Improving Outcomes with Behavioral Economics

CFED
October 18, 2013
The Behavioral Economics Technical Assistance (BETA) Project

An initiative to build the capacity of community based, non-profit financial programs that want to apply insights and lessons from behavioral economics to their own products and services.

BETAProject@cfed.org

http://cfed.org/knowledge_center/research/behavioral_economics/beta_project/
Project Partners

- cfed
  expanding economic opportunity
- ideas42
- citi

2013 Test Sites

- ACCION
- cleveland housing network
- NEIGHBORHOOD TRUST FINANCIAL PARTNERS
Panelists

Speakers:
- Matthew Darling, ideas42
- Brigid Brannigan, Neighborhood Trust Financial Partners
- Pahniti Tosuksri, Cleveland Housing Network
- Catherine Meyrat, InnoStratX

Moderator:
- Pamela Chan, CFED
FIRST, A QUESTION
Please list as many white things as you can

(For Example:)

Milk  Snow

Please list as many white things as you can

(For Example:)

Milk  Snow
INHIBITION

Milk is on your mind

Think of things that are white

Mind is Blank
GOAL INHIBITION
HOW IS THIS AN ISSUE IN REAL LIFE WITH REAL PROBLEMS

What is the second leading cause of firefighter deaths on the job? (heart attacks are #1)

Vehicle accidents (20-25% of firefighter deaths)

79% were not wearing seatbelts

Goal: Getting to fire quickly, prepared to fight the fire. Do this really well, but tunnel on this goal, and neglect other things
HOW IS THIS AN ISSUE IN REAL LIFE WITH REAL PROBLEMS WE MIGHT BE TRYING TO SOLVE

Give us a different perspective on the use of short term high interest rate credit by low-income people.

Scarcity creates goal inhibition and tunneling on immediate goal.

“Don’t you get it? I have to pay my rent now.”
BEHAVIORAL ECONOMICS IS ABOUT HOW WE REPRESENT PEOPLE

odd choice.
STORY OF THE B-17

“Excellent airmen commit no errors.”
HOW TO DESIGN TO HELP PEOPLE MAKE CHOICES
CHN’s Program & Services

- **Real Estate Development**
  ($400M in financing assembled)

- **Affordable Housing Programs**
  (5,000 units/2,300 new homeowners)

- **Energy Conservation**
  (100,000 jobs completed)

- **Safety Net & Support Services**
  (100,000+ jobs completed)

- **Training & Education**
  (11,000 individuals served)

"You see this plant? It’s grown & grown since I moved in. That’s how my life has been since I got involved with CHN."

-- Tonya Huggins, CHN resident
Mission:
Empower low-income individuals to become productive participants in the U.S. financial system and achieve their financial goals.

We Are:
A financial advisory service
A laboratory for innovation
A strategic partner
¿Qué es tan importante?
- ¿Qué podemos hacer con el crédito?
- Algunos términos del crédito
- Su puntaje de crédito FICO
- ¿Cómo afecta el comportamiento del cliente?
- Algunas conclusiones del cliente.
Accion Texas

• Has made over $150,000,000 in micro and small business loans
• Over $30,000,000 loans outstanding to more than 2,200 active clients
• Lends in 8 states with 21 offices
• Loans from $500-$250,000
Catherine Meyrat, Principal of InnoStratX: Innovative Strategies for Growth

• Led MMS, product and operational innovations to increase efficiency as VP of Strategy at Accion Texas

• Areas of specialization include:
  • Growing lending through innovation, efficiency, and new product development.
  • Identifying gaps in organizational strategy and implementing solutions to maximize growth and scale.
  • Integrating commercial products to speed loan processing time and reduce risk while increasing loan application conversion
  • Business planning for geographic expansion
Promise Loan Innovation

• Standardized quiz to test business knowledge and ethics
• Loans $5,000 or less
• Loan doesn’t take collateral or require proof of income
• Target market: businesses that operate on a cash basis and startups
• More than $1M loans made
• Only two loans charged off so far, slow pays frequent
Select Learnings

• Quality issues in the way client-facing staff were interacting with customers
• Some clients don’t understand how missing a loan payment will affect their credit score and their wallet
• Clients not on ACH wait until they receive the monthly statement to pay
• Monthly statements often sent weeks before due date, so client forgets
Cleveland Housing Network

Raffle & Monthly Reminders by Mail

Play for your purse, Pay by the 1st for the chance to win a $100 cash prize each month!

