

Municipal Financial Empowerment:

A **Supervitamin** for Public Programs

Strategy #3: Integrating Safe and Affordable Bank Accounts



Michael R. Bloomberg
Mayor

Department of Consumer Affairs
Office of Financial Empowerment

Jonathan Mintz
Commissioner

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September 2012

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Acknowledgments

The Department of Consumer Affairs Office of Financial Empowerment (OFE) gratefully acknowledges the many financial institutions, City agencies, and other partners, which have been instrumental in helping to integrate safe banking initiatives into multiple City social service programs.

We greatly appreciate the enthusiastic cooperation and energetic approach to account openings and ongoing data collection of the following financial institution partners who worked with us to provide appropriate products that met our needs and the needs of New Yorkers: Amalgamated Bank, Bethex Federal Credit Union, Brooklyn Cooperative Federal Credit Union, Capital One Bank, Carver Federal Savings Bank, CheckSpring Bank, Citibank, Cross County Savings Bank, Flushing Bank, Habib American Bank, Lower East Side People's Federal Credit Union, JPMorgan Chase, M&T Bank, Municipal Credit Union, New York Community Bank, Neighborhood Trust Federal Credit Union, Popular Community Bank (formerly Banco Popular), Ridgewood Savings Bank, Sterling National Bank, and Union Settlement Federal Credit Union.

Without our City agency partners, implementation of our banking initiatives would not have been possible. We thank the following for working with us so closely on these innovative approaches: Department of Parks & Recreation, especially the team at Parks Opportunity Program (POP); Office of Payroll Administration; Mayor's Office of Operations; Administration for Children's Services; Department of Citywide Administrative Services; Department of Sanitation; Department of Environmental Protection; Department of Education; Department of Homeless Services; Human Resources Administration; Department of Transportation; Department of Information Technology & Telecommunications; Department of Youth and Community Development; New York City Fire Department; New York City Housing Authority; and New York City Police Department.

The Department of Consumer Affairs' talented staff members who are dedicated to our financial empowerment work and have contributed to this report include: Cathie Mahon, Deputy Commissioner for Financial Empowerment; Tamara Lindsay, Deputy Director of OFE Programs and an author of this report; Mitchell Kent, Director of Legislative Policy and Special Counsel; I-Hsing Sun, Director of OFE Programs; Nathalie Gons, Director of OFE Research and Evaluation; and Monica Copeland, Program Officer for Financial Services and Asset Building.

Finally, we deeply appreciate the ongoing support and encouragement of Mayor Michael R. Bloomberg, First Deputy Mayor Patricia E. Harris, Deputy Mayor for Health and Human Services Linda I. Gibbs, Center for Economic Opportunity (CEO) Executive Director Kristin Morse, and former CEO Executive Director Veronica M. White. They continue to hold our Department and our programs to the highest standards of excellence.

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Introduction

This report, the third in a series about the “supervitamin” effect of improved social service outcomes when integrating financial empowerment and asset building strategies into public programs, details New York City’s efforts to increase access to safe and affordable banking accounts.

When Mayor Michael R. Bloomberg launched the Office of Financial Empowerment (OFE) at the Department of Consumer Affairs (DCA) as part of his Administration’s broader antipoverty efforts, it was with the intention to educate, empower, and protect New Yorkers to improve their financial stability so they and their families could get ahead.

Access to savings and affordable banking accounts are fundamental components of consumer empowerment, self-sufficiency, and poverty alleviation strategies. In a recent report the Federal Deposit Insurance Corporation (FDIC) found that nearly 20 percent of U.S. households with low incomes do not currently have a banking account.¹ Through research that OFE commissioned, we found that 825,000 adults in New York City do not have a banking account.² Reaching the unbanked has been a Bloomberg Administration priority because a lack of banking access is linked with poverty. With only alternative financial services as an option, the unbanked must pay to access their own money, are charged for every transaction, and have limited opportunities to save money. An OFE study revealed that New York City residents spend approximately \$225 million on check cashing fees alone, not counting the cost of money orders, bill paying, wire transfers, etc.³

Breaking this costly reliance on alternative financial services is a cornerstone of OFE’s work because having a mainstream banking account is the only way to access formal savings opportunities. As research has demonstrated, savings and asset building are critical steps toward stabilizing finances and securing a more sound financial future.⁴ Creating a pathway to banking helps individuals to successfully navigate the financial system, with the end goal of enhancing their ability to build savings and assets. Ultimately, we want to ensure that households with low incomes keep every single dollar they earn and receive.

