT POLICIES

Government policies can play a major role in facilitating or impeding financial-services innovations for low-income and economically vulnerable consumers. To help empower this population, presenters at the convening suggested focusing on changing the policies that restrict the amount of savings and assets individuals may have without losing eligibility for income-based government support.[102] Consumers who rely on federal public benefits such as the Supplemental Nutrition Assistance Program (SNAP), Medicaid, or Supplemental Security Income (SSI) have a difficult task navigating the various asset limits of these programs.[103] Moreover, the current policy landscape is overlaid by a web of asset rules that vary from state to state.[104] Convening participants observed that the complexity of these policies, and the anxiety they cause consumers about losing eligibility, can impede scaling initiatives like Individual Development Accounts (IDAs). Removing or modifying these asset constraints could facilitate the scaling-up of new and promising asset-building programs.

Meanwhile, there is room to educate consumers about their rights to save under current policies. A few federal agencies weave innovative strategies into their current service delivery models to help people receiving public benefits move up the economic ladder, as the examples below illustrate.

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[102] In his Fiscal Year 2011 budget, President Obama proposed raising asset limits to no less than $10,000 for all federally funded means-tested programs serving low-income adults and their families. Admin for Children and Families, US Dep't of Health and Human Serv., *FY 2011 President's Budget Request for the Administration for Children and Families* 4 (2011), *available at* http://www.acf.hhs.gov/sites/default/files/olab/2011_all.pdf.

[103] *See generally* CFED, *supra* note 82.

[104] *See generally id.*

ADVANCING FINANCIAL EMPOWERMENT: TWO KEY FEDERAL AGENCIES

Participants at the convening heard from senior officials in two agencies that reach millions of consumers during critical times in their lives – the U.S. Department of Labor (DoL) and the U.S. Department of Health and Human Services (HHS). Their respective programs offer valuable opportunities to reach consumers at important teachable moments: for example, when they are enrolled in job-training programs, or receive Temporary Assistance for Needy Families (TANF), or heating assistance. For these two agencies and others, both policy reforms and programmatic changes could help scale financial empowerment initiatives.

U.S. Department of Labor

The Assistant Secretary for the Office of Disability Employment Policy (ODEP) told attendees that the DoL supports nearly 3,000 American Job Centers (formerly, One-Stop Centers) nationwide that provide services to employers, employees and jobseekers. These centers are positioned to be hubs of innovative initiatives that could bring together financial empowerment with employment services.

Specifically, within the DoL, ODEP currently utilizes financial empowerment strategies to help improve outcomes for workers with disabilities. One example is the collaboration with the Employment and Training Administration (ETA), where ODEP has implemented the Disability Employment Initiative (DEI). DEI focuses on building the capacity of the public workforce-development system in 23 States to advance employment and economic self-sufficiency for youth and adults with disabilities. Of these programs, 16 have added asset development as a priority. Additionally, ODEP established the LEAD Center (Leadership on Employment and Economic Advancement for Individuals with Disabilities). Among a number of functions, LEAD makes recommendations to shape policy and practice to improve the financial capability of individuals with disabilities. LEAD is working on strategies to integrate financial capability within selected American Job Centers.

The potential for DoL initiatives to promote financial empowerment goes beyond workers with disabilities. By designing services based on universal design (described earlier), DoL programs have the potential to impact all workers.

U.S. Department of Health and Human Services

Within HHS, the Administration for Children and Families (ACF) has federal responsibility for numerous programs that impact low-income children and their families, including Head Start, Child Support Enforcement, Temporary Assistance for Needy Families (TANF), the Low-Income

Home Energy Assistance Program (LIHEAP), the Social Services Block Grant, and many others. The Director of ACF told attendees that while all of these programs work with specific populations and have specific objectives, they are working towards the common goal of financial stability.

ACF launched the Assets Initiative to incorporate asset-building as a core component of its programs. This initiative identified six strategies that it considers core to financial empowerment: savings, credit counseling, mainstream banking, tax assistance, benefits access, and financial education. To implement its strategies, ACF has focused on several programs that serve some of the nation's most vulnerable families.

- One set of initiatives incorporates financial education into the curriculum for both child and parent participants in Head Start.

- Another initiative brings asset-building experts together with participants in the child-support system, specifically non-custodial parents who may face major issues of debt management and credit.

- In another area, ACF is working to address financial issues specific to youth who are in or aging out of the foster care system. A federal legislative mandate requires that older youth in foster care receive annual supervised reviews of their credit records in order to identify and resolve problems such as identity theft.[105]

Across the range of ACF programs, there are a number of important questions that will help determine the success of future broad-scale financial empowerment programs. For example, there is a strong emphasis throughout ACF on preparing people for employment and increasing rates of retention in entry level jobs. A key task will be demonstrating that a set of financial empowerment services could make a significant difference in improving job retention.