Offer valid from April through July 2013 only
Cleveland Housing Network

Late Payment Fee Waiver

Emergency Late Rent Fee Waiver

From: Cleveland Housing Network
To: [Jane Doe]
Tenant ID: [12345]

Use this waiver to cancel an already incurred late rent payment fee by bringing it to the rent payment office at Cleveland Housing Network.

This waiver is for one time use only.
Your account must be in good standing.
It cannot be used to waive any other fees or stop an eviction.
You must bring the waiver in-person to the CHN office (2999 Payne Avenue).

You choose when to use it.

Date Used: ____________________________

Resident Signature: ________________________
Neighborhood Trust
Action Plans & Pouch

Visit the NTFCU Branch

Make a plan to visit the Neighborhood Trust Federal Credit Union branch to manage your money or explore products and services.

Detach this sheet, fold it in half, and bring it with you on your visit.

<table>
<thead>
<tr>
<th>Why am I going?</th>
<th>□ Make a deposit; □ Withdraw cash; □ Check my balance; □ Money order; □ Learn about the Super Saver CD or credit products □ Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Which day will I go?</td>
<td>Su M T W Th F Sa Date: <em><strong>/</strong></em>/____</td>
</tr>
<tr>
<td>What time will I leave?</td>
<td>Time: <em><strong>:</strong></em> AM/PM</td>
</tr>
<tr>
<td>How will I get there?</td>
<td></td>
</tr>
</tbody>
</table>

If you already have an NTFCU account, make sure your debit card is in your wallet!

Make a Savings Deposit

Make a plan to visit your bank/credit union branch or ATM to make a deposit to savings.

Detach this sheet, fold it in half, and bring it with you on your visit.

| Where is my ATM or branch? | |
| Which day will I go? | Su M T W Th F Sa Date: ___/___/____ |
| What time will I leave? | Time: ___:___ AM/PM |
| How will I get there? | |
| How much will I deposit? | $_______ |

Make sure your debit card is in your wallet, and remember your PIN.

Washington Heights

1112 St. Nicholas Avenue
(166th St & St. Nicholas Ave Intersection)

M, T, F 9am-4pm
Th 9am-6pm
Sat 10am-2pm

M3, M100, Bx7
Neighborhood Trust

Simplified Direct Deposit & Auto-Transfers

**Direct Deposit Instructions**

To Whom It May Concern:

Please note our direct deposit instructions below for funds to be deposited in the name of:

__________________________

**Financial Institution:** Neighborhood Trust Federal Credit Union
1112 St. Nicholas Avenue
New York, NY 10032

<table>
<thead>
<tr>
<th>Account Type</th>
<th>Account Number</th>
<th>Routing Number</th>
<th>Deposit Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings (Share)</td>
<td>026083713</td>
<td></td>
<td>☐ Full Paycheck</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>☐ % of Paycheck</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>☐ $_________ Per Paycheck</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>☐ Remainder of Paycheck</td>
</tr>
</tbody>
</table>

**Employee Name:**

__________________________

**Employee Address:**

__________________________

**Social Security #:**

__________________________

**Signature**

__________________________

**Date**

__________________________

Please contact us with any questions at 212-740-0900.

**Recurring Auto-Transfer Request**

**Date:**

__________________________

**Member Name:**

__________________________

**Transfer FROM account:**

☐ Savings ☐ Checking

**Account Number:**

__________________________

**Transfer TO account:**

☐ Savings ☐ Checking

**Account Number:**

__________________________

**Transfer Amount:**

$_________ __

**Start Date:**

___ / ___ / ___

**Frequency:**

☐ Monthly (Transfers will occur on the same calendar day of the month—e.g., 1st, 15th, etc.)