As traditional social service providers look for ways to enhance efforts to meet clients’ needs, prioritizing access to a banking account and services can make a difference by providing the necessary financial foundation for clients to be more self-sufficient, while also enhancing the work of the host program. Particularly in programs that incorporate recurring flows of funds to participants, the financial stability boosted by bank accounts also bolsters impact and outcomes of the host program: the supervitamin effect.

Spotlight: Safe and Affordable Banking Products Negotiated by OFE

By addressing key customer concerns, leveraging OFE research findings, and making account terms palatable to a sufficient number of mainstream banking institutions, OFE has introduced a number of safe and affordable banking products over the last few years.

Opportunity NYC Account/NYC SafeStart Account:

Originally designed for individuals enrolled in New York City’s conditional cash transfer pilot, the Opportunity NYC Account served as a launching pad for the NYC SafeStart Account, a safe starter bank account available to all New Yorkers. The NYC SafeStart Account has very low minimum balance requirements, ATM-only access to funds, no monthly fees, no overdraft fees (notably before the federal regulation prohibiting these fees), and allows multiple payers to directly deposit funds. Participating financial institutions also agreed to leniency regarding prospective account holders’ poor checking account histories (ChexSystems) that did not involve fraud and agreed to provide data to OFE.

NYC First Account:

Recognizing the potential of working with participants in the City’s Summer Youth Employment Program (SYEP), OFE negotiated a more full-featured account with partner financial institutions. This account included a debit card with VISA or MasterCard logos that account holders could use either as a PIN-based debit or signature-based credit card.

NYC Direct Deposit:

The goal of NYC Direct Deposit, OFE’s latest program, is to increase the number of City employees who directly deposit their pay. City employees can access a completely free checking account through one of seven partner financial institutions ... as long as they directly deposit their pay. The accounts have no monthly fees, no minimum balance requirements, and no marketing of courtesy overdraft.

The Supervitamin Effect in Brief

As described in our first two supervitamin reports, financial stability is overall economic security that can sustain an individual or family for months and years, not just days and weeks. Income and income supports such as housing subsidies and public benefits are necessary but not sufficient for overall financial stability. A household also requires financial knowledge and access to affordable financial products and services to build cushions against financial shocks and downturns. It is the integration of financial stability programming into other programs that provides the supervitamin effect, boosting the effectiveness and improving the outcomes of traditional social service programs at a time when antipoverty efforts are being pressed to do the proverbial “more with less.”⁵ Reports #1 and #2 focused, respectively, on integrating professional financial counseling and professionalizing the field of financial education and counseling.

This third report focuses on the insertion of safe and affordable banking accounts into existing social service programs to facilitate payment to target populations that are highly unbanked. The crux of this idea is that the primary program outcomes—whether they are employment re-entry programs, disability payments, or payments to directly assist families with low incomes—will be enhanced by inserting a safe and affordable banking account.

The insertion of a bank account has its maximum impact as a supervitamin for public programs when four key lessons learned are observed:

- Lesson 1: Identify program partners who recognize that supervitamin interventions would benefit their program participants
- Lesson 2: Identify programs with participants who are most likely to be unbanked
- Lesson 3: Identify programs that push out funds, particularly through recurring payments
- Lesson 4: Take advantage of the enrollment structure of the program

Beyond Rhetoric: Most Frequently Cited Reasons for Being Unbanked

- Do not have enough money: **50 percent**
- Lack proper identification: **14 percent**
- Lack time to open an account: **14 percent**
- Bank fees are high and/or hidden: **12 percent**
- Do not understand the banking system: **10 percent**
- Prefer anonymity of check casher: **6 percent**
- Do not trust the banking system: **4 percent**
- Listed on ChexSystems: **2 percent**

Source: Slipping Behind, Pew Health Group

I. Why Bank Accounts Matter

Studies show that being “banked”—or using a bank account—is associated with, and may even lead to, increased financial stability.⁶ Those with mainstream accounts, as compared to those without, tend to keep more of their earnings, fare better against financial shocks, and save more. Multiple sources have concluded:

