An Evaluation of the FDIC's Financial Literacy Program *Money Smart*

May 2003

Dr. Angela C. Lyons
Assistant Professor, Department of Agricultural and Consumer Economics
University of Illinois at Urbana-Champaign

Erik Scherpf
Research Assistant, Department of Economics
University of Illinois at Urbana-Champaign

ILLINOIS
UNIVERSITY OF ILLINOIS AT URBANA-CHAMPAIGN

Contents

Tables

Acknowledgements

The authors of this report graciously acknowledge assistance and financial support for research and analysis from the Women's Bureau at the U.S. Department of Labor. The authors also thank the Department of Agricultural and Consumer Economics at the University of Illinois at Urbana-Champaign for additional financial support.

The authors would further like to acknowledge *Money Smart* Evaluation Committee who assisted in the design and implementation of the *Money Smart* evaluation:

Karen Chan, Consumer and Family Economics Educator, University of Illinois Extension
Nancy Chen, Regional Administrator, Women's Bureau, U.S. Department of Labor
Melinda Crosby, Operation Able
Michael Frias, Community Affairs Officer, FDIC
Kyla Wilson, Coordinator of Adult Education, City Colleges
Margo Wright, Workforce Development Specialist, U.S. Department of Labor
and all of the organizations and instructors from the Chicago area who participated in the *Money Smart* evaluation project.

Without the valuable input and time of these individuals and organizations, this research would not possible.

Introduction

Millions of Americans do not have bank accounts and must rely on high-cost alternative financial services such as currency exchanges and pawnshops to conduct everyday transactions such as check cashing, making payments, and taking out small, short-term loans. In a complex financial world, it is easy for the "unbanked" to fall prey to predatory lenders and financial scams, especially since many lack adequate financial education. In recent years, a number of financial programs have been created to empower the unbanked with financial knowledge and encourage them to join mainstream banking. Very few of these programs have conducted an extensive evaluation to measure program success. The lack of a formal evaluation process has made it difficult for researchers and policymakers to measure the effectiveness of such programs and to make comparisons across programs.

Recent studies provide significant insight into who the unbanked are and why they are unbanked (Bond and Townsend (1996), Hogarth and O'Donnell (1997), Good (1999), Prescott and Tatar (1999), Rhine and Toussaint-Comeau (1999), and Rhine, Toussaint-Comeau, Hogarth, and Greene (2001)). They also discuss the role that financial literacy and positive banking relationships can have on an individual's decision to enter mainstream banking.

A survey instrument was designed in the Spring of 2002 to examine the effectiveness of the financial literacy program *Money Smart*, the FDIC training program to help individuals enhance their money skills, make informed financial decisions, and create positive banking relationships. A comprehensive evaluation process was implemented in May 2002 to collect and compile data from *Money Smart* participants, instructors, and financial institutions in the Chicago area. Using data collected from May 2002 to February 2003, this study investigates in detail the account activity and financial behavior of the program participants. This study also examines the effectiveness of the *Money Smart* program in providing the unbanked with financial knowledge and helping them to enter mainstream banking.

The evaluation process and research findings presented in this study provide a model that other researchers can follow to evaluate similar programs so that comparisons can be made across programs that have the same goal of moving individuals towards mainstream banking. The findings also provide insight into how financial education programs such as *Money Smart* can more effectively meet the financial needs of the unbanked and their communities.

The *Money Smart* Program

The primary goal of the *Money Smart* program is to provide individuals with the necessary information to evaluate and make their own financial decisions. The *Money Smart* program consists of a set of 10 instructor-led training modules that cover a number of key financial topics including: general banking services, how to choose and maintain a checking and savings account, how to budget your money, the importance of saving, and how to obtain and use credit effectively. The program takes approximately two weeks to complete. Most modules last approximately 60 minutes, a few topics require more time. To date, program participants have included welfare-to-work participants, Spanish-speaking immigrants, Chinese immigrants, public housing residents in Chicago, and community college students.

A unique feature of the FDIC's *Money Smart* program is that it is a collaborative effort of several key organizations and financial institutions in the Chicago area including, but not limited to: the Federal Deposit Insurance Corporation, the Women's Bureau at the U.S. Department of Labor, Employment and Training Administration at the U.S. Department of Labor, University of Illinois Extension, Pilsen One-Stop Center, the Federal Reserve Bank of Chicago, Employment and Employer Services, Operation Able, Institute for Latino Progress, The Spanish Coalition for Housing, Chinatown Chamber of Commerce, Chinese American Service League, and City Colleges of Chicago. Participating financial institutions include: First American Bank, Metropolitan Bank, Universal Federal, Bank One, First Bank of the Americas, Cosmopolitan Bank, and Bank of America.

Survey Methodology

The Evaluation Process

The *Money Smart* program was officially launched in the Chicago area in Fall 2001. Preliminary data was collected on participation rates between September 2001 and April 2002 and was used as a benchmark for the formal evaluation process that began in May 2002. Between September 2001 and April 2002, 208 individuals participated in the *Money Smart* program. Forty-one of the participants (19.7%) were welfare-to-work participants in the Pilsen neighborhood in Chicago, 17 of these (8.2%) were Spanish-speaking immigrants recruited by the Institute for Latino Progress, 100 individuals (48.1%) were Spanish-speaking immigrants living in public housing, and 50 (24.0%) were low-income homebuyers.

At that time, very little was known about the program's effectiveness. It was only known that of the 41 welfare-to-work participants who completed the program, 10 participants opened accounts, 24.4%.[1] For this reason, the Money Smart Evaluation Committee decided to conduct an extensive evaluation to measure the program's effectiveness. From May 2002 to February 2003, data was collected from program participants at select locations, *Money Smart* instructors, and key contacts at the financial institutions located in the Chicago community.

