Findings from the First Accounts Program

U.S. Department of the Treasury

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Executive Summary

The First Accounts program was initiated by the U.S. Department of the Treasury in 2001 to increase access to financial services among low- and moderate-income individuals without bank accounts. The primary goal of the First Accounts program was to increase the number of "unbanked" low and moderate income[1] individuals who open accounts at insured depository institutions (for the purposes of this report, this term includes insured credit unions) through the development of appropriate and replicable financial products and services. A secondary goal was to provide financial education to unbanked individuals.

The Department of the Treasury released a Notice of Funds Availability (NOFA) on December 27, 2001, inviting applications from organizations interested in implementing a First Accounts project in their area. Most proposed projects were collaborative efforts between several organizations committed to community development and improving the financial health of an area. The applicants were required to propose a new or expanded project to provide low-cost checking or savings accounts to "unbanked" low- and moderate-income individuals. In May 2002, the U.S. Department of the Treasury announced the grant awards: 15 awardees were selected from 231 applicants across 38 states.[2] Among the 15 awardees, the grant amounts ranged from $92,504 to $1,334,000 (the average grant was $563,816). Across all grantees, the target number of accounts to be opened through the program was 35,315. The goal was exceeded with 37,711 accounts opened through the program.[3] In most cases the First Accounts program was implemented for two years beginning in 2002, although some grants were extended beyond their original performance periods.

Half of the projects selected to receive grant awards were administered primarily by a community-based non-profit organization working in close partnership with one or more insured depository institutions (Boat People SOS, Center for Economic Progress, Institute for Social and Economic Development, Juma Ventures, Mile High United Way, Mission of Peace, and Native American Development Corporation). In other cases, the grantee was a financial institution that either managed the entire project or joined with nonprofit partner(s) that provided services such as financial education or community outreach (Fifth Third Bank, Legacy Bank, Latino Community Credit Union, and Members First Federal Credit Union). A county-level government extension service managed one program (DeKalb County Cooperative Extension Service). Finally, one grantee, the National Credit

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1 "Unbanked" is defined in the Treasury Notice of Funds Availability as someone who does not currently have an account at an insured depository institution. Insured depository institution is defined throughout this report as bank, savings association or thrift, or credit union. This report assumes, as certified by the grantees, that all participants met the eligibility standards for participation by virtue of being low- or moderate income and unbanked at the time of initiating participation.

2 A sixteenth grantee, Metropolitan Family Services, in Chicago, Illinois, was not part of the competitive selection process and is not included in this report .

3 One grantee, Institute for Social and Economic Development, had their grant period extended by one year, and opened an additional 124 accounts during the extension period, yielding a total of 37,835 across all grantees. This report focuses only on activities during the original grant period.

Union Foundation (NCUF), was awarded three grants for regional projects, identified in this report as NCUF-New York, NCUF-Texas, and NCUF-West, with the latter encompassing a seven-state region.

This report presents findings from an evaluation of the First Accounts program, carried out by Abt Associates Inc. and its subcontractor, the University of North Carolina's Center for Community Capitalism. The evaluation examined the strategies adopted by the First Accounts grantees and their partners to implement the First Accounts program; the projects' outcomes with respect to the numbers of accounts opened and account activity, and the experiences of a small sample of program participants. The report includes findings from each component of the evaluation as well as examples of innovative practices put in place by the First Accounts awardees.

Evaluation of the First Accounts Program

To assess the results of the First Accounts program and to evaluate the outcomes of both individual First Accounts grants and the program overall, the U.S. Department of the Treasury contracted with Abt Associates, who subcontracted with the Center for Community Capitalism (CCC) of the University of North Carolina to conduct part of the evaluation. The evaluation was designed to address the following questions about the First Accounts program:

- What financial services and products were offered to unbanked individuals?
- To whom were the services and products targeted? Why did the grantee choose to target this population?
- What barriers were identified to the target population's use of insured depository institutions?
- How were the services and products delivered? How was outreach or marketing conducted to recruit the target population?
- What outcomes did these individuals experience, with respect to opening accounts, using accounts for their transactions, and obtaining credit for major consumer purchases or business loans?
- How satisfied were these individuals with the services and products received?

