

Advancing Financial Inclusion: Innovative Financial Products and Services for Low-Income Households

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Organized by the Federal Reserve Bank of Minneapolis

The **Connecting Communities**[®] audio conference series is a Federal Reserve System initiative intended to provide timely information on emerging and important community and economic development topics with a national audience. The audio conference series complements existing Federal Reserve Community Development outreach initiatives that are conducted through our regional Reserve Bank offices and at the Federal Reserve Board of Governors in Washington, D.C.

Welcome

Thank you for attending today's session. How to join (remember, this session is being recorded):

- Call-in number: 888-625-5230
- Conference code: 413 547 69#
- Webinar link: <https://www.webcaster4.com/Webcast/Page/584/22624>

You have two options to ask questions today:

These questions may be part of the recorded archive for this session.

- Email us at: communities@stls.frb.org
- Type your question into the chat box of the webinar

An archived recording of this session will be available on the **Connecting Communities**[®] website shortly after the session ends. Please visit www.stlouisfed.org/connectingcommunities/

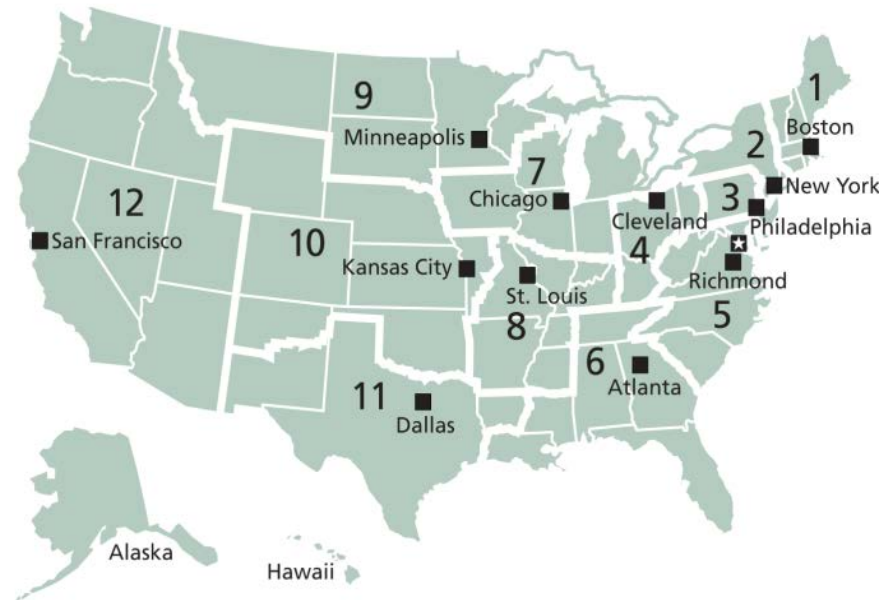
In connection with this session, you can find a variety of additional resources on this topic, available at www.fedcommunities.org. We encourage you to browse through this site and to contact your regional office if you would like additional information on any of these items.

Legal Notices and Disclaimer

The information, analyses, and conclusions set forth are those of the presenters and do not necessarily indicate concurrence by the Board of Governors of the Federal Reserve System, the Federal Reserve Banks, or members of their staffs.

Community Development

- The Community Development function within the Federal Reserve System—consisting of individual departments at each of the 12 Federal Reserve Banks and at the Board of Governors—promotes economic growth and financial stability for low- and moderate-income (LMI) communities and individuals through a range of activities, including:
 - **Convening stakeholders**, including practitioners, financial institutions, nonprofits, governmental agencies, and the philanthropic and private sectors
 - **Conducting and sharing research** to examine economic challenges facing LMI communities and attendant policy implications
 - **Identifying emerging issues**



Today's Presenters and Agenda

- **Anne Leland Clark**, Financial Capability and Learning Director, Prepare + Prosper, St. Paul, Minnesota
- **Joanna Smith-Ramani**, Associate Director, Financial Security Program and Director, Expanding Prosperity Impact Collaborative (EPIC), The Aspen Institute, Washington, D.C.
- **Lauren Leimbach**, Executive Director, Community Financial Resources, Berkeley, California
- The following will be discussed:
 - Research, current initiatives, and best practices to help address the challenges low-income households face in the financial marketplace