- Those who are unbanked have lower median household incomes and are more likely to live in poverty compared to those with bank accounts.⁷
- Those who are unbanked are less likely to be employed than their banked counterparts.⁸
- Those who are unbanked are more likely to use high-cost loans.⁹
- Those who are banked are better able to pay their bills and save for the future.¹⁰
- Those with bank accounts are more likely to save and sustain their savings behavior.¹¹

Lack of banking access is also tied directly with poverty. As described in the Introduction, nearly 20 percent of U.S. households with lower incomes—nearly seven million households—lack a banking account, according to a recent FDIC report. Of these unbanked households, about 66 percent rely heavily on fringe financial services such as check cashers, or they simply transact with cash. In New York City, 825,000 adults do not have a banking account, with high numbers of these individuals concentrated in just 10 traditionally low-income neighborhoods, according to research commissioned by OFE.¹²

Depositing and managing money through a mainstream bank account provides households with low incomes with better opportunities both to save and access credit vehicles. OFE’s *Neighborhood Financial Services Study* found a close linkage between holding a bank account and having formal savings; only four percent of those lacking a bank account have any retirement savings, while 31 percent of those with bank accounts have such savings. The study found that savings is linked to overall financial stability with “saver” households being roughly one-half as likely to experience financial instability, compared to their non-saver counterparts. And, with a heavy reliance on costly and predatory alternative financial services such as expensive and unnecessary tax refund-related products, high-fee check cashers, debt relief scams, high- and hidden-fee prepaid cards, and money orders, unbanked individuals are more susceptible to theft and are unable to find safe ways to save money.

For some unbanked individuals, declining to open a bank account is connected to previous negative experiences or fears about the application process. Studies cite the following reasons that individuals remain unbanked: having inadequate funds to warrant a bank account; mistrust of being banked based on past negative experiences; and the fear of garnishments. A significant percentage of the unbanked—49 percent, according to the FDIC report—were banked at one time.¹³

Unbanked individuals can greatly benefit from financial services offered by banks, such as free bill pay, linked savings accounts, and the ability to transact easily without reliance on cash. Individuals without accounts pay a high price, measured as a proportion of earnings, for the fringe services they use instead. The challenge is to find ways to address this dichotomy between a more stable financial outlook when using a banking account and the very real reasons people remain unbanked.

OFE’s Priority Features for Safe and Affordable Checking Accounts

Fees

- Reasonable monthly maintenance or service fee (to date, under \$5)
- Free use of in-network ATMs to deposit or withdraw funds, or to check account balances
- No fees to use debit card
- No overdraft option for debit card purchases or ATM withdrawals

Minimums and Transactions

- Low minimum balance and initial deposit requirements
- Multiple ways to check account balance for free (online, by phone, through text messages, at ATMs)
- Waived monthly fee for reasonable transaction requirements (i.e., direct deposit or five combined point of service and ATM transactions)

II. Lessons from the Field: Designing Accounts Despite Challenges

Initially, OFE's strategy for increasing access to banking focused on designing products to meet the needs of New Yorkers with low incomes. Our work was guided by the central findings of our *Neighborhood Financial Services Study*, which identified a critical and fundamental mismatch between the mainstream banking products offered and the unbanked population's expressed needs and concerns. We set out to negotiate a safe and affordable account with terms that addressed core concerns about high and unpredictable fees to which the City could attach its name. At the same time, the account had to be palatable to a sufficient number of mainstream banking institutions that would agree to voluntarily offer it to large target populations.

The Citywide Financial Services Study that we commissioned led to our initial strategy to focus on 10 high-poverty neighborhoods that comprise 48 percent of all unbanked New York City residents. Next, we partnered with community-based organizations (CBOs) with a strong community presence and easy access to clients. We highlighted the benefits of the NYC SafeStart Account by coordinating account-opening events and working with CBOs on outreach. We also incorporated the message of safe banking into all of our outreach efforts, as well as our large-scale marketing campaigns, including the launch of the Financial Empowerment Centers, the annual tax season campaign, and all of our presentations to service providers. Thanks to our committed partners whose organizations promoted the benefits of banking, our strategy succeeded in raising awareness, but it did not result in a significant increase in banking. We found ourselves wondering why more people were not signing up for this great new account.

