

***Many lower-income Americans rely on costly “fringe” financial services rather than the mainstream banking system. Even when these consumers open credit union accounts with more advantageous fees and terms, they don’t always make the accounts part of their day-to-day lives. With a few behavioral techniques, they can be encouraged to act on their intentions and use credit union products and services to improve their financial health.***

### Summary

Some of the most expensive financial services in the U.S. are targeted at consumers who can least afford to use them. Despite the efforts of policymakers, philanthropists and practitioners working in the field of financial inclusion, many consumers continue to use higher-fee “fringe” alternatives such as payday loans and check-cashing services.

Helping people with lower incomes build healthy financial futures is the primary focus of New York-based Neighborhood Trust Financial Partners, which offers money-related counseling and support services through a variety of channels. The nonprofit is affiliated with a community development financial institution, the Neighborhood Trust Federal Credit Union, and partners with other credit unions in the New York metropolitan area.

As part of a Neighborhood Trust financial education program called *Getting Ahead*, workshop participants had the opportunity to open credit union accounts with favorable fee structures. However, while many of these new accountholders made initial deposits, they often stopped using their accounts once the course ended, forgoing the chance to take full advantage of the benefits on offer.

To address the challenge of low uptake and usage of credit union services, the BETA (Behavioral Economics Technical Assistance) Project – funded by the Citi Foundation – brought together Neighborhood Trust with the Corporation for Enterprise Development (CFED) and ideas42. Together, we developed a unique behavioral intervention to help consumers make better use of their accounts and improve their financial health.

### Diagnosing bottlenecks

After observing the *Getting Ahead* program in action, we identified several behavioral bottlenecks that thwarted people from fully embracing their credit union accounts.

First, although participants were guided through the process of opening an account, they didn’t take the initial actions required to begin using it. Neighborhood Trust’s remote enrollment process was smooth and simple, but it lacked an adequate follow-up component to help new accountholders identify and plan out next steps such as setting up direct deposits, locating nearby ATMs, adding to their savings and so on. The action steps that participants did identify – for example, a commitment to spend less and save more – were often too abstract or vague to put into practice.

### Highlights

- ▶ Payday loans and check-cashing services are often used most by the people that can least afford them
- ▶ There are alternatives available, such as credit union accounts with more favorable fee structures
- ▶ However, engagement with of these accounts sometimes remains low

What's more, by the end of the program, as participants returned to their busy lives, attention had shifted away from account use. When the benefits were still top of mind, new clients may have intended to start using their accounts regularly. But once the sessions wrapped up, in the absence of concrete, actionable plans, those intentions soon faded. And with the only reminders coming in the form of quarterly account statements, it was unlikely that the drop-off would be reversed.

Lastly, some new clients appeared to be deterred by a number of unwelcome hassles and small barriers – including limited locations for depositing funds, as well as the distance between their homes and the nearest physical branches – that made it difficult to routinely access their accounts.

## Crafting solutions

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Based on the insights gained through engaging with Neighborhood Trust's clients and assessing its services, we created an intervention to address each of the main behavioral barriers with specially designed course materials:

### 1. Simple plan-making activities.

Participants in the *Getting Ahead* program were asked to create "Action Plans" identifying tasks they would complete between workshop sessions. We broke this process down into smaller, more granular steps that were easier to begin and complete. And we provided plan-making prompts to help them systematically map out clearer strategies for achieving their financial goals.

### 2. A document pouch to make plans more accessible.

We also gave participants a sturdy document pouch to hold their Action Plans. We hoped this would remind them to complete the next required planning steps before each workshop session – and to bring along the necessary information as they performed these tasks.

### 3. A convenient account information card.

The final component of our intervention was a personalized, easy-to-use account information card. This included a place for clients to record their key account details, along with contact information for their *Getting Ahead* instructor and clear directions to their nearest credit union branch. The compact card could easily be carried in a wallet or purse for quick reference.

## Promising results

After implementing our behaviorally informed solutions, we evaluated the difference in outcomes between a treatment and a comparison group. While the format and size of the *Getting Ahead* course made it impossible to conduct a randomized trial, the results were encouraging. Among clients in the treatment group who opened a credit union account, 52% went on to conduct at least two transactions, in contrast to the 15% follow-through rate in the comparison group. In fact, treatment group accountholders averaged about 11 transactions per month, compared to about 1.4 transactions per month in the comparison group.

In addition, we received positive feedback from both *Getting Ahead* clients and instructors. Within the treatment group, 92% of clients completed an Action Plan during their financial education course. When asked to rate the usefulness of the plan, 99% of respondents ranked it 3 or higher on a five-point scale, and 49% gave it a top mark of 5. Instructors recommended that Neighborhood Trust continue using the intervention materials, with some modifications, after the trial period ended.

These proof-of-concept results, while not conclusive given the scale of the test, are promising. And they're corroborated by other, similarly designed behavioral interventions with underbanked populations, such as the collaboration between ideas42 and the Grameen Bank Project in the Philippines.

The insights from our Neighborhood Trust partnership underline the potential for creating significant positive change in the lives of lower-income consumers through the use of action-oriented plans and tools. By helping more people think through how and when they put their intentions into action, we can empower them to take charge of their financial affairs, steer clear of costly fringe services and make measurable progress toward their long-term goals.