The Financial Inclusion Gap Is Real

Anne Leland Clark

Financial Capability and Learning Director

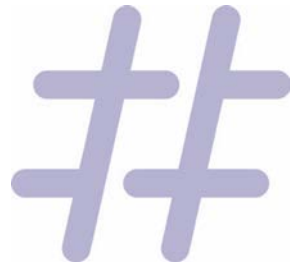
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The Reality in Numbers



Nearly 67 million adults in the United States are unbanked or underbanked.*

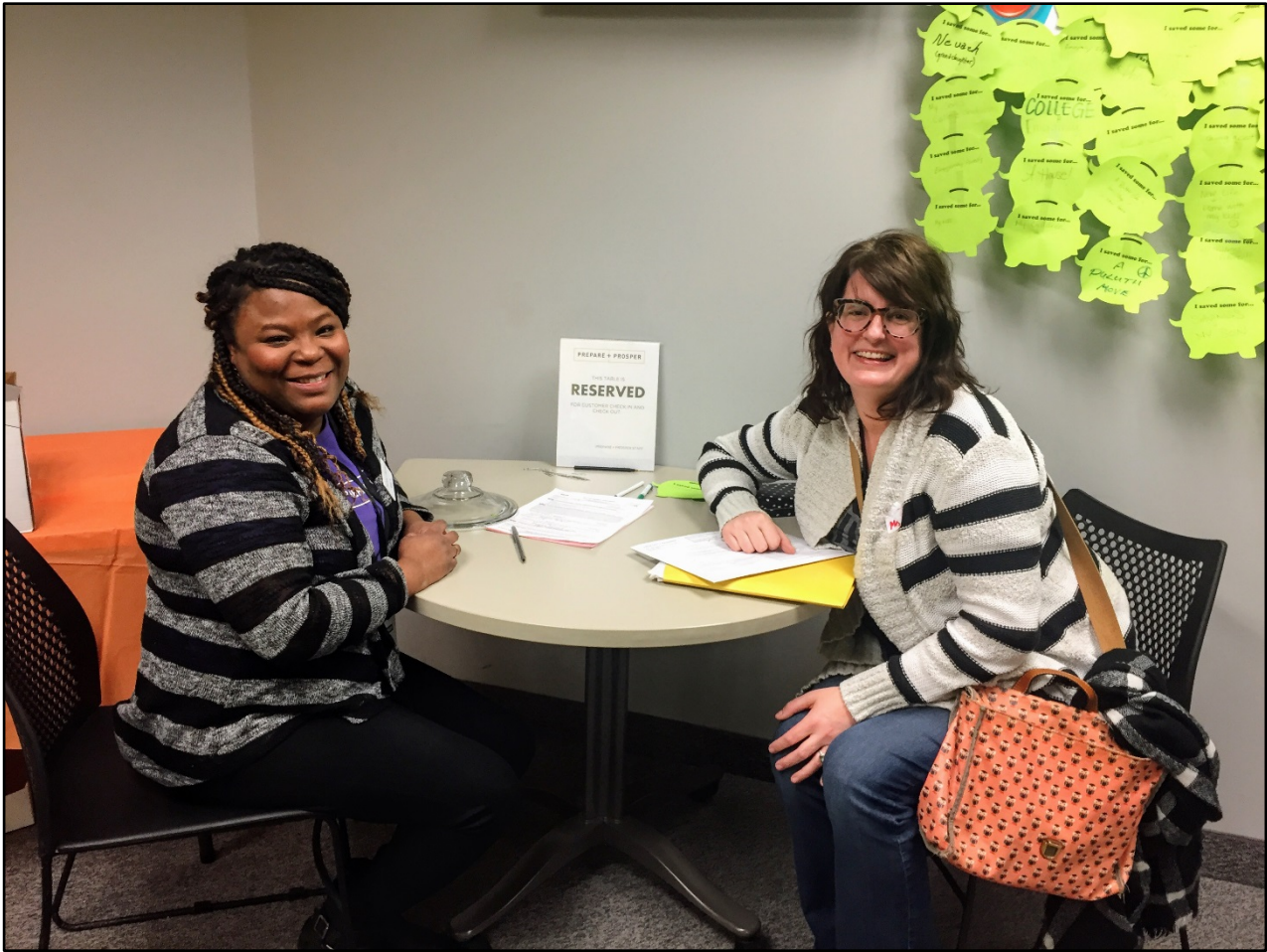


\$141 billion annually is spent on fees and interest in the alternative financial services or “non-bank” marketplace.**