Information was collected from participants at select sites on their current banking activities and knowledge of key financial concepts at the beginning of each new *Money Smart* course. Upon completion of the course, a follow-up survey was administered and information was collected on

[1] It is not known how many of the 41 welfare-to-work participants who completed the program already had an account.

the overall impact of the program, the participants' anticipated banking behavior and individual characteristics. (See the Appendix for the *Money Smart Evaluation Forms – Part I and Part II.*)

Information was also collected from the instructors on the type of contact participants had with the financial institutions during the program. Some participants took a tour of a bank, others had a banker come and talk with them about special financial services offered in the community, and others had no contact with a bank. This information was gathered to assess the role that personal contact plays in helping the unbanked to enter mainstream banking. Additional information was also collected from the instructors on what financial modules were covered during the training. (See the attached *Money Smart Evaluation Cover Sheet*.) This study uses this information along with other survey indicators to examine account activity and measure the effect of financial literacy on an individual's financial decisions and behavior.

Informal interviews were also conducted with several of the *Money Smart* instructors as well as contacts at participating financial institutions. The qualitative information was collected to better understand the program's success with respect to whether program participants should continue to be encouraged to open bank accounts and enter mainstream banking.

Data Collection Procedures

Given the sensitive nature of the data, it was necessary to construct a set of detailed data collection procedures o ensure the anonymity of the program participants. These procedures prevented the authors of this report from linking a program participant to their survey responses. Below is a description of the steps involved in the data collection process.

- Before a *Money Smart* class began, each instructor was mailed an evaluation packet that included the evaluation forms (parts I and II), the cover sheet, the *Participant Identification-Confidential* form, and a pre-addressed envelope.
- A 5-digit ID number was assigned to each program participant in the class using the *Participant Identification-Confidential* form. The form was used to record both the name and ID number of the participant. ID numbers consisted of a letter and a 5-digit number; the letter indicated the participant's program location.
- Part I of the *Money Smart* evaluation was administered by the instructor before the first module of the *Money Smart* curriculum was taught. Instructors read the questions aloud for the participants. If the instructor was teaching in Spanish or Chinese, he/she used a Spanish or Chinese version of the evaluation.
- Part II of the *Money Smart* evaluation was administered by the instructor immediately after they have finished the last module of the *Money Smart* curriculum. The instructor made sure that each participant wrote their ID numbers at the top of the evaluation so that their responses from parts I and II could be linked.

- Upon completion of the class, the instructor completed the evaluation cover sheet form, including their name, the name of the site, which modules were covered in their class, and what type of exposure the class had with participating banks.
- The instructor returned both parts of the evaluation, the cover sheet, and the *Participant Identification-Confidential* form in a pre-addressed envelope to a third-party verifier.
- Upon receipt of the survey materials, the third-party verifier removed the *Participant Identification-Confidential* form to be kept for their records and mailed the surveys to the principal investigator for this study, Dr. Angela Lyons.

It is important to note that, in addition to collecting survey data, a focus group was also held in May 2002 with representatives from participating banks to collect qualitative information on general changes in financial behavior from *Money Smart* participants. Information was also gathered on the perceptions and feelings of the banks with respect to the *Money Smart* program and its effectiveness.

The Sample

Between May 2002 and February 2003, data was collected from 408 program participants. Program participants completed at least one of the two parts of the *Money Smart* survey. Of the 408 surveyed, 22 completed only part II and were dropped from the data set. These program participants were unable to complete part I, because they were not present on the day that the survey was administered and no additional efforts were made by the instructors to ensure that part I was completed. An additional 48 participants were also dropped due to missing information on key survey questions.

The remaining 338 observations comprise the working sample. While all of the participants in the sample completed part I, only 226 participants completed part II. Table 1 provides a summary of the composition of the sample according to those who completed at least part I and those that completed both parts I and II. The majority of the sample is comprised of individuals who participated in the *Money Smart* program that was offered through City Colleges of Chicago. Of those who completed at least part I, 65.4 percent was from City Colleges, 20.4 percent participated through Employment and Employer Services, 8.6 percent through Operation Able, and 5.6 percent through other workforce development programs. The percentage breakdown is similar for the sample that completed both parts I and II.

It is important to note that data was also collected from other communities and organizations in the Chicago area such as the Institute for Latino Progress, the Spanish Coalition for Housing, and Chinatown, but the data could not be used due to missing information. However, City Colleges partnered with a number of instructors from these other organizations to offer *Money Smart* on their community college campuses. The course was offered in both English and Spanish as was the survey when it was administered.

As previously mentioned, 112 participants were unable to complete part II of the survey, and there are several reasons why. First, a number of organizations involved with workforce preparation (i.e. Operation Able, Employment and Employer Services, and Workforce Development) offered the *Money Smart* program to provide their clients with some level of financial education while they were looking for employment. Once individuals were employed, they dropped out of the *Money Smart* program to work. Second, individuals who participated in the program through City Colleges registered for a formal course. These individuals chose to enroll in the Money Smart program and could also choose to drop the course. As the findings will show, the majority of City College participants already had bank accounts. It is likely that those who dropped the course did so because the first five lessons of the program were developed for individuals unfamiliar with mainstream banking. Finally, some program participants may have dropped out of the program for other reasons including personal commitments and possible dissatisfaction with the program. It is important to keep these points in mind since the exclusion of these individuals may have resulted in a response bias.

Table 1: Composition of the *Money Smart* Sample (Percentage of Participants in Each Group)

Group	Part I (N=338)	Parts I & II (N=226)
City Colleges	65.4	51.8
Operation Able (Downtown)	7.1	8.0
Operation Able (Pilsen)	1.5	1.8
Employment & Employer Services (Cicero)	6.8	10.2
Employment & Employer Services (MidSouth)	13.6	19.9
Westside Workforce (Chicago)	1.8	2.6
Workforce Development	3.8	5.7

Demographic Profile of Program Participants

Table 2 provides demographic information on the program participants. Recall that demographic information was only collected for the 226 participants who completed both parts I and II of the survey. The first column of table 2 summarizes demographic information for all respondents who completed both parts of the survey. The second column provides information on those who completed both parts of the survey and attended a *Money Smart* course through City Colleges. Over half of all participants who completed both parts of the survey attended a course at a City College. The remaining respondents attended courses offered by various organizations previously mentioned.

