



# Testimony on “The Benefits of Local Financial Empowerment Initiatives”

New York City Council Consumer Affairs Committee

Hearing on “Office of Financial Empowerment: Accomplishments, Programming, and Strategy Going Forward”

By Joe Valenti February 27, 2014

The Center for American Progress appreciates the opportunity to submit testimony to the New York City Council Committee on Consumer Affairs for its oversight hearing on the Office of Financial Empowerment.

The Center for American Progress, or CAP, is a progressive, nonpartisan think tank dedicated to improving the lives of Americans through ideas and action. As part of its development of policies to reduce poverty and ensure a stable middle class, CAP considers public issues that concern the financial well-being of low- and moderate-income households and promotes a financial system that works for all Americans.

The financial system has changed dramatically in the years since the Office of Financial Empowerment launched in 2006. Nearly 2,000 bank branches have closed nationwide since the end of 2008, and a Bloomberg analysis estimates that 93 percent of them were in zip codes with household incomes below the U.S. median of approximately \$53,000.<sup>1</sup> Technology has ushered in changes in how many Americans can access financial services. Instead of depositing a check at the bank or going to a check casher, many consumers can now deposit checks using a smartphone. In some parts of the country, more adults have cell phones than bank accounts.<sup>2</sup> And while prepaid cards were largely unheard of as a financial product a decade ago, millions of Americans now use them to manage money. In New York state, these cards are also used to distribute unemployment benefits and tax refunds.

While consumers often find it difficult to make ends meet, the stakes are also very high when they have difficulty managing their money. According to the U.S. Consumer Financial Protection Bureau, the average consumer who overdraws a bank account ultimately pays \$225 in overdraft or insufficient-funds fees over the course of one year.<sup>3</sup> It is estimated that two-thirds of all payday-loan borrowers take out more than seven loans in one year.<sup>4</sup> It is not surprising that families without savings are also much more likely to face hardships, such as food insecurity, forgone doctor visits, missed rent payments, and shut-off utilities, compared to those with even a small amount of savings, according to a 2010 Urban Institute analysis.<sup>5</sup>

New York City is well poised to deal with many of these broader changes in the financial marketplace because favorable consumer protections exist at both the state and city levels. The state of New York bans the high-cost payday and auto-title loans that plague low-income consumers in other parts of the country.<sup>6</sup> The state limits check-cashing fees at 1.95 percent, whereas many other states have a 3 percent to 5 percent cap. And the state also requires banks to offer basic accounts with a monthly fee not exceeding \$3.<sup>7</sup> A low-income worker could easily spend 10 times that amount each month in check-cashing and money-order fees. And the New York City Department of Consumer Affairs regulates many other types of consumer finance businesses such as pawnbrokers and used auto dealers through its licensing authority.

Yet favorable state and local laws are only part of the solution. CAP applauds the New York City Office of Financial Empowerment, or OFE, for being a national leader in protecting low-income consumers in the financial marketplace. As we noted in a report released in October 2013, local governments can and should do more to build financial security for their residents. Agencies such as OFE can coordinate with financial institutions on a neighborhood basis, thereby building trust with residents in communities that have often been underserved.<sup>8</sup> With nearly 1 million New York City residents lacking bank accounts, the efforts of the OFE have the potential to put millions of dollars back in the hands of residents—dollars that can then be saved or spent in the local economy.<sup>9</sup> Agencies can also offer one-on-one support with residents' financial challenges as New York City does with its system of Financial Empowerment Centers. These centers have served 25,000 clients, reduced their debt levels by \$14.7 million, and helped city residents save \$2.4 million.<sup>10</sup>

The benefits of the OFE also spill over into other government functions across the city. Having in-house expertise with the consumer financial needs and challenges of low-income residents can make other city programs work more effectively. Among other partnerships, OFE has worked to provide free checking accounts to employees of city agencies and some noncity employers and incorporated financial counseling into eviction prevention and workforce development programs by the city's Human Resources Administration and repayment programs by the New York City Housing Authority for residents who are behind on rent.<sup>11</sup> These efforts expand access to affordable financial services and encourage better financial management with the potential to reduce long-term reliance on public benefits.