*2015 Federal Deposit Insurance Corporation National Survey of the Unbanked and Underbanked Households

**Center for Financial Services Innovation 2016 Financially Underserved Market Size Study

Megan's Story



Understanding U.S. Financial Lives

Joanna Smith-Ramani

Associate Director/Financial Security Program Director, EPIC
The Aspen Institute
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Future of Work

- **40.4 percent of the U.S. workforce is now made up of contingent workers—with biggest growth in part-time jobs:**
 - Higher poverty rates
 - Lower pay
 - Greater job instability
 - Less access to workplace benefits
 - Increased reliance on public benefits

A HOUSEHOLD VIEW OF VOLATILITY

Income volatility is common among US Financial Diaries households

But the causes of volatility vary, including job changes, seasonal work, and secondary income sources.

Mateo & Lucia earned

\$55,200

from June 2012 to May 2013, buoyed by Mateo's stable job. Monthly income ranged from

\$3130 to \$4720



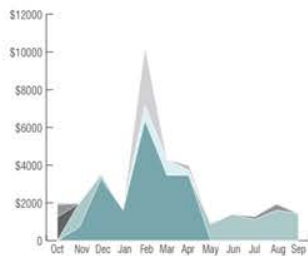
- Mateo extra work
- Rental income
- Lucia seamstress
- Mateo body shop
- Free phone service
- Food stamps
- Lucia Ambal products

Sandra Young earned

\$34,600

from Oct 2012 to Sep 2013, half in just a three months. Monthly income ranged from

\$880 to \$10,190



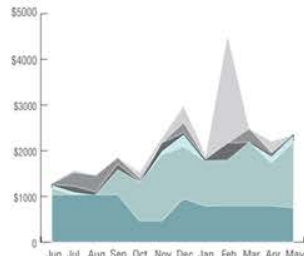
- Resources from friends
- Freelance bookkeeping
- Credit union (Part-time)
- Tax program director
- Tax refund
- Public assistance
- USFD

Molly & Dustin earned

\$27,100

from June 2012 to May 2013, helped by social security and food stamps. Monthly income ranged from

\$1100 to \$4500



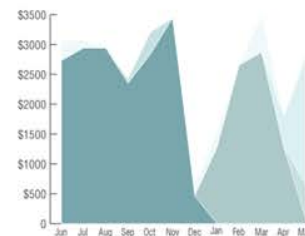
- Dustin's Income
- Molly's Income
- Social Security & Food Stamps
- Other (i.e. tax refund)
- Help from family
- Lottery Earnings

Elena Navarro earned

\$32,700

from June 2012 to May 2013, but she changed jobs twice, with negative income effects. Monthly income ranged from

\$650 to \$3900



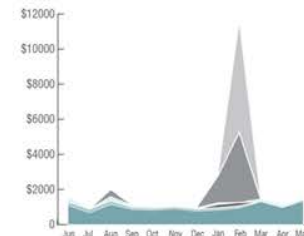
- Education nonprofit
- Expense reimbursement
- Mental health agency
- Misc.
- Community outreach

Amy Cox earned

\$28,700

from June 2012 to May 2013, with spikes from an EITC and ed grants. Monthly income ranged from

\$900 to \$12,000



- Child support
- Food stamps
- Daycare job
- Earned Income Tax Credit
- Pell Grant
- Boyfriend's food stamps

To learn more, visit www.usfinancialdiaries.org

Prevalence of Income Volatility

- **21 percent of individuals experienced some unusually high- or low-income months**, and an additional **10 percent reported their income often varies “quite a bit” from one month to the next** (2013 Survey of Household Economics and Decisionmaking).
- Low-wage households experienced on average **5 out of 12 months with a change in income of over 25 percent** (roughly split between rises and falls) (The U.S. Financial Diaries).
- **4 in 10 individuals saw more than a 30 percent month-to-month fluctuation** in income between 2012 and 2014 (JP Morgan Chase Institute).
- **60 percent of American households reported experiencing a financial shock** in the last 12 months (Survey of American Family Finances 2015, Pew).