The evaluation includes both an assessment of the effectiveness of each individual First Accounts grant project, as measured against each project's stated goals, and an overall assessment of the program's effectiveness. For each project, this research focused on: (1) whether the project was implemented as intended; (2) whether the project achieved the outcomes intended within the grant period; and (3) whether project participants were satisfied with the services they received. Individual case studies of each grantee are reported in Volume 2 of this report.

The study also includes an assessment of the overall effectiveness of the First Accounts program; the results of this cross-site assessment are the subject of this report. The overall assessment research was designed to identify the lessons learned from the experiences of the First Accounts grantees, including best practices, barriers to success, and recommendations for achieving the goal of improving access to financial services among low- and moderate-income individuals. We used several sources of data to conduct the evaluation, as follows:

- ***Background materials:*** We obtained project applications, grant agreements, quarterly reports, marketing materials, and other background information for each First Accounts project and used these to establish an understanding of the organization and operations of each project.
- ***Telephone and field interviews with grantee staff:*** We conducted interviews with grantee and partner staff at each First Accounts project, via telephone for nine projects and via field visit to six projects. (The projects visited in person were DeKalb County CES, Latino CCU, Legacy Bank, Mile High United Way, Mission of Peace, and NCUF-West.) During these interviews we collected information about the services provided to participants, experiences operating the project, and barriers to achieving project goals. The interviews were timed to occur near the end of the grant term.
- ***Account-level data:*** We worked with each First Accounts project to collect information on the accounts that were opened as part of the program. The purpose of this information was to assess the results of the program in terms of whether those who opened accounts maintained the accounts over time and accumulated any savings. The goal of this data collection was to obtain a list of all accounts opened over the course of the program (absent any identifying information about the account-holder), and details about each account (date opened, date closed, type of account, opening balance, and balance every six months after opening). Given the information available at each of the grantees and their financial partners, it was not possible to obtain the full complement of account data from all projects. In Chapter 4 we describe the data actually collected.
- ***Telephone interviews with a small number of First Accounts participants***: The evaluation design called for telephone interviews with up to nine participants in each project to collect information on their reasons for participating in the program, their use of project-provided banking services and alternative financial services, and their satisfaction with the First Accounts program. Because of concerns about the privacy of account-holders and the fact that provisions were not made when grants were awarded to obtain agreements to participate in the survey effort, significant challenges were encountered in completing these interviews. In the end, 72 interviews were completed with individuals that opened accounts among 12 grantees.

Literature on the Unbanked

A variety of surveys at both the national and market levels have provided information on the characteristics of the unbanked. These surveys have consistently found that, relative to the general population, the unbanked tend to have lower incomes, be younger, less educated, more likely to rent, and are more likely to be minorities. As roughly half of the unbanked previously had a checking or savings account, many of these individuals do have some banking experience.

These same surveys also provide fairly clear and consistent information on the reasons why individuals choose not to have accounts. While surveys differ in the range of explanations offered to respondents, in general a majority of the unbanked indicate that their primary reason for not having an account is either because they do not have enough money to warrant an account or because account costs are too high. Together these factors are cited by about two-thirds of the unbanked. The next most common reasons for being unbanked include a dislike for (or distrust of) financial institutions, the challenge of managing accounts, and an inability to open an account due to previous credit problems or lack of appropriate identification. Much less commonly cited is a lack of convenience in using financial institutions due to either location or hours of operation.

There have been a wide variety of efforts to bring the unbanked into the banking system that in one way or another attempt to respond to these reasons for being unbanked. These include:

- Offering low-cost accounts to address concerns about the high costs of accounts;
- Creating partnerships between traditional financial institutions and check cashing firms in recognition that, while check cashing services may be an appropriate choice for some low-income individuals, the partnership can provide savings vehicles for these clients while also establishing a positive relationship with mainstream financial institutions;
- Opening accounts at free federal income tax preparation clinics that provide an opportunity to identify those unbanked persons who have sufficient savings to benefit from an account, such as those receiving tax refunds through the earned income tax credit; and
- Providing free financial education that provides information about the costs of accounts compared to check cashers, educates individuals about how to manage these accounts, alleviates distrust of financial institutions, and promotes efforts to save.