Several findings are worth noting in Table 2. First, females were disproportionately represented in the *Money Smart* program, accounting for just under 70.0 percent of all respondents and just over 70.0 percent of City College respondents.

Second, program participants were also more likely to be younger. One-third of all respondents were under the age of 25, the largest age group represented in the *Money Smart* program. The next largest age group, 35-44 year olds, comprised just over one quarter of all respondents. Overall, approximately 80.0 percent of participants were under the age of 45. City College respondents also tended to be younger, but were slightly older than respondents in general. The findings suggest that those who were enrolled in the *Money Smart* program through City Colleges were most likely individuals living in the surrounding neighborhoods, and not community college students. The under-25-age group accounted for only one-fifth of all City College respondents, compared to one-third of all respondents.

Third, minorities comprised nearly 90.0 percent of all respondents. In particular, blacks accounted for 50.0 percent and Hispanics 35.0 percent of all respondents. The composition of the sample differed markedly for the City College sample with respect to ethnicity. For City Colleges, Hispanics constituted the largest ethnic group with over 40 percent. The proportions of whites, Asians and other racial groups were also slightly higher in the City College sample than in the sample as a whole.

Fourth, City College respondents had somewhat more schooling than the sample as a whole. Although respondents in this group were more likely to hold a college degree than the entire sample (by a ten percent margin), they were just as likely not to have a high school diploma.

With respect to other factors such as marital status, employment, and income, the findings reveal the following. City College respondents were significantly more likely to be married than the sample as a whole, yet there was virtually no difference in family size. Over 34.0 percent of City College respondents reported being married compared to 22.0 percent for all respondents. Regardless of the sample, the average number of family members was approximately three.

Table 2: Demographic Profile of Program Participants

Variable (mean/percentage)	All Respondents (N=226)	City Colleges (N=117)
Female	68.6	71.8
Age		
Under 25	33.6	20.5
25 – 34	20.4	21.4
35 – 44	25.7	29.9
45 – 54	11.9	13.7
55 – 64	4.9	7.7
65 or older	3.5	6.8
Race		
White	9.3	14.5
Black	50.0	34.2
Hispanic	34.9	41.9
Asian	4.0	6.8
Other	1.8	2.6
Schooling		
No high school	16.4	16.2
High School	29.6	18.0
Some College	32.3	34.2
College (B.A./B.S.)	16.8	24.8
Graduate School	4.9	6.8
Marital Status		
Single	67.2	57.3
Divorced	8.4	6.0
Widowed	1.8	2.5
Married	22.6	34.2
Family Size	3.3	3.2
Employment		
Not working	58.8	39.3
Working Part-time	11.1	10.3
Working Full-time	30.1	50.4
Household Income		
Under $4,999	34.9	16.4
$5,000 to 9,999	19.9	17.3
$10,000-19,999	16.0	20.0
$20,000 – 29,999	13.1	20.0
$30,000 or more	16.0	26.3

The proportion unemployed was considerably lower for the City College sample than for the entire sample. This was not surprising since most of the respondents in the sample who did not attend a City College course were enrolled in a course offered through one of the various Welfare-to-Work programs. City College respondents also had a slightly lower rate of part-time employment than the entire sample. They were, however, substantially more likely to work full-time (by over a 20 percent margin).

With respect to income, nearly 55.0 percent of all respondents reported annual household income under $10,000. For City College respondents, the proportion of households reporting a household income under $10,000 was substantially smaller at about 33.0 percent. City College respondents were far less likely to come from households in the under $5000 income bracket (by over 18 percent) and far more likely to come from households earning over $30,000 annually (by a 10.3 percent margin). In fact, just over a quarter of City College respondents reported household income over $30,000.

Financial Profile of Program Participants

Table 3 presents the financial characteristics for *Money Smart* participants as a whole as well as for only City College participants. This table provides information on all participants who completed the first part of survey in addition to those who completed both parts. At the time the evaluation was designed and administered, it was assumed that a significant number of program participants had limited banking relationships and did not have savings or checking accounts.

With respect to account status, City College respondents were significantly more likely than the entire sample to have an account. With respect to those who completed parts I and II, 78.6 percent of City College respondents reported that they had either a savings or checking account compared to 59.3 percent for the entire sample. With respect to the type of account(s) held, program participants were more likely to have a checking account than a savings account. Specifically, 67.5 percent of City College respondents indicated they had a checking account and 57.3 percent had a savings account compared to only 50.0 and 37.6 percent of all respondents, respectively. Almost half of the City College respondents (46.1 percent) had both a checking and savings account compared to 28.0 percent of all respondents.

It is interesting to note that program participants at City Colleges were less likely to *not* have an account than all participants. Specifically, 21.4 percent of City College respondents did *not* have an account compared to 40.7 percent of the entire sample, a substantially greater fraction.