Drivers of Income Volatility— Largely Labor Issues

- Of those who self-reported volatile monthly incomes in a recent survey, 40 percent blamed an irregular work schedule for the swings.
- An analysis of banking records found that, for nearly one in four jobs, paycheck amounts varied by more than 30 percent from paycheck to paycheck. This within-job variation in pay explains 86 percent of the month-to-month variation in labor income.
- Between 1971 and 2008, annual variability in hours worked has risen hand-in-hand with—and helps explain—the rise in income volatility.
- Week-to-week variation in hours and working a variable or rotating schedule are significantly related to higher income volatility.
- Three-quarters of EPIC’s panel of experts identified irregular hours as one of the three most significant causes of income volatility—by far the most popular choice.

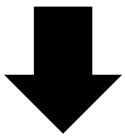
Impact on Households

- Delayed and disrupted **household consumption**:
 - Paying bills late
 - Foregoing necessary medical care
- Volatility increases the risk of experiencing **food insecurity**.
- Month-to-month volatility can endanger a household's ability to **access safety net programs**.
- Fluctuation can lead to **utility disruptions** and **housing instability**.
- Use of **costly financial services** and late fees

Solutions Framework



Prevention



Mitigation

Stable employment

Regular hours, predictable earnings, and generous benefits

Safety net

Easily accessible social programs that are designed for volatile incomes

Liquidity

High-quality cash management tools for smoothing income and consumption

Recommended Solutions

Strategies	Goals	Most Promising Interventions
Stable employment	Regular hours, predictable earnings, and generous benefits	Predictable scheduling
Safety net	Easily accessible social programs that are designed for volatile incomes	Unemployment insurance reform
		Wage insurance
Liquidity	High-quality cash management tools, including savings, credit, and insurance, for smoothing income and consumption	Payroll innovation
		Shortfall savings tools
		Hybrid financial products

Facilitating Financial Inclusion

Lauren Leimbach

Executive Director
Community Financial Resources
Berkeley, California

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Mission



- As a nonprofit organization, we:
 - Research, develop, and promote low-cost, high-functionality financial products and services for LMI households
 - Build the capacity of community-based organizations to enhance the **financial capabilities** of their constituents
 - Establish best practice standards for consumer-friendly financial services
 - Promote a fair and inclusive economy

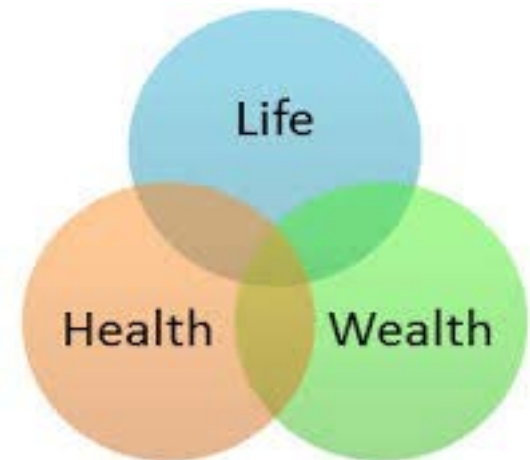
Overcoming Banking Obstacles

- Cost
- Variable cash flow/penalty fees
- Language
- Cultural experience
- Garnishments/service issues
- Location and hours
- ID requirements
- Product complexity
- Trust
- Marketing “noise”



Engagement Strategies: Aligning Priorities, Motivation, and Behaviors

- Design products and tools to address the financial lives of low-income households
- Bring products and tools to the people
- Acknowledge previous negative experiences
- Facilitate immediate product enrollment
- Provide targeted consumer education
- Encourage task-based follow-up