[105] Child and Family Services Improvement and Innovation Act, 42 U.S.C. § 675(5)(I).

6. Conclusion: Advancing the field of financial empowerment

The field of financial empowerment has come far in the last decade. This is reinforced by what we have learned through the convening and the listening sessions we have held around the country. New initiatives have multiplied, fostered by non-profits, governments and social entrepreneurs. Technology has brought new tools; increased understanding of consumer decision-making has brought new insights and strategies; philanthropy has nurtured innovation; and many financial institutions have introduced new products and services for the underserved market. Perhaps most promising of all, partnerships have emerged to maximize the strength of all these varied approaches.

Despite this progress, financial empowerment is still an emerging field. Research has begun to illuminate and validate some promising initiatives. But there is much to be learned, and much more to be proven to ensure that these initiatives produce tangible, measurable improvements in the financial lives of millions of low-income and economically vulnerable consumers.

The Office of Financial Empowerment is a relatively new team in a still-new agency. Our national convening pointed to ways in which we, as a unique federal entity, can accelerate the positive momentum that so many in the field have contributed to. In the months ahead, we will direct our attention toward researching what works, developing evaluations and deploying tools, and exploring collaborations that can bring financial empowerment to a new level.

6.1.1 Tools for the field: training social services staff

Various public and nonprofit initiatives have shown the value of utilizing existing social services touchpoints to introduce clients to financial empowerment concepts and resources. In our listening sessions around the country, agency staff members reported that as their clients address budgeting, debt, and savings issues, they become better able to achieve program goals such as steady employment or the transition from homeless shelters to stable housing. However, at one session, participants reported that case managers who are not specifically trained in financial empowerment feel unprepared and reluctant "to have the money conversation with clients."

To overcome that obstacle, we began by commissioning a scan of existing programs that provide financial empowerment training to case managers. The scan identified promising practices, and we are using that information to guide our creation of a training curriculum and a toolkit that case managers can use with clients. The first objective of the training is to help case managers understand how financial empowerment aligns with their program goals and client outcomes. The toolkit aims to increase case managers' ability to assess clients' financial situations and to provide the right tools or referrals at the right time. The training and toolkit will also help case managers understand how to link clients to the Bureau's decision-making tools and consumer protection and financial education resources.

We will test the curriculum and toolkit through community-based trainings for case managers in 2013, revising it as appropriate based on user feedback. After a second cycle of testing and revision, we plan to make the full toolkit available free of charge to social service agencies. With some customization, this resource may be useful to other professionals who work with people facing financial challenges, such as legal services staff and leaders of local faith communities.

6.1.2 Research

In collaboration with the other offices of the CFPB, we are engaged in a variety of efforts to advance knowledge in the financial empowerment field. Our initiatives range from broad scans of promising products and services, to studies of consumer decision-making approaches, to rigorous evaluations.

FINANCIAL CAPABILITY

Through our field research, we have learned of a number of promising approaches to building financial capability that combine or "bundle" financial products and/or integrate financial counseling or coaching in other service-delivery systems. Especially interesting are efforts that seek to combine "low-touch" (i.e., product-based, more readily scalable) interventions with "high-touch" (i.e., more costly, less scalable) approaches. However, we have found little rigorous research that indicates what is effective for low-income and economically vulnerable consumers. To help fill this gap, the CFPB has contracted for a three-phase information-gathering project, which began by inventorying the range of current initiatives, thereafter proceeding to in-depth analysis of selected projects and, ultimately, to promoting pilot projects that attempt to capture and build upon the best practices we have identified. Among the indicators of positive consumer outcomes under consideration are; a transition to safer, more affordable products and services, especially ones that build wealth and improve access to credit; increased savings; and/or obtaining and improving credit scores.

ADVANCING COMMON STANDARDS AND OUTCOME MEASURES

The many public and private programs to increase financial capability use a variety of standards and measures to assess their success. Through our convening and listening sessions, we heard from many practitioners, researchers and others that it would be appropriate for government to facilitate information-sharing and the creation of a set of common standards for financial well-being that can be used throughout government and the private sector, so that stakeholders can accurately see the aggregated effects of financial-capability programs.

The CFPB's Office of Financial Education (OFE) in collaboration with the Office of Research, is working on a multi-year project to lay the foundation for measuring the financial well-being of all consumers and identifying the knowledge and conduct that supports financial well-being. We will work in tandem with our colleagues to identify relevant outcome measures for federal programs that integrate financial empowerment tools into services for low-income and economically vulnerable consumers. Our initial steps include:

- Conducting a scan of public and private programs to identify the outcome measures currently used to assess financial empowerment and capability,
- Determining those outcome measures that would most appropriately track success in the various federal programs, and
- Conducting outreach to various stakeholders, including government agencies and foundations, to identify strategies to advance coordination of efforts.