Table 3: Financial Profile of Program Participants

Variable (mean/percentage)	All: Part I (N=338)	All: Parts I & II (N=226)	City Colleges: Part I (N=221)	City Colleges: Parts I & II (N=117)
Types of accounts				
Checking Account	53.6	50.0	66.5	67.5
Savings Account	41.7	37.6	53.8	57.3
Savings or Checking Account	63.0	59.3	75.6	78.6
Both Savings & Checking	32.2	27.9	44.8	46.1
No Account	37.0	40.7	24.4	21.4
Do you borrow money?	54.4	56.6	52.0	56.4
From whom do you borrow?[1]				
From Family/Friends	67.2	69.8	51.4	46.1
From payday lender	4.5	4.8	6.4	7.7
On credit cards	20.3	18.2	28.4	29.2
From bank	20.9	15.9	32.1	29.2
From other	4.5	4.8	4.6	4.6
Why are you borrowing money?[2]				
To pay bills	56.5	57.8	53.0	51.5
For furniture, appliances, etc	7.1	5.5	10.4	9.1
For car	14.9	13.3	17.4	13.6
For education	14.3	16.4	17.4	19.7
For house	20.2	15.6	23.5	21.2
For other	27.4	28.9	23.5	21.2
Bank exposure				
Received names of banks	76.0	78.8	71.0	73.5
Received list accounts	41.1	43.4	38.9	40.2
Bank tour	5.3	0.0	8.1	0.0
Banker served as guest speaker	4.1	4.0	6.3	7.7
Other contact	12.1	3.1	18.6	6.0
Modules taught				
Bank on It	91.4	96.5	86.9	93.2
Borrowing Basics	95.6	99.1	93.2	98.3
Check it Out	99.7	99.6	99.5	99.1
Money Matters	95.6	99.6	93.2	99.1
Pay Yourself First	95.0	98.7	92.3	97.4
Keep it Safe	63.9	56.6	79.6	75.2
To Your Credit	68.0	62.8	85.1	85.5
Charge it Right	67.2	61.5	84.6	84.6
Loan to Own	64.5	57.5	79.6	75.2
Your Own Home	64.5	57.5	79.6	75.2

[1] Conditional on borrowing money. Note that seven participants did not respond to this question.
[2] Conditional on borrowing money.

In addition to these findings, the first two columns of Table 2 show that all respondents who completed part I were slightly more likely to have an account (checking, savings or both types) than those who completed both parts I and II. This finding suggests that people with accounts did not find the program as useful as those without accounts and consequently stopped attending. However, among City College participants, we observe the opposite trend—those who completed only part I were slightly less likely to have an account (checking, savings or both types). Thus, it was welfare-to-work participants with accounts that were more likely not to follow through with the program. We suspect that welfare-to-work participants with accounts were more likely to find a job and hence leave the program, since attendance in the *Money Smart* program was required for most of the welfare-to-work participants.

The proportion of City College respondents who reported borrowing money was roughly equal to that of the entire sample, particularly among those responding to both parts of the survey. Of those who completed both parts of the survey, approximately 56.0 percent indicated that they had borrowed money. However, City College participants differed substantially from the rest of the sample with respect to who they borrowed from. Most notably, they were significantly less likely than the rest of the sample to borrow from family and friends and more likely to borrow from a bank or charge it to their credit cards. The reason most respondents indicated for why they were borrowing was the same for both groups—to pay bills. Over 50.0 percent of the sample indicated that they were borrowing money to pay bills. However, City College respondents were less likely to borrow to pay bills than the entire sample, and more likely to borrow for consumer durables (furniture, appliances, etc.), an automobile, an education, or a house.

Table 3 also shows that nearly all respondents were taught the first five *Money Smart* modules, which covered basic financial knowledge. City College respondents were considerably more likely to have been exposed to the last five modules, which included more advanced financial topics related to consumer protection, credit usage, installment loans, and homeownership.

Impact Statements of Program Participants

Table 4 summarizes participants' assessment of the program's impact on their level of financial knowledge and on their ability to put that knowledge to use. To measure overall program impact, *Money Smart* participants were asked to check the response that best indicated how much they agreed with the following three statements:

1. "Because of this program, I am more financially knowledgeable."
2. "Because of this program, I feel I can manage my finances better."
3. "I feel that I can use what I learned in this program on my own."

Over 90.0 percent of all respondents agreed that, as a result of participating in the program, they were more financially knowledgeable, were able to manage their finances better, and were able to use what they learned on their own. In addition, over half reported that they *strongly agreed* with all three impact statements, with the highest proportion of respondents strongly agreed that they could use what they learned on their own. City College respondents were slightly more likely to strongly agree to all three statements than respondents as a whole.

It is important to acknowledge that these findings may be due to the fact that those who were the most satisfied with the program were those who did not drop out of the program. Thus, a selection bias may be present in the data.

Table 4: Impact Statements of Program Participants

Variable (mean/percentage)	All Respondents (N=226)	City Colleges (N=117)
I am more financially knowledgeable:		
Strongly Agree	54.9	58.1
Agree	42.9	39.3
Not sure	1.8	1.7
Disagree	0.4	0.9
I can manage my finances better:		
Strongly Agree	53.5	57.3
Agree	42.0	37.6
Not sure	3.5	3.4
Disagree	0.9	1.7
I can use what I learned on my own:		
Strongly Agree	59.3	63.2
Agree	36.3	32.5
Not sure	3.5	3.4
Disagree	0.9	0.8

Program Participants by Account Status

Demographic Profile by Account Status

Table 5 provides demographic information by account status for those participants who completed both parts of the survey. The first two columns present the demographic findings for those who reported having an account and not having an account at the beginning of the program. A participant is classified as having an account if they reported having either a savings account or checking account.

Comparing account and non-account participants, several findings are of significance, but perhaps not surprising. The proportion of females who reported having an account was roughly the same as the proportion of females who did not have an account (approximately 70.0 percent). Participants without an account were more likely to be younger, black, and less educated. Nearly 40.0 percent of respondents who reported not having an account were under the age of 25. Just over two-thirds of respondents without an account were black, followed by Hispanics who accounted for a little over a quarter of respondents without an account. Less than ten percent of respondents without an account held a college degree, while 25 percent did not graduate high school. Table 5 also reveals that participants who reported not having an account were considerably more likely to be single while those who reported having an account were more likely to be married. In addition, families without an account tended to be slightly larger than those with an account. As expected, full-time workers made up a substantially higher proportion of those with an account than those with no account while unemployed participants accounted for the largest proportion of those without an account.