New York City's OFE also helps federal programs work better. Through the earned income tax credit campaign, it has raised awareness of and improved access to free or low-cost tax preparation services that have delivered \$1 billion in tax refunds over the past 11 years.<sup>12</sup> Residents have accessed these refunds without spending money on high-cost tax preparation or "refund anticipation" fees, which erode the value of safety net programs.<sup>13</sup> And the SaveNYC demonstration project, which offers to match savings deposits by low-income tax filers, helped build the case for matching savings incentives as part of a broader tax reform effort.<sup>14</sup>

Locally grown initiatives such as New York's Office of Financial Empowerment help residents access better banking services, learn how to take control of their finances, and avoid the many hazards that make it difficult to get out of debt and save for the future. They also help federal policymakers and regulators who seek to address an increasingly complicated and challenging financial marketplace by acting as innovators and demonstrating best practices that can be replicated nationwide.

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## Endnotes

- 1 Frank Bass and Dakin Campbell, "Bank Branches Disappear From Poor Neighborhoods Like Longwood, Bronx," *Bloomberg Businessweek*, May 9, 2013, available at <http://www.businessweek.com/articles/2013-05-09/bank-branches-disappear-from-poor-neighborhoods-like-longwood-bronx>.
- 2 Joe Valenti, "Banking by Hand(set): Using Mobile Banking to Expand Financial Access" (Washington: Center for American Progress, 2013), available at <http://www.americanprogress.org/issues/economy/report/2013/06/13/66305/banking-by-handset/>.
- 3 Consumer Financial Protection Bureau, "CFPB Study of Overdraft Programs: A white paper of initial data findings" (2013), available at [http://files.consumerfinance.gov/f/201306\\_cfpb\\_whitepaper\\_overdraft-practices.pdf](http://files.consumerfinance.gov/f/201306_cfpb_whitepaper_overdraft-practices.pdf).
- 4 Consumer Financial Protection Bureau, "Payday Loans and Deposit Advance Products: A White Paper of Initial Data Findings" (2013), available at [http://files.consumerfinance.gov/f/201304\\_cfpb\\_payday-dap-whitepaper.pdf](http://files.consumerfinance.gov/f/201304_cfpb_payday-dap-whitepaper.pdf).
- 5 Gregory Mills and Joe Amick, "Can Savings Help Overcome Income Instability?" (Washington: Urban Institute, 2010).
- 6 For an example of the experience in other states, see Joe Valenti and Lawrence J. Korb, "Congress protects troops from predatory lenders; what about everyone else?," *Richmond Times-Dispatch*, February 4, 2013, available at [http://www.timesdispatch.com/opinion/their-opinion/columnists-blogs/guest-columnists/valenti-and-korb-congress-protects-troops-from-predatory-lenders-what/article\\_b8952933-77a0-5d8b-a351-5a02a8b2afc5.html](http://www.timesdispatch.com/opinion/their-opinion/columnists-blogs/guest-columnists/valenti-and-korb-congress-protects-troops-from-predatory-lenders-what/article_b8952933-77a0-5d8b-a351-5a02a8b2afc5.html).
- 7 New York State Department of Financial Services, "Basic Banking Accounts," available at <http://www.dfs.ny.gov/consumer/brbba.htm> (last accessed February 2014).
- 8 Joe Valenti and Deirdre Heiss, "Financial Access in a Brave New Banking World" (Washington: Center for American Progress, 2013), available at <http://www.americanprogress.org/issues/economy/report/2013/10/16/77016/financial-access-in-a-brave-new-banking-world/>.
- 9 Ibid.
- 10 New York City Department of Consumer Affairs Office of Financial Empowerment, "Progress Report, 2010-2013" (2013), available at <http://www.nyc.gov/html/dca/downloads/pdf/OFEProgressReport20102013.pdf>.
- 11 Ibid.
- 12 Ibid.
- 13 Joe Valenti, "Helping Working Families Build Wealth at Tax Time" (Washington: Center for American Progress, 2013), available at <http://www.americanprogress.org/issues/economy/report/2013/02/27/54845/helping-working-families-build-wealth-at-tax-time/>.
- 14 Joe Valenti and Christian E. Weller, "Creating Economic Security: Using Progressive Savings Matches to Counter Upside-Down Tax Incentives" (Washington: Center for American Progress, 2013), available at <http://www.americanprogress.org/issues/economy/report/2013/11/21/79830/creating-economic-security/>.