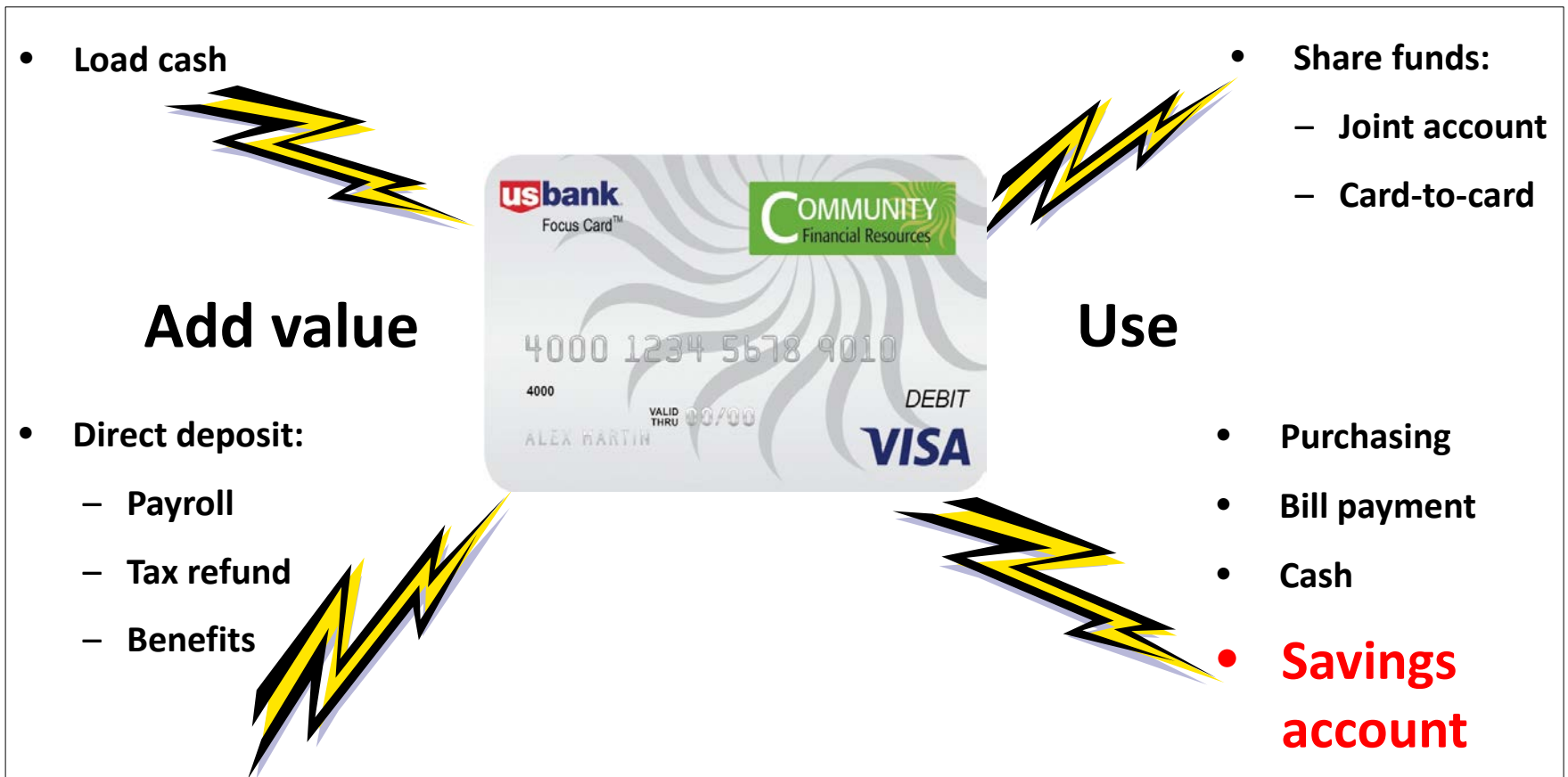


Using Products and Tools to Build Financial Capability

- Products:
 - Prepaid debit card
 - Secured credit card
 - Shared secure loans
 - Credit-builder certificate of deposit (CD)
- Tools:
 - Direct deposit
 - Spending trackers
 - Automatic savings
 - Behavior trackers
 - Matched savings

How the Focus Card Works

- Functions like a bank Visa ATM/check card without the penalty fees



Automatic Savings Bonus Program: Set it and Forget it!