With respect to income, almost 80.0 percent of participants without accounts reported annual household incomes under $10,000. Not surprisingly, participants in income brackets above $10,000 were increasingly more likely to have an account.

The last two columns of Table 5 present the characteristics of participants who did not have an account at the beginning of the program, but indicated at the end of the program they were planning to either open or not open an account. A total of seventy-four respondents without an account indicated that they planned to open an account. However, only 18 respondents without an account indicated that they did not plan to open an account. Given the small sample size, one must be cautious in interpreting the subsequent findings. Also, it must be acknowledged that intended financial behavior does not necessarily imply actual financial behavior.

Non-account holders who indicated that they planned to open an account were more likely than those indicated that they did not plan to open an account to be female, older, more educated, and single. With respect to ethnicity, blacks were strongly inclined to open an account upon completion of the program, making up almost three-quarters of those who planned to open an account and less than 40.0 percent of those who did not. Hispanics, by contrast, had the least inclination to open an account, with nearly a 30.0 percent gap between those planning to open an account and those not planning to open one.[2] Participants with household earnings under $10,000 were more inclined to open an account. There was virtually no difference between the proportion of unemployed participants that planned to open an account and the proportion that did not. All part-time workers without an account intended to open one.

[2] It should be noted that all Asians in the sample, as well as all those belonging to other racial groups not including whites, blacks, and Hispanics., had an account at the beginning of the program.

Table 5: Demographic Profile of Program Participants by Account Status

Variable (mean/percentage)	Account (N=134)	No Account (N=92)	No Account: Plan to Open Account (N=74)	No Account: Do Not Plan to Open Account (N=18)
Female	70.1	67.4	68.9	61.1
Age				
Under 25	29.8	39.1	36.5	50.0
25 – 34	22.4	17.4	20.3	5.5
35 – 44	21.6	31.5	31.1	33.3
45 – 54	13.4	9.8	10.8	5.5
55 – 64	7.5	1.1	1.3	0.0
65 or older	5.2	1.1	0.0	5.5
Race				
White	11.9	6.5	5.4	11.1
Black	37.3	67.4	74.3	38.9
Hispanic	41.0	26.1	20.3	50.0
Asian	6.7	0.0	0.0	0.0
Other	3.0	0.0	0.0	0.0
Schooling				
No high school	10.4	25.0	20.3	44.4
High School	23.1	39.1	40.5	33.3
Some College	35.8	27.2	29.7	16.7
College (B.A./B.S.)	25.4	4.3	4.1	5.5
Graduate School	5.2	4.3	5.4	0.0
Marital Status				
Single	56.0	82.6	85.1	72.2
Divorced	8.2	8.7	8.1	11.1
Widowed	2.2	1.1	0.0	5.5
Married	32.8	7.6	6.8	11.1
Family Size	3.1	3.5	3.6	3.2
Employment				
Not working	46.3	77.2	77.0	77.8
Working Part-time	11.9	9.8	12.2	0.0
Working Full-time	41.8	13.0	10.8	22.2
Household Income				
Under $4,999	21.3	54.8	55.9	50.0
$5,000 to 9,999	16.4	25.0	27.9	12.5
$10,000-19,999	18.8	11.9	10.3	18.7
$20,000 – 29,999	18.8	4.8	4.4	6.3
$30,000 or more	24.6	3.6	1.5	12.5
City Colleges	68.7	27.2	24.3	38.9

Financial Characteristics by Account Status

Table 6 summarizes, according to account status, the borrowing behavior of the program participants as well as the bank and curriculum exposure that participants received. A higher proportion of those without an account reported borrowing money than those with an account, 60.9 percent compared to 53.7 percent, respectively. However, over 95.0 percent of participants without an account indicated that they borrowed from family and friends compared to 50.7 percent of participants with accounts. While participants with an account borrowed from family and friends more than from any other source, over half also reported borrowing from either a bank or on their credit cards. No participants without an account borrowed from a bank, which is not surprising since they had no bank account and therefore no ties to the banking system.

With respect to whom they borrowed money from, both groups indicated that they borrowed primarily to pay bills. However, a somewhat larger proportion of those without an account borrowed for this purpose. Less than two percent of participants without an account borrowed for a house compared to over a quarter of participants with an account. Interestingly, Table 6 also reveals that a significant proportion of both groups reported borrowing for purposes other than those specified on the survey. This was particularly the case for participants with no account; nearly 40.0 percent reported borrowing for other purposes. Commonly cited purposes listed under the 'other' category were borrowing for clothing, entertainment, eating out, baby supplies, insurance and personal use.

With respect to contact with participating banks, about 85.0 percent of participants with an account reported receiving the names of participating banks, while just under 70.0 percent of those without an account indicated that they received bank names. Both groups received very similar exposure to the first five lessons of the *Money Smart* curriculum. However, participants with an account were considerably more likely to have completed lessons 6 through 10, most likely because they already had an account and were prepared for more advanced topics related to financial education.

The last two columns of Table 6 show that over 60.0 percent of participants without an account who planned to open an account reported borrowing money compared to 50.0 percent of those who planned not to open an account. Almost everyone who reported borrowing money indicated that they borrowed from family and friends. However, those who did not plan to open an account relied less on family and friends and more on credit cards. Interestingly, a larger proportion of participants not planning to open an account were taught each of the last five lessons than those planning to open one. At first glance, this finding suggests that the more advanced lessons may have negatively affected whether a participant opened an account, perhaps because they had not yet grasped the basics of mainstream banking. However, given the small sample size, one must again be cautious in interpreting the findings. There was little difference in the amount of contact each group head with participating banks.