☐ Every Two Weeks (Transfers will occur on the same day of the week—e.g., every other Friday)

☐ Weekly (Transfers will occur on the same day of the week—e.g., every Friday)

**Member Signature**

__________________________

1112 St. Nicholas Avenue, New York, NY 10032 • T 212 740 0900 • F 212 543 9120 • www.neighborhoodtrustcu.org
Neighborhood Trust
Revised Existing Class Materials

**STEP 2**
Use Financial Services Wisely

**TAKE ACTION TODAY!**

- [ ] I will reduce my Financial Services Expenses by $________ by taking this action: ____________________________, starting this week!
- [ ] I will begin to use other smart financial services to save or access my money:
- [ ] I will make a visit to the credit union: ____________________________ on ___/___/____
- [ ] I will take advantage of the Gateway Banking Package:
  - [ ] I will enroll in Direct Deposit
  - [ ] I will open a Savings Account and/or Checking Account
- [ ] Other: ____________________________

Name: ____________________________
Date: ___/___/____

**Other: ____________________________**

Name: ____________________________
Date: ___/___/____

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**STEP 2**
Use Financial Services Wisely

**TAKE ACTION TODAY!**

I will take the following action to reduce my financial services expenses:

- [ ] I will set up Direct Deposit
- [ ] I will split my Direct Deposit to save automatically
- [ ] I will find my nearest ATM to avoid out-of-network ATM fees
- [ ] I will bring my documents to class next week to open a Gateway Checking and/or Savings Account
- [ ] I will continue my Take Action Today goal from last week:

__________________________

Other: ____________________________

Name: ____________________________
Date: ___/___/____
**Accion Texas**

**Redesigned Statements & Reminders**

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**ACCION TEXAS**

P.O. Box 915222
Dallas, TX 75391-5222

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Your ACCION Texas Loan

Outstanding Balance: $99999.99

Last Payment Amount: $999.99

Last Payment Date: 4/22/2013

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Past Payment(s) Due

<table>
<thead>
<tr>
<th>Days</th>
<th>Total Past Due</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 – 59 Days</td>
<td>$0.00</td>
</tr>
<tr>
<td>60 – 89 Days</td>
<td>$0.00</td>
</tr>
<tr>
<td>90 – 119 Days</td>
<td>$0.00</td>
</tr>
<tr>
<td>120 + Days</td>
<td>$0.00</td>
</tr>
</tbody>
</table>

**If you pay by Automatic Bank Withdrawal, this statement is for information ONLY!**

If your payment is to be effective on Monday, please be advised that your bank may set your payment aside on Saturday so that the funds will not be available to you.

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To ensure proper credit, detach and return bottom portion with your payment. Please include your Loan number on your check, money order or cashier’s check. NO CASH PLEASE!

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**Make My Accion Loan Payment**

I will make a deposit at the bank in the amount of $ on the following date and time:

- **Due Date:** 05/21/2015
- **Current Amount Due:** $999.99
- **Amount Enclosed:** $599.99

**Payment Method (NO CASH PLEASE):**

- [ ] Check
- [ ] Money Order
- [ ] Cashier’s Check

**Online Payment:** www.acciontexas.org/make-a-payment

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Thanks for your business!

Julie Barrell, CEO
The BETA Project
Preliminary Results
The Raffle doubled On-time Payment

(All p<0.0001)
Cleveland Housing Network

Encouraging results on evictions

![Bar chart showing percent evicted with Control and Raffle groups. The chart indicates no significant difference between the groups.](chart.png)
Neighborhood Trust

Client Feedback on Action Plan

Did you complete an Action Plan?
How useful was it?

Completed Action Plan 92%

Did not complete Action Plan 8%

Rate 1 1%
Rate 3 15%
Rate 4 27%
Rate 5 49%
Neighborhood Trust

Client Feedback on the Pouch

Did you use the Pouch?
How useful was it?

- Did not use Pouch: 20%
- Used the Pouch: 80%

Rate 1: 12%
Rate 2: 15%
Rate 3: 13%
Rate 4: 16%
Rate 5: 24%
Accion Texas

Reminders worked well for people with lower bills

![Bar Chart]

- Payment is <$350
- Payment is >$350

(p<0.10)  (not significant)
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