

## Improving Relationships with Financial Institutions: Evidence on the Effectiveness of Financial Education from a “Second Chance” Program

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## Challenges of Being Unbanked

- Unbanked usually pay high costs for check cashing and electronic money transfers.
- Unbanked become victims of financial scams and predatory lending for their short-term loan needs.
- Establishing banking relationships is a key element for financial stability and building financial assets.
- Unbanked may improve their credit-risk profiles and gain access to lower-cost sources of credit by joining the mainstream financial system.

## Our Purpose

- Investigate the success of the Get Checking™ program in improving financial management behavior of the participants.
- Study the change of participants' actual behavior in terms of account usage after the completion of the program.

## The Get Checking™ Program

- A “second chance” program that aims to provide financial education and access to mainstream financial services to consumers who were reported to ChexSystems by a previous financial institution for account abuse or mismanagement.
- Participants can open a checking or savings account at any participating financial institution after completion of a six-hour course and payment of any money owed to the financial institution.

### What do we know about unbanked?

- Significant differences between those who have a checking account and those do not have a checking account.
  - ↳ Those without a checking account are more likely to be headed by younger and single adults, by Blacks and Hispanics, and have lower household income.
- More than half of households without a checking account reported that they once had a checking account.
- Significant differences between those who once had a checking account and those who have never had a checking account.
  - ↳ Those households who once had a checking account are less likely to be headed by Whites and to have higher household income.

### What do we know about unbanked?

Table 1: The 2004 SCF summary statistics for reasons for not having a checking account.

	Unbanked N=393	Unbanked who used to have a checking account N=208	Unbanked who never had a checking account N=185	
Reason for not having a checking account:				
Do not write enough checks to make it worthwhile	28.09	24.44	32.09	*
Minimum balance too high	5.29	6.56	3.89	
Do not like dealing with banks	21.98	19.91	24.25	
Service charges too high	12.58	11.45	13.81	
Can't manage/balance a checking account	6.22	10.50	1.53	***
No bank has convenient hours or location	1.40	2.44	0.27	*
Don't have enough money	14.55	12.64	16.65	
Credit problems	2.60	4.32	0.73	**
Does not need/want a checking account	4.96	4.82	5.11	
Other reason	2.33	2.92	1.67	

Table 2: Descriptive statistics – demographics

Variable name	End-of-session evaluation N=1,483	Follow-up survey N=157		Whites N=83	Non-whites N=72
Age					
< 25	22.05	14.65	*	16.87	12.50
25-34	38.61	28.03	**	26.51	29.17
35-44	23.86	29.30	**	28.92	29.17
45-55	12.58	20.38	**	19.28	22.22
> 55	2.89	7.64	**	8.42	6.94
Male	44.12	36.77	*	50.00	22.54
Non-white	50.80	46.45		---	---
Household income					
0-18,870	20.56	18.18		19.51	16.90
18,871-31,450	32.84	32.47		30.49	35.21
31,451-50,320	25.30	24.68		24.39	25.35
Above 50,321	21.30	24.67		25.61	22.54
Highest confidence level of					
Maintaining check register	84.20	---		---	---
Balancing with bank statement	80.20	---		---	---
Talking about saving goals	75.70	---		---	---
Talking about credit needs	74.40	---		---	---

Table 3: Descriptive statistics – accounts & financial management behavior

Variable name	Follow-up survey
Opened checking account	97.45
Checking account still open	90.45
Opened saving account	56.95
Saving account still open	54.78
Asset accounts	21.02
Certificates of deposit	5.10
Retirement savings	6.40
Other asset accounts	10.19
Loan accounts	16.56
Mortgage	7.00
Car loan	8.90
Other loan accounts	4.46

Table 3: Descriptive statistics – accounts & financial management behavior (continued)

Variable name	Follow-up Survey
Restitution completed	
1 month	40.38
2-3 months	5.77
4-5 months	1.92
6 months	1.92
Did not owe	39.10
Still repaying	10.90
Differences in behavior	
Recording	74.52
Reconciling	52.87
Budgeting	66.88
Communicating	44.59
Cost of cashing paychecks and money orders	
No cost	34.86
Median of nonzero	\$16.00
Mean of nonzero	\$23.48
Number of checks cashed (monthly)	2.86
Number of money orders (monthly)	5.48

### Results: Changes in Financial Management Behavior

- Recording transactions (keeping an up-to-date check register or a record of ATM or debit card transactions):  
male (+), nonwhite (+)
- Reconciling bank statements with check register:  
age (+), income (+)
- Planning a budget (working to achieve a written financial goal or managing income and expenses to meet financial goals or using a written spending plan):  
age (+), income (+)
- Contacting financial institutions (communicating with the financial institution):  
nonwhite (+)

### Results: Changes in Behavior in terms of Account Usage

- Determinants of opening a saving account:  
household size (-), income (+)
- Determinants of opening an asset account:  
age (-), non-white (+), changes in financial management behavior (+), non-white respondents who contacted a financial institution (+)
- Determinants of opening a loan account:  
age (-), male (+), non-white (-), communication (+), white respondents who contacted a financial institution (+)

### Conclusions

- More than 90 percent of Get Checking™ participants opened a checking account and still had the account open at the time survey was conducted.
- The percentage of the participants who opened a savings account were comparable to the national averages of consumers with saving accounts.
- Non-whites and young adults can benefit the most from financial management education.
- The effect of financial management behavior on the likelihood of opening an asset and loan account varied by the race of the respondent.

### **Our suggestions for future study**

- Follow-up surveys should include information on the amount of assets accumulated in the savings and assets accounts.
- A future study should investigate why we observe differences in the determinants of having a savings and asset accounts.
- A future study should investigate why improving relationships with financial institutions actually benefit Whites more than Non-whites in terms of obtaining credit.
- A future study should investigate how some respondents manage without having any cost for cashing checks and buying money orders.