Table 6: Financial Profile of Program Participants by Account Status

Variable (mean/percentage)	Account (N=134)	No Account (N=92)	No Account: Plan to Open Account (N=74)	No Account: Do Not Plan to Open Account (N=18)
Do you borrow money?	53.7	60.9	63.5	50.0
From whom do you borrow? [1]				
From Family/Friends	50.7	94.5	95.6	88.9
From payday lender	5.6	3.6	4.3	0.0
On credit cards	26.8	7.3	6.5	11.1
From bank	28.2	0.0	0.0	0.0
From other	5.6	3.6	4.3	0.0
What are you borrowing money for? [2]				
To pay bills	54.2	62.5	61.7	66.7
For furniture, appliances, etc	6.9	3.6	2.1	11.1
For car	15.3	10.7	12.8	0.0
For education	19.4	12.5	14.9	0.0
For house	26.4	1.8	2.1	0.0
For other	20.8	39.3	40.4	33.3
Bank exposure:				
Received names of banks	85.1	69.6	70.3	66.7
Received list accounts	44.0	42.4	43.2	38.9
Banker served as guest speaker	6.0	1.1	1.3	0.0
Other contact	3.7	2.2	1.3	5.5
Modules Taught				
Bank on It	96.3	96.7	98.6	88.9
Borrowing Basics	100.0	97.8	97.3	100.0
Check it Out	100.0	98.9	100.0	94.4
Money Matters	100.0	98.9	100.0	94.4
Pay Yourself First	99.3	97.8	97.3	100.0
Keep it Safe	72.4	33.7	28.4	55.5
To Your Credit	73.9	46.7	41.9	66.7
Charge it Right	73.1	44.6	39.2	66.7
Loan to Own	73.1	34.8	29.7	55.5
Your Own Home	73.1	34.8	29.7	55.5

[1] Conditional on borrowing money.
[2] Conditional on borrowing money

Program Impact by Account Status

Table 7 summarizes participants' assessment of the program's impact according to their account status. Recall that participants were asked how much they agreed with three statements related to the program's overall impact on their financial knowledge and future financial behavior.

Participants who already had an account at the beginning of the program were more likely than those without an account to *strongly agree* to all three impact statements. The last two columns reveal a similar pattern for participants with no account. Those who planned to open an account were more likely to strongly agree to all three impact statements, while those who did not plan to open an account were more likely to merely agree. However, the latter finding may be due to the fact that those who were more satisfied with the program were more likely to respond that they "planned to open an account." It does not necessarily mean that they actually opened an account.

Table 7: Impact Statements of Program Participants by Account Status

			No Account	
Variable (mean/percentage)	Account (N=134)	No Account (N=92)	Plan to Open Account (N=74)	Do Not Plan to Open Account (N=18)
I am more financially knowledgeable:				
Strongly Agree	56.0	53.3	62.2	16.7
Agree	43.3	42.4	36.5	66.7
Not sure	0.0	4.3	1.3	16.7
Disagree	0.7	0.0	0.0	0.0
I can manage my finances better:				
Strongly Agree	56.7	48.9	56.8	16.7
Agree	40.3	44.6	40.5	61.1
Not sure	2.2	5.4	2.7	16.7
Disagree	0.7	1.1	0.0	0.5
I can use what I learned on my own:				
Strongly Agree	63.4	53.3	58.1	33.3
Agree	32.8	41.3	37.8	55.5
Not sure	3.0	4.3	2.7	11.1
Disagree	0.7	1.1	1.4	0.0

Program Participants with No Account

Characteristics of Program Participants with No Account

Table 8 provides more detailed information on program participants who did not have an account at the beginning of the program. The table includes reasons why participants did not have an account, the methods they used to pay bills if they did not have a checking account, the location they used for cashing checks, and whether they wired money. As in earlier tables, findings are reported for all respondents as a whole and for City Colleges. By far, the most cited reason for not having an account was lack of money (over 70.0 percent for all respondents and over 50.0 percent for City College respondents).[3] The next most cited reason by all respondents was poor credit history, followed by bank fees/costs being too high. These responses are particularly revealing and suggest that those who did not have accounts could not afford an account and perhaps should not be encouraged to open an account. For City College respondents, however, distrust of banks and not having a social security number were cited in equal proportions as the next most common reasons for not having an account.[4] These responses suggest that these individuals may have been more financially prepared to open an account but personal attitudes and beliefs about mainstream banking were preventing them from doing so.

Participants without a checking account were asked "How do you pay your bills if you have no checking account? (Check all that apply)." The two most popular methods that participants without checking accounts used to pay their bills were with money order and with cash. Over half of all respondents who completed both parts of the survey indicated that they used cash and/or money orders to pay bills. The 'other' category consisted mainly of participants who did not pay bills on their own.

When asked about where they cash their checks, about three-quarters of all participants without an account reported that they cash their checks at a currency exchange or payday lender. A higher proportion of City College respondents (nearly 20.0 percent) cash their checks at a bank or credit union than the sample as a whole. About 11.0 percent of all respondents without an account indicated that they wired money.

[3] Note that respondents were ask to indicate all reasons that applied to them, so the percentages do not sum to 100 percent.
[4] Poor credit history was the second most cited reason among all City College respondents who completed part I.