Although a number of published articles have described efforts of these types to reach the unbanked, there is very little research that has assessed the effectiveness of these efforts. One study of participants in financial education classes found that a sizeable majority of unbanked participants intended to open accounts after the classes ended. Furthermore, the participants most likely to report they would open an account were those who strongly agreed that the course had made them more financially knowledgeable. However, the study did not gather information on whether participants actually followed through in opening an account.

The most thorough studies on the effectiveness of efforts to reach the unbanked are those that have followed participants in free tax preparation clinics. One of the key findings of these studies is that a relatively small share of the unbanked population takes advantage of the availability of low-cost accounts to receive their tax refunds. Furthermore, of those who do open accounts, only a few are found to use the accounts either for savings or routine transactions. These results highlight the challenges of getting the unbanked to open accounts. As several recent studies have argued, it may be rational for many of the unbanked to forego accounts given their low levels of income, the availability of low-cost options for check cashing through financial institutions, grocery stores, and other retail stores, the potentially high cost of accounts if overdrafts occur, and the relatively low acceptance of personal checks in their communities. One lesson from these studies is that efforts to reach the unbanked should not expect to succeed in having a large share of clients persuaded to immediately open an account.

Studies of efforts to reach the unbanked through tax preparation clinics find that many of the unbanked made little use of their accounts. Nevertheless, such efforts yielded other positive results. Many survey respondents did report that having their refunds deposited in an account made them more mindful of how the funds were used. In addition, their experience with the bank was generally positive, potentially helping to make them more open to having an account in the future. Finally, for a small share of participants the accounts were an important first step in establishing an ongoing relationship with a bank.

Contrasting Models for Serving the Unbanked

The First Accounts grantees used a variety of program approaches to operate First Accounts. We consider that there were 16 separate programs implemented under First Accounts, one more than the number of grants awarded. Specifically, we treat the NCUF-West grant as offering two distinct program models: NCUF-California and NCUF-Washington. The diversity of approaches observed among the First Accounts programs reflected the substantial degree of discretion that grantees were allowed and encouraged by Treasury to exercise in designing and implementing their programs. This "natural experiment" provides a basis for drawing lessons about the relative advantages and disadvantages of alternative strategies for serving the unbanked.

Across the 16 program strategies, a number of patterns emerged. These patterns were often related to whether the program was agency-led or bank-led, with eight programs identified in each category. It is important to add that the bank-led programs where the grantee was either a financial institution with very strong community ties – e.g., Latino Community Credit Union (LCCU) and Legacy Bank – or a financial institution that worked closely with community-based partners – e.g., Fifth Third Bank in partnership with local Community Development Corporations (CDCs) – tended to resemble agency-led programs. Within the agency-led or bank-led programs, one can further distinguish between single-bank and multi-bank programs, although this feature (by itself) did not appear related to differences in program strategy.

The key points, with respect to program organization and strategies, are as follows:

- Most programs were generally targeted to low- and moderate-income individuals within the geographic service area. Other programs were targeted to particular demographic subpopulations of low- and moderate-income individuals as defined by age, race, or ethnicity. This was the case for three of the eight programs in both the agency-led and bank-led categories.
- Whether a program was generally or specifically targeted, the agency-led programs tended to focus their efforts on clients that were harder-to-serve than the bank-led programs, including those on ChexSystems[4] and those facing particular difficulties in gaining (or regaining) access to mainstream financial services.

[4] The ChexSystems, Inc. network is comprised of member financial institutions that regularly contribute information on mishandled checking and savings accounts to a central location. ChexSystems^{SM} shares this information among member institutions to help them assess the risk of opening new accounts. ChexSystems^{SM} only shares information with the member institutions and does not decide on new account openings. The decision whether to open an account is made by individual financial institutions.

