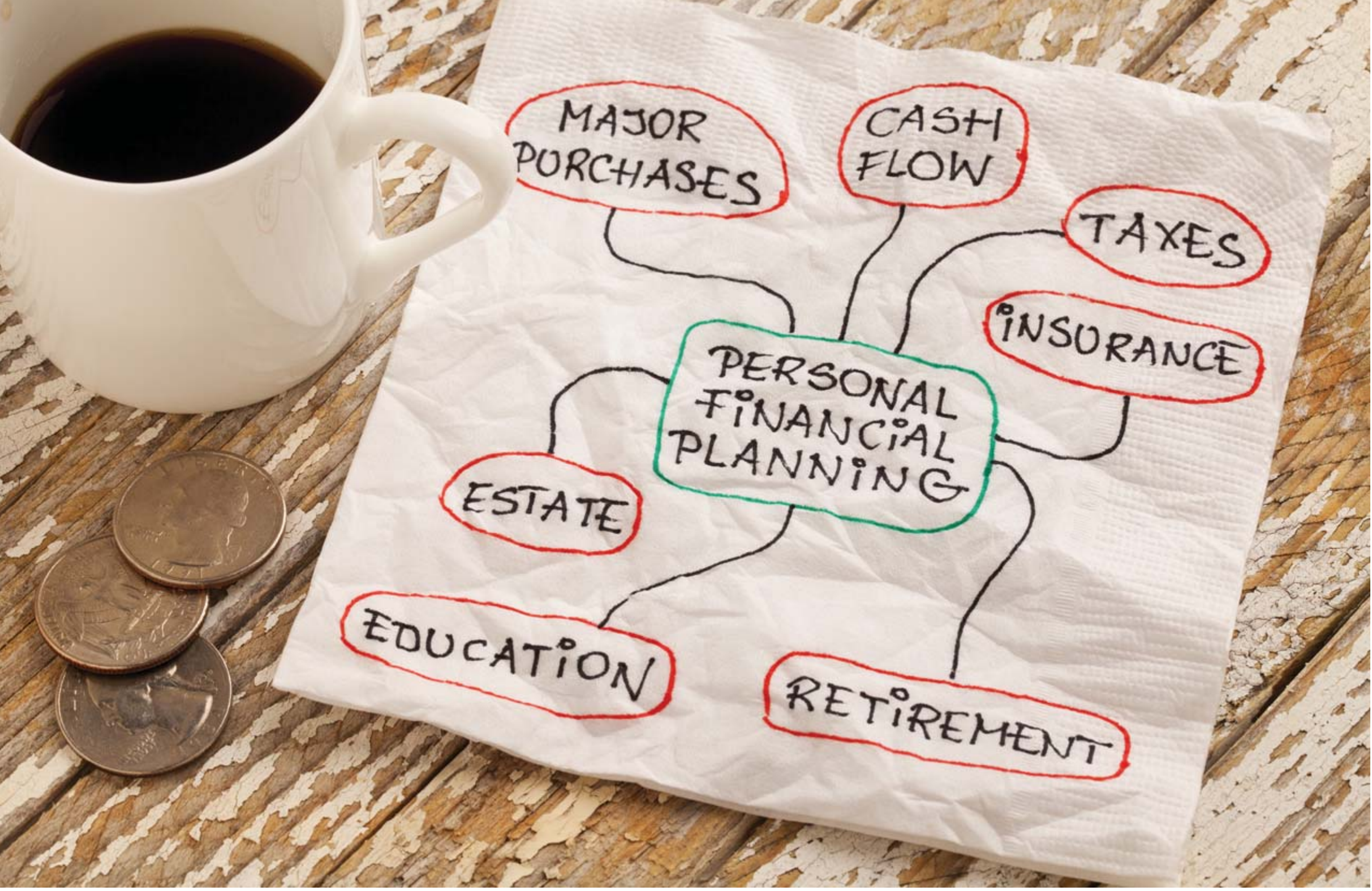

Local Government Solutions to Household Financial Instability:

The Supervitamin Effect

By Jonathan Mintz, Cities for Financial Empowerment Fund

Introduction

As the United States emerges from the recent recession, millions of American households find themselves blocked out of the financial mainstream. Relying on alternative financial services (AFS), such as payday loans and check cashing services, is expensive, draining the precious resources of families already struggling to make ends meet. Over the course of their careers, workers using check cashing services may pay as much as $40,000 in fees just to access their income. Further, when households are unable to borrow money at reasonable rates, it is far too easy fall into destructive debt patterns. In 2012 alone, households disconnected from mainstream financial services paid $89 billion in fees and interest in principal loaned, funds transacted, deposits held, and other financial services provided by AFS companies. The resulting debt becomes a major stumbling block for households trying to build the assets required to escape poverty.