Table 8: Characteristics of Program Participants with no Account

Variable (mean/percentage)	All		City Colleges	
	Part I (N=125)	Parts I & II (N=92)	Part I (N=54)	Parts I & II (N=25)
Reasons for not having an account				
Do not have enough money	72.0	71.7	63.0	56.0
Do not trust banks	8.0	7.6	11.1	12.0
Poor credit history	17.6	17.4	13.0	8.0
Inconvenient hours or locations	4.0	5.4	3.7	8.0
Prefer currency exchanges to banks	4.8	4.3	7.4	8.0
Do not write enough checks	5.6	5.4	7.4	8.0
Do not have social security number	4.8	3.3	11.1	12.0
Do not have ITIN number	1.6	1.1	3.7	4.0
Do not have photo ID	2.4	1.1	5.5	4.0
Bank fees/costs too high	8.8	10.9	3.7	4.0
Do not want govn't to know income	4.8	4.3	3.7	0.0
How do you pay your bills if you have no checking account?[1]				
with cash	46.5	50.9	50.0	57.9
with money order	58.6	57.9	60.8	63.2
with credit card	3.8	3.5	4.0	2.6
with other	13.4	13.2	10.8	7.9
Where do you cash your checks if you have no account?[2]				
Currency exchange or payday lender	76.9	76.7	75.0	71.4
Grocery store	9.4	9.3	6.2	4.8
Bank or credit union	12.0	10.5	18.7	19.0
Convenience store	2.6	3.5	2.1	4.8
Employer	1.7	1.2	2.1	0.0
Other	14.5	17.4	8.3	14.3
Do you wire money?	10.1	11.8	11.1	20.0

[1] Conditional on having no checking account. For this question, N=157, N=114, N=74 and N=38, respectively.
[2] Note a few participants chose not to respond to this question.

Reasons Why Participants Plan to Open or Not Open an Account

Tables 9 summarizes the most commonly stated reasons why participants with no account indicated at the end of the program they planned to open or not open an account. On part II of the survey, program participants were asked "After participating in this program, do you plan to open a bank account? Why or why not?" The most common reasons participants cited for why they planned to open an account were that they had established long-term financial goals through the program and wanted to meet those financial goals and/or establish financial security. Most of these respondents indicated that they had a particular financial goal in mind that they wanted to achieve (i.e. save for downpayment on a house, to have children, for an education, to create a financial cushion in case of an emergency). Other participants indicated that because of the program they felt more knowledgeable about the banking system and more comfortable opening an account. Other reasons cited had to do with participants wanting to re-establish creditworthiness and improve their credit scores and to save enough money so they did not have to worry about paying their monthly bills.

The most common reasons participants cited for not wanting to open an account focused on not being financially ready to open an account. Most of these respondents indicated that they did not have enough money and were currently unemployed. Others felt, even after the program, that they still did not trust banks.

Table 9: Reasons Why Participants Plan to Open or Not Open an Account

Why Participants with No Account Plan to Open an Account

1. To meet financial goals and/or for future security (e.g., house, children, emergencies, etc.)
2. More financially knowledgeable now
3. It is a "wise thing to do"
4. To re-establish creditworthiness
5. To pay bills

Why Participants with No Account Do Not Plan to Open Account

1. Not enough money
2. Currently unemployed
3. Still do not trust banks
4. Already have an account

These comments are particularly insightful since they provide an indication of the program's impact on a participant's decision to open or not open an account. Program participants who planned to open an account were clearly indicating that, as a result of the program, they 1) felt more comfortable about opening an account and 2) recognized the long-run importance of establishing an account. With respect to those who did not plan to open an account, the findings are consistent with those reported in the previous section—these individuals were not likely to be in a financial position to open and maintain a healthy account.

Empirical Framework and Results

The Model

Regression analysis is conducted to gain a better understanding of the factors that likely contribute to the decision of whether a *Money Smart* program participant moves from unbanked to banked. Two probit models are estimated to determine the probability that a participant: 1) does *not* have an account at the beginning of the program; and 2) plans to open an account at the end of the program. For the first model, the relationship is assumed to be as follows:

$$A_i^* = X_i'\beta_1 + u_i, \text{ where } A_i=1 \text{ iff } A_i^* \geq 0 \text{ and 0 otherwise for } i=\{1, \ldots, I\}.$$

A_i is the discrete dependent variable that is equal to one if the i^{th} participant reports having an account prior to the beginning of the program and zero otherwise. A_i is determined by the continuous, latent variable A_i^*, the actual dollar amount held in the account.

The factors that determine A_i^*, and thus A_i, are represented by the vector X_i. Included in X_i are factors that control for education, marital status, age, ethnicity, family size, employment status, and gender. The vector X_i also accounts for whether the participant was from City Colleges.

The error terms, u_i, are assumed to be distributed standard normally with mean zero and variance σ_i equal to one. The probit method is used to estimate the model and obtain consistent estimates of the regressors. The probit method is also used to identify the factors that determine the probability that a participant without an account plans to open an account. In this model, the vector X_i includes factors that control for education, marital status, age, race, family size, employment status, gender, and whether the participant was from City Colleges. Additional factors are included to measure the impact of the program on the account decision as well as the effect of the curriculum content.

Probability of Having An Account

Table 10 presents the results from the probit model for the probability of having an account prior to the program. The table includes the coefficients on the independent variables, the standard errors, and the marginal effects. The model was estimated for all program participants who completed parts I and II of the survey. The findings indicate that additional schooling significantly increases the probability of having an account. In particular, program participants with a college degree are 34.6 percent more likely than those without a high school education to have an account. Other factors that significantly increase a participant's probability of having an account include being married, being employed and being a City College participant. All other things held constant, being married increases the probability of having an account by 29.1 percent and being employed increases the probability by 16.4 percent. Being black and between the ages of 35 and 44 significantly reduces the probability of having an account by 15.7 and 15.8 percent, respectively.

Table 10: Probit Estimates for Probability of Having an Account

Variable	Coeff	SE	ME
High school	0.5337	(0.2976)*	0.1908
Some college	0.6225	(0.3009)**	0.2216
College degree	1.1061	(0.3375)**	0.3464
Married	0.8807	(0.0348)**	0.2905
35-44 years old	-0.4089	(0.2333)*	-0.1575
Black	-0.4198	(0.2158)*	-0.1571
Family size	-0.0662	(0.0596)	-0.0249
Employed (full-time or part-time)	0.4433	(0.2215)**	0.1635
Female	0.1230	(0.2149)	0.0466
City Colleges	0.6340	(0.2289)**	0.2362
Constant	-0.5229	(0.3721)	
Total observations	226		
Log of likelihood	-111.99		
R^2	0.2667		

$X^2 = 81.47$ ($p<0.0000$)

Note: Standard errors for the coefficients are indicated by (·). ME represents the marginal effects for the probit model. The symbols (∗) and (∗∗) indicate significance at the 5.0 and 1.0 percent levels, respectively. Omitted categories are no high school, not married, not black, male, under 35 years old, 45 years or older, and not working.