- Many grantees found it difficult to recruit and retain staff with the necessary set of skills to perform all of the functions needed to recruit and serve unbanked individuals. Staff turnover was particularly problematic if it occurred among key senior staff at either the grantee or partner organization.
- A major challenge for agency-led efforts was coordinating their relationship with their banking partners to make sure that clients actually opened an account and, if they did, to ensure that the bank was able to attribute the new account to the First Accounts program. Other challenges in the agency-bank partnership included ensuring that financial institutions made available the agreed upon products and services to participants and establishing processes to identify cases where account-holders needed additional help to successfully manage their accounts.
- Virtually all of the grantees used their First Accounts grant funding to support marketing and outreach and the provision of financial education. Much less commonly, funds were used to expand branch or ATM locations or to develop or refine products or services for the target population.
- As to outreach efforts, the agency-led programs had the advantage of being able to recruit First Accounts participants from within their current clientele. Such internal and word-of-mouth referrals were effective channels for recruitment. Those grantees that were successful in conducting additional outreach – including several of the bank-led programs – did so by engaging community-based intermediary organizations or individuals already trusted within the target population. Ultimately, successful outreach efforts depended on the ability of the grantee and its partners to inform the target population about the program in a way that responded to their needs and where this message was delivered through a trusted source.
- It was the agency-led programs that tended to give greater emphasis to the financial education component of their First Accounts program. All four of the agency-led programs with a single bank partner required that participants complete their financial education course before opening an account.
- Most programs that initially planned to offer multi-session financial education classes found that their target population was not interested in investing that much time in this effort. As a result, many grantees revised their curricula to be able to deliver the basic message in a single short session. Most grantees also found it important to offer their financial education sessions at locations within the community. Many successful efforts were designed to deliver financial education within other existing education or social service programs with a high share of unbanked participants rather than rely on the unbanked to take the initiative to attend a financial education class.
- In addition to the basic financial product offered through First Accounts – a low-cost checking or savings account – most programs offered other financial products and services to participants. This was especially true in agency-led programs, where tax preparation services and individual development accounts were sometimes explicitly coupled with First Accounts services. A number of the bank-led programs also offered low-cost money orders, wire transfers, consumer loans, or other services in conjunction with the basic checking or savings account provided under First Accounts. In both the agency-led and bank-led programs these

services were an effective means of drawing participants into First Accounts by meeting specific financial needs.

Account Openings and Account Activity

Although it is not possible to say definitively that First Accounts resulted in a specific number of accounts that would not have been opened otherwise, overall the program did help more than 37,000 people to open accounts, exceeding the goal of opening 35,515 accounts. Some bank-led programs served a mostly bank-ready population; other programs helped people overcome significant barriers to opening an account.

Most First Accounts participants opened savings accounts. Such accounts provided a vehicle for savings and a means of cashing checks inexpensively, even though these accounts could not be used for routine payments. This is a logical first step for many unbanked persons, who are unfamiliar with established financial institutions and may have concerns about the costs of overdrawing a checking account.

The account information that we collected for the evaluation—covering nearly 24,000 accounts--indicates that not all of those who opened accounts actually used the accounts over time. Some accounts were drawn down over time or remained unused after one or several initial small deposits. However, those accounts that remained open, even if unused or drawn down, may have some future benefit for the account-holders because they are able to cash checks with little expense, are establishing a positive history of account management, have access to a safe place to store funds, may be encouraged to save by having a place to store funds while earning interest, and are initiating a banking relationship that could provide a basis for future bank use.