As funding for traditional public services dwindles and demand for such support rises, local governments must do more with less and focus on programs with the most significant impact to help stabilize their regions. With public mandates to serve their entire cities, mayoral administrations can design antipoverty programs with financial empowerment services at scale that address the individual financial instability that underlies the vast majority of those seeking social services, producing widespread impact.

Cities have a particular interest in stabilizing household balance sheets in this manner, both to bolster the impact of individual service investments and to create and more resilient communities.

Integrating financial empowerment programming with other government and social services can lead to an impressive array of positive impacts for cites, as well, a concept dubbed the "Supervitamin effect." The Supervitamin approach is undergirded by three principles:

- Financial stability is fundamental to poverty alleviation, allowing individuals and families to better benefit from programs and services designed to improve, for example, employment prospects, avoid eviction or homelessness, or escape domestic violence.
- Financial stability helps families and individuals withstand financial shocks and setbacks, preserving progress accomplished through social service interventions and investments.
- Financial empowerment strategies should be adapted to serve unique client needs at key public program infrastructure opportunities.

In the last decade, municipal government leaders across the country have launched and integrated innovative Supervitamin programming within existing municipal services. These large scale efforts help families with low and moderate incomes stabilize their finances by helping them manage their money, reduce debt, access tax credits and other benefits, and connect to safe banking, saving, and asset building programs. Savings, which build assets, provide "overall economic security that can sustain an individual or family for month and years, not just days and weeks. Income and income supports such as housing subsidies and public benefits are necessary but not sufficient for financial stability." Households without savings and other assets that allow them to survive for three months after an interruption income live in "asset poverty."

Cities and mayors are uniquely positioned to lead a national financial empowerment movement that builds savings and assets in low- and moderate-income communities. Cities control program structure, resource disbursement, and direct client communication. Infrastructure adjustments and strategic partnerships leveraging these strengths help to introduce asset building tools into local social service provision and enhance the effects of traditional antipoverty efforts. The municipal financial empowerment approach combines technical and adaptive work to enable cities to embrace financial empowerment strategies, consider the most appropriate large-scale services within which to embed these strategies, and boost outcomes for individuals and families in the most cost-effective manner. Three municipal programs taking root across the country make the case for this integration approach:

"Cities and mayors are uniquely positioned to lead a national financial empowerment movement that builds savings and assets in low- and moderate-income communities."

Financial Empowerment Centers; the National Bank On 2.0 Initiative; and Summer Jobs Connect.

Financial Empowerment Centers

Developed during the Bloomberg Administration by the New York City Department of Consumer Affairs, Financial Empowerment Centers are considered the gold standard of financial education and counseling. Operated by nonprofit organizations contracted through a city, the Centers offer free, professional, one-on-one financial counseling, often connected through other public services, to work directly with residents to address both their current financial challenges and plan for the future. Clients receive direct assistance with money management, budgeting, reducing debt, establishing and improving credit, connecting to safe and affordable banking services, building savings, and referrals to other services and organizations. Counselors are professionally trained, and support their clients in navigating complex financial decisions about saving, budgeting, credit, and debt. Equally important, financial counseling is integrated into existing public service provision through agencies addressing housing, homelessness, foreclosure prevention, workforce development, asset building, financial services access, and domestic violence prevention.

Through a $16.2 million investment from Bloomberg Philanthropies through the CFE Fund, the model has been replicated by city governments in Denver; Lansing, MI; Nashville; Philadelphia; and San Antonio. In only one year, these five cities have already provided 19,000 counseling sessions to over 8,000 people. As a result, collective household debt has been reduced by almost $5.5 million, and accumulated household savings has reached nearly $750,000.

The success of the Financial Empowerment Centers has encouraged other cities to replicate this crucial resource as a public service. With technical assistance from the CFE Fund, Financial Empowerment Centers are also being launched by municipal governments in Cleveland, Hartford, Hawai'i County, Los Angeles, Miami, San Francisco, and Seattle.

Financial Empowerment Centers help those who are facing significant barriers, such as those returning to a community after incarceration. For instance, one client at

"17 million adults do not have a bank account which they can use to deposit their earnings and pay bills. . . . over $320 billion is spent nationally on banking services outside the financial mainstream . . ."

the Lansing Financial Empowerment Center in Michigan sought work after serving a 30 year prison sentence. He had worked sporadically in landscaping after his release, but his criminal record and lack of technology skills limited his employment options. His initial financial goals were simply to be able to support himself, and to make and manage a budget. Given a community resource book and a list of employers open to hiring those with criminal backgrounds, he found part-time employment in fast food before his second counseling session. He then worked with the Financial Empowerment Center team to learn about banking basics. By his third visit, he had obtained a second part-time job and opened a savings account. Within seven months, he also opened a checking account with direct deposit and a debit card, and he was able to use his savings to move out of parole housing and into an apartment.