We identified a number of challenges:

- Most unbanked New Yorkers are unbanked for a reason. Often, they have chosen not to use a bank account, defaulting to alternative financial services because of previous negative experiences with banks, including the inability to maintain high minimum balance requirements, rumors about (or experience with) frozen accounts and garnishments, overdraft fees, and ChexSystems barriers. OFE's *Neighborhood Financial Services Study* found that approximately 42 percent of unbanked adults held an account in the past.¹⁴
- The actual transactional needs of consumers were greater than we expected them to be in the initial product design process. The NYC SafeStart Account tackled the issue of ChexSystems directly; we worked with financial institutions on a more lenient process if the potential account holder completed a financial counseling session.¹⁵ And despite features such as a low minimum balance and no monthly fees, the account did not function like a full checking account or even a prepaid card, which meant clients could not access some desired features, such as online bill pay or a debit option.
- The primary appeal of check cashers is that they meet multiple short-term transactional needs using clear, up-front prices. This comes at a high cost, but, in some cases, products such as money orders can be less expensive than at mainstream banking institutions. In New York State, these establishments also benefit from the perceived "seal of approval" of State regulation. Moreover, check cashers have a community presence that is often seen as comparatively more welcoming and familiar to residents. Finally, general purpose reloadable cards (known as prepaid cards) are available through check cashing locations. They have increased in popularity over the last few years and are seen as viable alternatives to bank accounts.
- Entrenched negative perceptions of banks clearly played a role. Consumers and some organizations mistrusted banks based on previous experiences, word-of-mouth networks, and a media focus on the fiscal crisis.
- Connecting individuals to a banking account quickly emerged as only the first step, not the last. Experience proved that for individuals, receiving recurring payments was a key factor to account usage.
- OFE focus groups found that people were prioritizing other issues such as rent, child care, and debt, which they deemed more important than the lack of a bank account.¹⁶

“ I needed \$25 to (open the account) and a minimum balance of \$500. I wasn't really concerned about that now. I was just trying to figure the steps to take care of my credit report. Right now is just not the time for me. There are things that I've started that I want to finish. ”

– Focus Group Participant

These challenges combined to spark a significant shift in our thinking about banking access. We turned to our previous supervitamin integration work, using the platform of financial stability as a way to reimagine our banking access strategy.

Spotlight: The Role of “Prepaid” Cards

Increasingly, more consumers are turning to prepaid cards as a way to conduct everyday financial transactions. Loads onto prepaid cards are projected to reach \$167 billion by 2014. These cards are readily accessible, allow for anonymity, are not subject to ChexSystems screens, and facilitate day-to-day financial transactions, leading those who are unbanked to perceive that all of their banking needs are being met. While prevalent, these cards can be associated with high and hidden fees, and provide little or no structural opportunities to save money or otherwise build assets. In anticipation of Consumer Financial Protection Bureau regulation, OFE has developed a few minimum guidelines for responsible prepaid products:

- No fees to check ATM balance or transaction history
- Free use of in-network ATMs to withdraw cash
- Multiple free balance reloads through direct and cash deposits
- No credit options
- FDIC insured up to \$250,000
- Regulation Equivalent protections (e.g., protection from unauthorized use, error resolution rights)

III. Supervitamin Integration: Access to Banking as the Foundation for Financial Stability

Bank accounts are a key gateway to greater financial stability. They can reduce costs, facilitate better management of personal finances, provide greater access to financial safeguards, and structurally link to easier and automatic savings opportunities. Particularly in social service programs that incorporate funding streams, individuals' financial stability resulting from having bank accounts also may enhance their service program outcomes.

Social service program participants face multiple hardships ranging from momentary shocks which can affect immediate financial stability to chronic issues which have an ongoing impact on their ability to be self-sufficient over the long term. They are managing unstable housing, lack of transportation, costly child care, and debt, among other things, all the while trying to maintain their presence in the program. This juggling act ultimately may influence their ability to successfully complete a program, meet outcomes, and move toward self-sufficiency.

OFE has leveraged the City's control of funds, linkages to social services, and close relationships with financial institutions to improve the supply of affordable financial products to reach unbanked individuals.

Through these efforts, we have identified a number of lessons about optimal delivery channels through social service and work-based programs so that participants view connecting to mainstream banking as part of the primary program itself, thus strengthening their financial foundation and potentially enhancing the provider's outcomes. This is the supervitamin at work.