In the available data, we find that many of those who opened accounts retained their accounts through the end of the program, which was longer than eight months on average. Although some of those accounts appeared to be unused, many showed upward and downward changes in account balances indicating some account usage. Median balances were not large for either checking or savings accounts. Savings accounts with large early balances and checking accounts in general were more likely to show a downward change in balance than an upward change. However, this is not necessarily a negative outcome. Participants who used their checking accounts for transactions would have saved fees they might otherwise have incurred to purchase money orders or to cash checks. They also may have saved money by direct depositing tax refunds or credits instead of using rapid refund loans or check cashing services. Participants may also have put money they already had saved into insured institutions. These participants would likely have been spending this money anyway, but having an account lowered the cost of doing so and may have helped account-holders to better prioritize their spending.[5]

Although the programs offered by grantees varied significantly in approach and products, the account-level data do not by themselves illuminate obvious program successes or failures. The

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5 Beverly *et al.* (2001) document how unbanked households who opened an account to receive a tax refund report that having the account made their use of the refunds more purposeful and less likely to be spent on a whim than if the refunds were available as cash on hand.

general pattern of account openings, closures, and balances suggests a greater degree of account use for participants in the bank-led programs. This may reflect that the bank-led programs tended to attract and serve a more bank-ready segment of the unbanked population.

Participant Experiences

> "Without this program I do not know where I would have been financially. This has helped me turn my financial life around. … I do not use money orders. I have helped four people get accounts, and I recommend it to everyone." *(Members First Credit Union, First Accounts account-holder)*

The participant interviews conducted during the evaluation, although not representative of the entire population of participants in the First Accounts program, offer a deeper picture into why some people chose to participate, how they used their accounts, and how satisfied they were with the First Accounts program. The respondents to the survey were much more likely to have been assisted through smaller-scale, agency-led efforts than was true of First Accounts participants in general. In addition, respondents were much more likely than the average program participant to have opened a checking account (versus a savings account) and were more likely to have maintained these accounts over time. As a result, the interviews may best be interpreted as providing information on the experience of some of the more successful participants.

The majority of respondents had held accounts before participating in First Accounts, but for various reasons they had become unbanked. Many were drawn to the project through word-of-mouth or a community program in which they were involved, and had already been interested in opening an account. Respondents to the survey were more likely to open a checking account either alone or in combination with a savings account than to open a savings account alone. Survey respondents also reported fairly extensive use of these accounts, with large majorities reporting they used them to cash checks, pay bills, and save.

About half of those interviewed had used check cashers for some of their banking needs prior to opening their account. After opening the account, fewer than half of this group continued to use check cashers, and their use of other means of handling financial transactions (e.g., money orders, supermarkets, or cash) also substantially declined. Thus, at least for survey participants, opening these accounts was associated with a notable shift from the use of alternative financial service providers to using their bank for most financial needs. In fact, those with more resources and banking experience were likely to apply for additional financial services such as automobile loans or overdraft protection.

More than half of respondents reported that they had received financial education in conjunction with opening their accounts. The vast majority of these individuals were very satisfied with the education they received. Nonetheless, only a handful of respondents mentioned financial education when asked about the aspects of the program that they liked best.

All of the survey respondents were satisfied with First Accounts, noting convenience and good customer service as the key positive features of the program and the accounts. Nonetheless, some respondents did cite aspects of their experience that could have been improved, with the convenience and quality of service being the most commonly cited factors. These results suggest that these features are most important in determining satisfaction. Interestingly, the cost of services was not frequently cited as either a positive or negative feature of the program. Thus, at least among survey respondents, once these individuals began a relationship with a bank, they found the accounts to be useful and the experience to be positive.

Innovative and Promising Practices

The results of the First Accounts program highlight a number of innovative and promising approaches for helping to bring the unbanked into the financial mainstream. However, it is important to bear in mind that the term "unbanked" encompasses a great variety of individuals with a range of reasons for not having an account. As a result, there is no single approach for reaching the unbanked; rather a variety of approaches are needed that correspond to differing reasons for being unbanked.