National Bank On 2.0 Initiative

Millions of Americans would benefit from connecting or reconnecting to the financial mainstream as the Lansing program participant did. According to the FDIC, 17 million adults do not have a bank account which they can use to deposit their earnings and pay bills. The Center for Financial Services Innovation reports that over $320 billion is spent nationally on banking services outside the financial mainstream, often on predatory lending vehicles that trap people in expensive cycles of fees and penalties.

To address the economic impact of some communities' lack of access to mainstream financial institutions, municipal leaders around the country began local "Bank On" programs, partnering with local and national banks, credit unions, prepaid card providers, and nonprofit community organizations to provide low-income underbanked and unbanked people with safe, affordable starter or "second chance" bank accounts and access to financial education. In addition to connecting individuals to low-cost bank accounts, Bank On programs lead public awareness campaigns and targeted outreach efforts. Bank On seeks to correct the various barriers to financial access by ensuring there are products available to meet consumers' needs and by empowering consumers to safely use those products. Today there are approximately 100 local Bank On coalitions led by city, county, or state governments and nonprofits.

In the next phase of this municipal banking access approach, these programs seek to accomplish the following:

- Solidify key government, nonprofit, and banking partnerships to prepare appropriate financial services and programmatic opportunities;
- Research what kinds of products and services are both practical for large scale banking approaches (including technological opportunities), and effective for achieving financial stability and growth in target populations;
- Develop program designs that focus on government integration of safe banking opportunities, products, and services, such as subsidized job programs like summer youth employment and other financial disbursement;
- Test different approaches to partner cultivation, program design, and communications strategies to arrive at the most effective approach or set of approaches for a public Bank On 2.0 program; and
- Prepare the framework for a program that reflects the research and testing completed during the planning grant period.

Summer Jobs Connect

One large scale pilot program of Bank On 2.0 is Summer Jobs Connect which supports 1,800 young adults seeking summer employment, enhancing their job search experience with additional programming on safe and appropriate banking products, services, and financial education. Through Summer Jobs Connect, the cities of New York, Miami, Chicago, Los Angeles, and San Francisco are working with nonprofit program partners to examine how their summer youth employment programs can be enhanced by incorporating access to banking, electronic payment, and financial capability training. These activities can prepare low-income youth between the ages of 14 and 24 to enter the workforce with an eye to their future financial stability. Beyond a seasonal paycheck, Summer Jobs Connect can help to set students up for lifelong success by working with them to instill positive financial habits and improve access to safe banking products and strategies.

Cities participating in Summer Jobs Connect will demonstrate the role that connections to increased work opportunities and financial education play on setting young adults up for long-term achievement. Among the many positive effects summer employment has on young people, the ability to earn money and supplement family income is a particularly significant outcome. When young people earn their first paychecks and learn to manage tight budgets, access to safe banking, financial education and empowerment services can have a truly profound impact on lifetime savings and money management skills.[1] Summer Jobs Connect will be the first youth employment program to integrate financial empowerment directly into the program experience, making it a promising new way to set up disadvantaged youth for long-term success.

Challenges

Though much progress has been made, the field of municipal financial empowerment is still young and often considered secondary to traditional antipoverty funding approaches. In order to redesign old systems and make them more effective and constructive, it is essential to identify leaders who will truly champion changing the status quo, work with new programmatic partners to overcome field resistance to change, and take bold measures to achieve citywide scale. Re-envisioning a summer jobs program, for example, to also become a banking access program requires program leads to manage new priorities, new partners and challenges, and broader expectations. The often-difficult transition from pilot to public policy, a process involving political strategy, multiple stakeholders, and strong leadership, requires careful navigation. New program structures must be stable enough to withstand shifts in municipal leadership and competing or even conflicting political interests.

A further challenge in establishing these programs across the country is finding genuine integration points with other social services and programs to help participants work toward more comprehensive financial empowerment that addresses various needs and barriers. Colocation of services alone cannot achieve optimal effects because of both substantial drop-off and a lack of coordinated information, so financial empowerment efforts must focus on identifying service flow opportunities that facilitate genuine integration methods.

"Combining financial empowerment work with social services is a powerful tool to help households build assets and gain control over their financial futures . . ."

Finally, it is crucial for the field to document the ways in which large scale financial empowerment initiatives transform lives on their own and also increase the effectiveness of other social service programs. Finding the right data indicators and addressing privacy issues are barriers to a full understanding of the impact of this work. Municipal programs across the country, with the support of the CFE Fund, are increasingly reorienting their financial empowerment work with this Supervitamin Effect strategy at the forefront of their funding, design, and evaluation strategies.

Conclusion

In the wake of the recent recession, individuals and families need more assistance achieving economic security than in prior decades. Combining financial empowerment work with social services is a powerful tool to help households build assets and gain control over their financial futures, and a key strategy for leveraging sustainable public investment. In offering innovative, effective, and efficient solutions to larger public challenges, these Supervitamin integrations offer both large scale solutions to individual and community financial instability, as well as cutting edge public investment strategies that offer new solutions to old problems. CI

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