TAX-TIME SAVINGS AND ASSET BUILDING

Throughout the 2012 tax season, the Office of Financial Empowerment worked with the CFPB's Office of Financial Education to launch an initiative to encourage consumers eligible for Earned Income Tax Credits (EITC) to save some portion of their refunds in qualified savings vehicles. We worked collaboratively with the Internal Revenue Service and with non-profits that provide free tax preparation services in the Tulsa, OK, and Jackson, MS metro areas, and in Durham, NC. In 2013 our two offices will ramp up Bureau efforts by engaging more sites and providing communication and training tools for volunteer tax preparers and consumers.

6.1.3 Collaboration: Federal partnerships

Millions of low-income and other vulnerable populations have short- or long-term contact with the agencies delivering federal assistance programs. By working with federal agencies to integrate financial empowerment tools into these delivery systems, we see the potential to reach consumers at the right moment and to achieve large-scale impacts on low-income and economically vulnerable populations.

Our approach attempts to achieve changes in the short term in programs that serve specific populations -- such as persons with disabilities and youth aging out of foster care -- as well as to advance long-term, agency-wide policy changes. Initially, we will attempt to integrate financial empowerment work into programs that focus on major life-cycle transition points, such as entry into employment. The key strategies we will work to propagate include**:**

- Consumer protection,
- Access to financial products and services,
- Money management,
- Credit management, and
- Savings and asset-building.

The Office of Financial Empowerment will collaborate with federal agencies through joint outreach strategies, providing training materials, identifying policy and practice reforms, and conducting educational webinars. We are exploring the following initiatives:

- Developing a strategy to integrate financial-capability education and training when foster youth age sixteen and older receive their annual free copy of their credit reports as required by law,
- Identifying opportunities to integrate financial empowerment strategies into programs that serve both custodial and noncustodial parents,
- Developing a partnership to strengthen financial capability among persons with disabilities who receive employment-related services, and
- Partnering with our colleagues across multiple federal agencies to implement the “Starting Early” strategy of the Financial Literacy and Education Commission (FLEC).

APPENDIX A: CFPB RESOURCES

CONTACT THE OFFICE OF FINANCIAL EMPOWERMENT: Empowerment@CFPB.GOV

TELL YOUR STORY: http://help.consumerfinance.gov/app/tellyourstory

COMPLAINTS: http://www.consumerfinance.gov/complaint/

ASK CFPB: http://www.consumerfinance.gov/askcfpb/

RULEMAKING: http://www.consumerfinance.gov/notice-and-comment

REGULATION: http://www.consumerfinance.gov/regulations/

CFPB TWITTER: @CFPB

CFPB FACEBOOK: http://www.facebook.com/CFPB

CFPB BLOG: http://www.consumerfinance.gov/blog/

APPENDIX B: CONVENING AGENDA

Empowering Low-Income and Economically Vulnerable Consumers: Making the Case through Access, Data, and Scale

AGENDA

November 28 and 29, 2012

CFPB Headquarters, 1700 G Street NW, Washington DC

1:00 REGISTRATION

1:30 - 2:45 INTRODUCTIONS: WELCOME TO THE CFPB

Cliff Rosenthal, Assistant Director, Office of Financial Empowerment, CFPB

Engaging Consumers in the Right Moment

Gail Hillebrand, Associate Director, Consumer Education and Engagement, CFPB

Plenary Panel: Protecting Consumers

Moderator: Gail Hillebrand

- Patrice Ficklin, Assistant Director, Office of Fair Lending and Equal Opportunity
- Kent Markus, Assistant Director, Enforcement
- Scott Pluta, Assistant Director, Consumer Response
- Alice Hrdy, Acting Deputy Assistant Director, Office of Supervision Policy

2:45 – 3:00 INTRODUCTION TO THEMES OF THE CONVENING EMPOWERMENT: OUR VISION, OUR STRATEGIES

Cliff Rosenthal

3:00 – 4:00 PLENARY PANEL: SEEKING SCALE: WHAT WE MEAN AND HOW WE GET THERE

Moderator: Lisa Mensah, Executive Director, Initiative on Financial Security, Aspen Institute

- Melissa Koide, Deputy Assistant Secretar, Office of Consumer Policy, U.S. Department of the Treasury
- Andrea Levere, President, CFED
- José Cisneros, Treasurer, City and County of San Francisco;
- Bob Annibale, Global Director, Citi Community Development & Microfinance

4:00 – 4:15 BREAK

4:15 – 5:15 PLENARY PANEL: FINANCIAL INCLUSION: BROADENING THE DISCUSSION

Moderator: Deyanira Del Rio, Associate Director, Neighborhood Economic Development Advocacy Project