“ *Asset development has been a critical investment strategy for helping low-income households overcome poverty. Supporting asset development, by integrating safe and affordable bank accounts into our already strong network of service, has the potential to be a game changer.* ”

- Linda I. Gibbs, Deputy Mayor for Health and Human Services

Lesson 1: Identify program partners who recognize that supervitamin interventions would benefit their program participants

Many traditional antipoverty program providers and other core social service agencies struggle to achieve desired goals, due, at least in part, to the financial instability of their program participants. Providers who recognize the link between their clients' financial instability and their inability to achieve desired goals are open to supervitamin interventions that would be helpful. These providers prove to be the best partners, particularly if they share complementary programmatic goals. For example, New York City's Department of Parks & Recreation operates a transitional employment program—Parks Opportunity Program (POP)—in which participants work in the City's parks, playgrounds, and recreation centers to prepare for long-term employment as a way to move from public assistance into employment. While the program is rooted in job training and workforce development, the focus is also on support services that strengthen participants' self-sufficiency capabilities, which can include ensuring that money earned through the program is managed well. We designed a program to safeguard and leverage participants' earnings by guiding unbanked participants in opening safe and free direct deposit accounts for their new incomes through the specially negotiated NYC Direct Deposit program.

“ *A bank account is good for savings. I take \$50 or \$60 and put it into my holiday account. It's hard to save if you don't have a bank account because you're anxious to spend it.* ”

- Taikeyma Dawson, Parks Opportunity Program (POP) Participant

Lesson 2: Identify programs with participants who are most likely to be unbanked

With all banking access efforts it is important to target resources to programs typically populated with high numbers of unbanked individuals. It is equally important, however, to identify large-scale delivery channels to give financial institutions the incentive to offer a specially negotiated account. Such an account needs terms that address consumers' core concerns about high and unpredictable fees and are safe enough to merit a City's brand. At the same time, the account needs to appeal to a sufficient number of mainstream banking institutions that will voluntarily offer it to large populations.

In the example of New York City's Summer Youth Employment Program (SYEP), participants had never been part of the banking system and represented an attractive pool of tens of thousands of prospective new young adult customers. The size and appeal of this target market opened the door to partnerships with large financial institutions and yielded the development of more safe and affordable transactional accounts.

Lesson 3: Identify programs that push out funds, particularly through recurring payments

A key lesson in brokering large-scale access to banking is to identify opportunities that involve control over the distribution of money, ideally recurring flows. New York City's Opportunity NYC, which measured the impact from recurring cash incentives, was just such a program. By requiring program participants to deposit their incentive money into a bank account—in the case of the unbanked, the Opportunity NYC Account—the City assured that funds were not reduced by check cashing and other fringe service fees. The promise of recurring payments from a trusted source further leveraged meaningful participation from a broad range of mainstream financial institutions in offering the Opportunity NYC Account.

This lesson applies to the SYEP example, as well. As described, tens of thousands of young adults participate in New York's SYEP, with the City pushing out recurring payroll checks totaling \$31 million.¹⁷ OFE worked with financial institutions to create the multifunctional, safe NYC First Account for this program, and more than 2,000 SYEP participants opened this account to receive their wages.

Another income stream opportunity was the City's own direct payment to over 300,000 employees and independent contractors. NYC Direct Deposit, OFE's most recent program, leverages consistent payroll payments as a way to connect unbanked employees to a bank account whose terms meet our standard of ensuring free, safe, ongoing access to earnings.

Lesson 4: Take advantage of the enrollment structure of the program

As a key tenet of behavioral economics, taking the necessary action is most likely when it is easiest, and this has certainly proven true for bank account enrollment.

In the example of the City's Opportunity NYC program, participants essentially had to deposit their incentive payments directly into a bank account. Unbanked participants were led to enroll in the City's negotiated Opportunity NYC Account as part of general program enrollment processes. Financial institutions were on-site to facilitate account opening.

With NYC Direct Deposit we sought to leverage the onboarding moment of new City employees by hosting account-opening events in conjunction with new employee orientation sessions. Such sessions also included financial education describing the benefits of banking, so employees would be less likely to postpone that action.