Perhaps the most obvious approach for reaching the unbanked is to design products and services that address both the financial needs of different groups of the unbanked as well as their reasons for being unbanked. Among the most common reasons cited for not having an account are not writing enough checks to make having an account worthwhile and the belief that service charges and minimum balances are too high. Data collected on bank accounts opened through the First Accounts program reveal that a large majority of these accounts were savings accounts. This result highlights the fact that savings accounts are often a logical first step for the unbanked given their lower minimum balances and monthly fees and – perhaps most importantly – because they also do not expose account-holders to risk of high overdraft fees from bounced checks. While savings accounts do not provide the convenience of checking accounts for handling routine bill paying, they do protect account-holders from the theft of cash kept on hand and may help promote savings. It is also important to note that in most cases First Accounts grantees did not have to develop new low- or no-cost bank products to attract clients, as such products are now widely available.

Another important consideration in developing products to reach the unbanked is that many individuals cite mistrust of financial institutions as the primary reason for not having an account. Since savings accounts do not expose individuals to high costs they may also hold appeal as a means of getting the unbanked to establish a relationship with a bank that will build trust over time. Along these same lines, financial institutions may also offer products and services to non-account-holders as a way of establishing an initial relationship. One of the innovative practices identified was the provision of comparatively low-cost check cashing services, which was also made available to non-account-holders. This approach recognizes that the first step in reaching the unbanked may not be to get them to open an account, but rather to first develop a relationship through the provision of a commonly used financial service.

An important segment of the unbanked population consists of immigrants. Among the specific efforts identified to reach this population is assistance in obtaining tax identification numbers that can be used to open accounts for those without Social Security Numbers. Since many immigrants routinely transfer money to their home countries, one grantee, for example, offered cost-competitive wire transfer services as a means of increasing the value of having a relationship with a financial institution. Other grantees also offered such products but for one grantee this was a principal focus of the First Accounts project. By offering these services as well as by ensuring that staff are available who speak the immigrants' language, financial institutions can also help overcome immigrants' mistrust.

An important focus of the First Accounts program was to support the delivery of financial education to unbanked individuals. But while financial education obviously offers many direct benefits to recipients, the outcomes observed also suggest that, if financial education is to be used specifically as a means of drawing the unbanked into the financial mainstream, these services have to be carefully tailored to meet the needs of the specific groups targeted. In most cases, grantees that planned to offer in-depth financial education as the primary means of reaching the unbanked found that the lure of free educational services was not sufficient to attract their target clients. This experience highlights the fact that in-depth financial education is not likely to be a solution to the common barriers cited by the unbanked, such as accounts having high costs or being of limited usefulness for those with low incomes and virtually no savings. In fact, many grantees found that financial education was most effective when a brief session addressing these types of concerns was offered to a captive audience of those most likely to have an interest in a bank account, such as participants in homeownership, individual development account, workforce development, or free income tax preparation programs. On the other hand, in-depth financial education was most effective as a means of serving those who wanted to open a bank account but were prevented from doing so because of having failed in the past to properly manage an account. In these cases, in-depth financial education was often required by financial institutions to be eligible to open a checking account.

Another important contribution of the First Accounts program was to highlight the ways in which partnerships between community based organizations and financial institutions can help reach the unbanked. As already noted, one of the most common reasons given for not having an account is a lack of trust in financial institutions. The grantees' experience in the First Accounts programs shows that the reputation of community-based organizations as trustworthy advocates for the interests of the low-income and minority communities can be leveraged to help overcome unbanked individuals' wariness of financial institutions. However, one challenge in these partnerships is to ensure that the activities of the community-based organizations and their financial institution partners are closely coordinated to ensure that those interested in establishing an account are presented with an opportunity to follow through on this interest. Along these lines, one effective strategy was to provide a means for interested participants to open accounts on-site at the locations where financial education sessions were given.

Finally, the First Accounts program also points to a number of ways in which grants can help to create sustained efforts to reach the unbanked. Perhaps most importantly, the grants can be used to initiate a relationship between financial institutions and community-based organizations which is likely to be maintained over time if it proves to be mutually beneficial to these partners—as occurred in a number of First Accounts projects. In other cases, the grant helped demonstrate the business viability of pursuing unbanked customers, which will become an established part of the financial institution's marketing efforts. The First Accounts program also shows how grants can help support greater sustained outreach to the unbanked by supporting the creation of new branches and ATMs in low-income and minority communities.