- Sarah Dewees, Sr. Director of Research, Policy and Asset-Building Programs, First Nations Development Institute
- Joyce Moy, Executive Director, /Asian American / Asian Research Institute, City University of New York
- Johnette Hartnett, Director Strategy and Research, National Disability Institute
- Dedrick Muhammed, Executive Director, Financial Freedom Center, NAACP

5:15 – 6:00 CLOSING SESSION: FINANCIAL EMERGENCY PREPAREDNESS

- Dan Rutherford, Senior Content Specialist, Office of Financial Education, CFPB

- Cassandra McConnell, Deputy Assistant Director, Office of Financial Education, CFPB
- John Hope Bryant, CEO and Founder, Operation HOPE and HOPE Coalition America

November 29, 2012

CFPB Headquarters, 1700 G Street NW, Washington DC

8:00 BREAKFAST AMPITHEATER

8:45-9:00 OPENING REMARKS – RICHARD CORDRAY, DIRECTOR, CFPB

Introduction, Gail Hillebrand

9:00 -10:00 ACCESS TO FINANCIAL INSTITUTIONS FOR LOW-INCOME CONSUMERS: LANDSCAPE AND TRENDS

Moderator: Cliff Rosenthal, Assistant Director, Office of Financial Empowerment, CFPB

- Jonathan Miller, Deputy Director for Policy and Research, Division of Depositor and Consumer Protection, FDIC
- Barry Wides, Deputy Comptroller for Community Affairs, Office of the Comptroller of the Currency
- Allen Fishbein, Associate Director, Consumer & Community Affairs Division, Federal Reserve Board
- Bill Myers, Director, Office of Small CU Initiatives, National Credit Union Administration
- Jodie Harris, Senior Advisor, The CDFI Fund, U.S. Department of the Treasury

10:00-10:15 BREAKOUT SESSIONS OVERVIEW: INTRODUCTION AND EXPECTATIONS

10:30-12:00 WORKING GROUPS

Track 1: Access: Innovative Access to Transaction Accounts and Services: Reaching People Where They Are

Moderator: Rachel Schneider, CFSI

- Laura Castro de Cortes, Vice President of Alternative Financial Services, Centris Credit Union
- Patrick Adams, President/CEO, St. Louis Community Credit Union
- Cecilia Frew, Senior Vice President, PNC SmartAccess
- Laura Kelly, Senior Vice President, American Express

Track 2: Data Data Collection: Barriers and Incentives

Moderator: Camille Busette, Assistant Director of Office of Financial Education, CFPB

- Kevin Jordan, Vice-President, National Programs, LISC
- Jessica Anders, Research and Evaluation Manager, Success Measures, NeighborWorks
- Kim Manturuk, Senior Research Associate in Financial Services, UNC Center for Community CapitalKate McKee, Senior Adviser, CGAP, World Bank

Track 3: Pathways to Scale: Integration as a Path to Scale: Case Studies

Moderator: Annika Little, Strategic Program Manager,

- Mae Watson Grote, Executive Director, Financial Clinic
- Mary Dupont, Director of Financial Empowerment, State of Delaware
- Michal Grinstein-Weiss, Associate Director, Center for Social Development, Turbo Tax PiloJoanna Smith-Ramani, Director of Strategy, D2D Savings

12:00- 1:15 LUNCH PLENARY SESSION: INTEGRATING FINANCIAL EMPOWERMENT: OPPORTUNITIES AND CHALLENGES AT THE FEDERAL LEVEL

Moderator: Jonathan Mintz, Commissioner of Consumer Affairs, New York City

- Mark Greenberg, Deputy Assistant Secretary for Policy, U.S. Department of Health and Human Services
- Kathy Martinez, Office of Disability Employment Policy, Assistant Secretary, U.S. Department of Labor
- Louisa Quittman, Director of the Office of Financial Education, Office of Consumer Policy, U.S. Department. of the Treasury

1:30 - 3:00 WORKING GROUPS (CONT'D)

Track 1: Access: Focus on Credit

Moderator: Corey Stone, Assistant Director, Office of Credit Information, Collections, and Deposits Markets, CFPB

- Vikki Frank, Executive Director, Credit Builders Alliance
- Paul Panichelli, Principal Scientist, Scoring Analytics, FICO
- Anna Steiger, Director of Community Development, Federal Reserve Bank of Boston
- Odysseas Papadimitriou, CEO & Founder, Evolution Finance, Inc.

Moderated Discussion

Track 2: Data (cont'd)

Toward National Standards for Data Collection – Barriers, Incentives, and the Role of Federal Government

Moderator-led working group

Track 3: Scale Initiatives (cont'd)

What is Needed to Take an Initiative to Scale

Moderator-led working group

3:15- 4:00 WORKING GROUPS PRESENT REPORTS & WRAP-UP