Cardholder opens savings account with at least \$10.



Cardholder sets up automatic triggers to move at least \$20 a month.



Cardholder saves at least \$20 a month for three months in a row; will have \$70 in account.



Upon verification, Community Financial Resources will deposit an additional \$50.

Credit Tools

- Credit Karma: On-line credit review
- Free credit report: www.annualcreditreport.com
- Connection to a good secured credit card—
a card-based revolving line of credit based on
security deposit in savings account
- Good for those with no credit or those
rebuilding credit
- Stepping stone to unsecured credit
- Incentivizes savings



Other Credit-Building Options

- Credit union savings accounts provide access to **shared secured loans**.
- Credit-building CD:
 - Borrow \$500–\$1000 and lockdown in CD
 - Make money payments like installment loan
 - Build savings and credit

Enhanced Financial Education

- What: Task-based learning
- Why: Information and intention does not necessarily translate to action.
- When: As people are learning how to use a new product or tool
- People learn best by **doing** or trying to solve an immediate problem they face.
 - Set up tasks for participants to apply financial management concepts
 - Coaching model

Community Financial Resources' Approach

- Product design and vendor management
- Communications, marketing, and outreach materials
- Client engagement training
- Product enrollment and first-line customer service support
- Effective product usage training materials
- Enhanced behavior-based financial education

If You Need Help . . .



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FAIR: An Integrated Product Solution

Anne Leland Clark

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FAIR: Financial Solution

**FAIR
credit
builder**



No money down! Consumer makes monthly, on-time payments to build credit and savings.

**FAIR
savings
account**



Interest-earning savings account with no minimum balance requirement

**FAIR
checking
account**



A “checkless” checking (demand deposit account or DDA) account with VISA debit card with no overdraft and no minimum balance



Distribution:

Getting products into people's hands

A photograph of a woman in a grocery store, wearing a light-colored sweater with a dark collar and sleeves. She is holding a pineapple in her left hand and a card in her right hand. In the foreground, a customer's hand is visible, holding a card over a payment terminal. The background shows grocery store shelves and a shopping cart. The entire image has a greenish-yellow tint.

Adoption:

Making products that work for people



Adherence:

Making it “sticky” enough to ensure meaningful impact

FAIR: Where We've Been



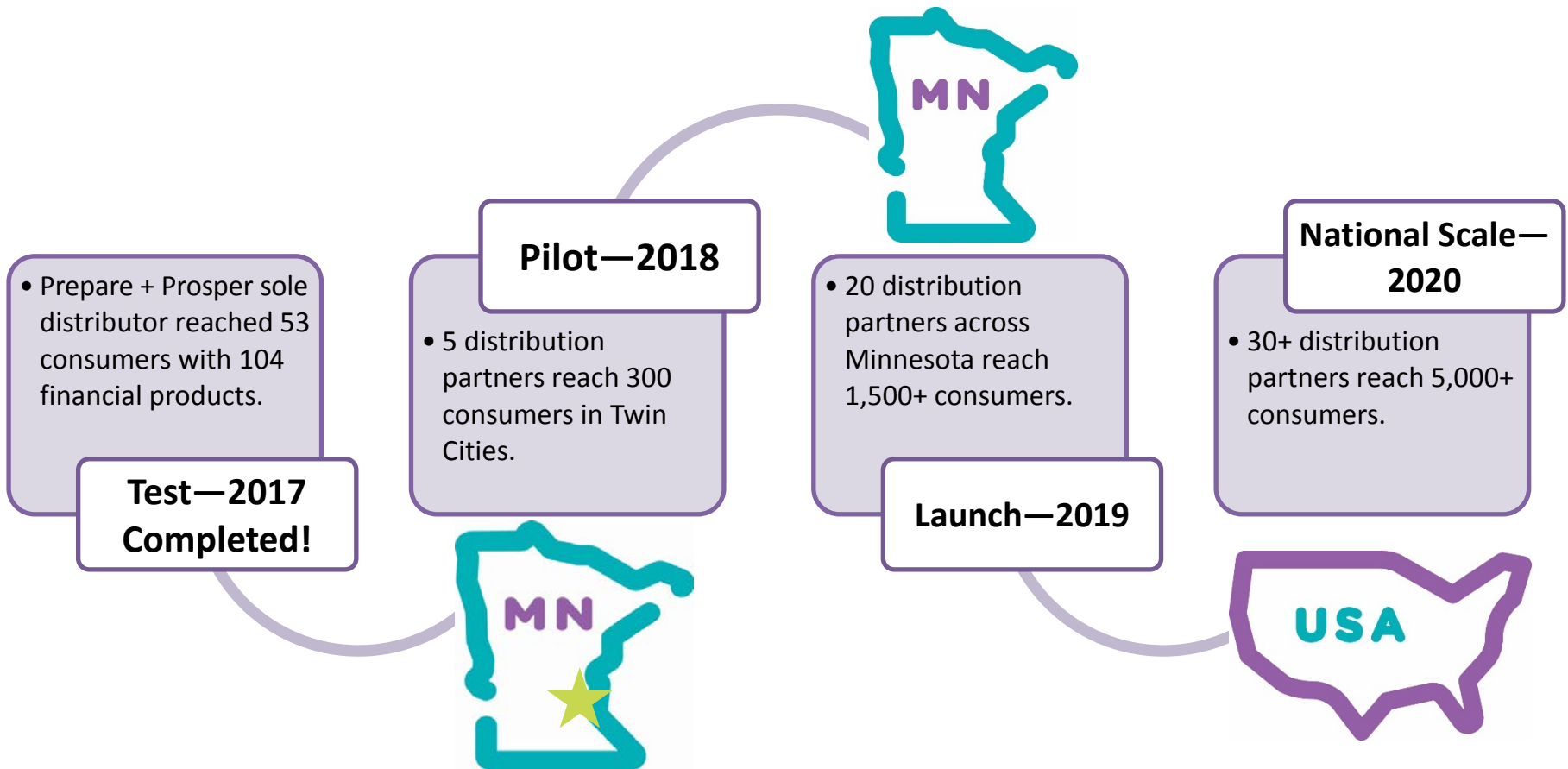
Photo from FAIR enrollment event at P+P in December 2016.

Having the opportunity to be introduced to FAIR at Prepare + Prosper was a game-changer for me. I opened a checking and a savings account for the first time in five years and have begun to build my credit. I'm now banked.

FAIR will continue to be my banking choice. Since FAIR was the only banking opportunity that gave me another chance . . . I'm proud and empowered and grateful there's products out there that gave me another opportunity to have an account again.

—Eumeka

FAIR: What's Next



More on FAIR

fair:

www.prepareandprosper.org/fair

Join Us for Our Next Connecting Communities!

- Solutions for Mitigating Neighborhood Blight: A Discussion of Innovative Programs and Policy Strategies
 - Thursday, November 2, 2017
 - 2–3 p.m. CT/3–4 p.m. ET
 - Presenters:
 - Steve Lockwood, Executive Director, Frayser CDC
 - Krysta Pate, Program Director, Detroit Home Mortgage
 - Kim Graziani, Vice President/Director of National Technical Assistance, Center for Community Progress
 - Matt Josephs, Senior Vice President, LISC

Questions?

You have two options to ask questions today:

1. Email us at: communities@stls.frb.org
2. Click the “Ask Question” button in the webinar

Wrap-Up/Closing

Thank you to today's presenters and to all participants for joining this session.

Next steps:

- All session materials are available on our website, and in the next few days, we will post an audio file of today's session.
- If you have topical suggestions for future sessions or any questions about this program, please feel free to contact us at communities@stls.frb.org.
- Information about future sessions will be posted on our website, along with archived materials from past sessions:
<https://bsr.stlouisfed.org/connectingCommunities>

Related Resources



In connection with this session, you can find a variety of additional resources on this topic, available at **www.fedcommunities.org**.

It provides an array of practical resources to help you in your role as a community development professional, whether your work involves supporting people, places, the policy and practice of community development, or small business development.