Our work with the New York City Housing Authority (NYCHA), in particular its Office of Resident Economic Empowerment and Sustainability (REES) which strives to help residents increase their incomes and assets, also focuses on the right moments to introduce bank account opening to residents. One such moment is when NYCHA residents pay their rent at a partner financial institution. Many of the banks included in NYCHA's partner list are also OFE partners that offer the NYC SafeStart Account. NYCHA residents are educated about the account through an outreach campaign, and branch staff is asked to highlight this connection when NYCHA residents come in to pay their rent.

Spotlight: Opportunity NYC

In 2007, New York City's conditional cash transfer pilot (Opportunity NYC) offered cash incentives in an attempt to break the cycle of poverty. The stream of monetary rewards provided an opportunity to enroll participants in a banking account through which they could receive their payments and ensure that participants would not be spending money to access these rewards. As a result, the Opportunity NYC Account was born. This specially designed account offered no overdraft protection, low (or no) minimum balance requirements, and no monthly fees.

Less than half of Opportunity NYC's target population had a bank or credit union account upon program inception. However, 18 months later, MDRC* reported that the program increased a participant's bank account ownership by 22 percent and participants' average savings by \$221.

Furthermore, participants in Family Rewards (formerly Opportunity NYC) exhibited greater positive financial services usage behaviors compared to an identical group who did not participate in this program. According to MDRC†, Opportunity NYC decreased participants' reliance on check cashers: seven percent less used them to cash checks; five percent less used them to pay bills.

** MDRC, a nonpartisan social policy research firm, evaluated the Opportunity NYC program. The evaluation was based on a Randomized Control Trial (RCT). Participants were randomly assigned to either the program group, which received the incentives, or the control group, which was not offered incentives.*

† MDRC Opportunity NYC Report, 2010

IV. Implications for the Future

The supervitamin integration approach offers successful banking access opportunities to assist social service providers to more effectively meet their own programmatic outcomes. This ensures that valuable dollars provided to program participants are managed effectively through a banking account while also making it easier for participants to connect to mainstream financial institutions and strengthen their financial foundation.

Our next stage of banking access supervitamin work will focus on two promising areas:

1. Expanding employer-based access to banking initiatives
2. Boosting immigrant service delivery by leveraging access to banking opportunities

The latter builds upon OFE's forthcoming research, the *Immigrant Financial Services Study*. Real opportunity also will be found in the U.S. Department of the Treasury's upcoming requirement, beginning March 2013, that all federal benefit and non-tax payments, such as Social Security and Supplemental Security Income (SSI) payments, be made electronically rather than through paper checks.

Spotlight: Working with the Treasury Department on the Banking Supervitamin Effect

The U.S. Department of the Treasury has funded OFE's pilot with the New York City Department of Parks & Recreation to assist in and study the opening of direct deposit banking accounts for those participating in the Parks Opportunity Program (POP), the City's largest public job training program. During the pilot, interested participants met with bankers on-site to open an account and enroll in direct deposit. During orientation sessions, information about the account was provided and pilot project staff dedicated time to explaining the account and its benefits. Complete research results are expected to be available in fall 2012, but even initial participation data shows dramatic impact. Approximately 55 percent of participants signed up for direct deposit, largely by selecting OFE's negotiated safe account available through the NYC Direct Deposit program; in comparison, past uptake was only 15 percent. Recognizing the beneficial value a bank account was having on their job training participants, POP program managers chose to permanently integrate this new banking and related financial counseling integration even after completion of the Treasury pilot.

Endnotes

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- 13 FDIC. 2009. National Survey of Unbanked and Underbanked Households. Available at: www.economicinclusion.gov
- 14 OFE. 2008. Neighborhood Financial Services Study; The Pew Health Group. (2010) "Unbanked by Choice: A look at how low-income Los Angeles households manage the money they earn."
- 15 ChexSystems is an account verification service for financial institutions that provides reports indicating past bank account history, specifically fees incurred or mismanagement of an account. Financial institutions will use these reports to determine whether or not an applicant can open an account.
- 16 This is based on OFE focus groups with individuals who received financial counseling services at one of New York City's Financial Empowerment Centers, which provide free, one-on-one financial counseling. Participants were asked about their experiences at the Centers and also their thoughts on the NYC SafeStart Account.
- 17 NYC Department of Youth and Community Development, 2011 Annual Report. http://www.nyc.gov/html/dycd/downloads/pdf/Agency_Annual_Report_2011.pdf