Probability of Opening An Account

The results for the probit model for the probability a participant without an account plans to open an account are presented in Table 11. Few factors are found to significantly influence whether a participant plans to open an account after completing the program. None of the demographic characteristics included in the model are significant at conventional levels. However, the model does provide evidence that the program positively increases the probability of opening an account. Participants who strongly agreed that the program made them more financially knowledgeable were more likely to open an account as were participants who strongly indicated that they were better able to manage their finances. Exposure to the advanced lessons of the *Money Smart* curriculum actually decreased the probability that a participant planned to open an account by over 20 percent. However, one needs to be cautious in interpreting these findings. The sample size used for this estimation was very small. Of the 92 non-account participants who completed both parts of the survey, only 18 indicated that they planned to open an account. Also, there is likely to be a response bias in that those who planned to open an account were also more likely to be satisfied with the *Money Smart* program.

Some Comments from the Banking Community

The results presented in this report present evidence which suggests that the *Money Smart* program positively affected the attitudes of some program participants with respect to whether they “planned” to open an account. However, it is unknown whether these program participants actually opened an account. In conducting the evaluation of the *Money Smart* program, the researchers of this study wanted to follow up with program participants who did not have an account to see if they later opened an account. However, a major challenge of this study was obtaining cooperation from community banks to collect account information on program participants. While the *Money Smart* evaluation committee made a number of efforts to work with the banks to collect this information, the committee was, in the end, unsuccessful in bringing the community banks “on board” with this project.

In May 2002, the *Money Smart* evaluation committee held a meeting with community bankers to 1) better understand why the banks were unsupportive of the project and 2) discuss their impressions of the program’s impact. Two primary reasons were cited for the lack of cooperation from the banks. First, community bankers indicated that they could not see what they had to gain from being involved in this process. Initially, the evaluation committee thought that the Community Reinvestment Act (CRA) would provide some incentive for them to participate. However, that was not the case. Second, for confidentiality reasons, the bankers did not feel comfortable participating in a project where account information was going to be released, especially with a sensitive target population (i.e. limited resource participants and the unbanked).

Table 11: Probit Estimates for Probability of Planning to Open an Account

Variable	Coeff	SE	ME
High school	0.3336	(0.5234)	0.0442
Some college	0.1141	(0.6383)	0.0158
College degree	0.2535	(0.9837)	0.0302
Single	0.5104	(0.5838)	0.0897
25-34 years old	0.9341	(0.8555)	0.0855
35-44 years old	-0.1989	(0.5347)	-0.0292
Over 45 years old	-0.3155	(0.7521)	-0.0520
Black	0.2139	(0.4430)	0.0314
Family size	0.1857	(0.1513)	0.0258
Employed (full-time or part-time)	-0.1375	(0.5009)	-0.0202
Female	0.1155	(0.5264)	0.0165
City Colleges	0.1128	(0.6767)	0.0151
Knowledge	1.4022	(0.5514)**	0.2228
Finances	1.0769	(0.5851)*	0.1547
On My Own	-0.2877	(0.5627)	-0.0396
Advanced Lessons	-1.4098	(0.6686)**	-0.2242
Constant	0.5498	(0.8198)	
Total observations	92		
Log of likelihood	-29.1707		
R^2	0.3586		

$X^2 = 32.61$ ($p<0.0083$)

Note: Standard errors for the coefficients are indicated by (·). ME represents the marginal effects for the probit model. The symbols (*) and (**) indicate significance at the 5.0 and 1.0 percent levels, respectively. Omitted categories are no high school, not single, not black, male, under 25 years old, basic lessons (1-5), not working.

While the bankers were not able to provide specific account information for program participants, they were able to share some insight about their impressions of the program and how successful it has been in moving individuals into mainstream banking. There was general consensus that the majority of accounts that had been opened by *Money Smart* participants were now closed. One banker commented that two-thirds of the accounts that had been opened by program participants had closed within six months. The accounts had been closed by the financial institution, because the account holders were unable to maintain a balance. The accounts were not closed because of mismanagement (i.e. an overdrawn account). Interestingly, accounts that stayed open were tied to direct deposits. These account holders had signed up with their employers to have their paychecks electronically deposited. In these cases, there was an incentive for the account holders to maintain a healthy account.

Discussion of Findings

Overall, the findings presented in this report provide significant insight into the effectiveness of the *Money Smart* program in providing the unbanked with financial knowledge and helping them to enter mainstream banking. Several of these insights are worth noting.

First and foremost, the results presented in this report provide some evidence that the *Money Smart* program did succeed in encouraging the unbanked to open an account. Of the 92 unbanked participants in the sample, only 18 reported upon completion of the program that they did not intend to open an account. Furthermore, the second probit model that was estimated shows that participants' subjective assessment of the program's impact substantially increased the probability of planning to open an account. In particular, those who *strongly* agreed that, as a result of participating in the program, they were more financially knowledgeable and better able to manage their finances were significantly more likely to report that they planned to open an account. However, it is important to point out that planning to open an account does not necessarily imply that an account was opened. In addition, planning to open an account does not necessarily mean that an account should be opened.

One of the most striking findings to emerge from this study is that financial constraints play a predominant role in preventing the unbanked from opening an account. Over 70.0 percent of program participants without an account cited a lack of money as a reason for not having an account. This finding suggests that participants who do not plan to open an account are not yet in a financial position to maintain a healthy account and thus would not necessarily be best served by a program that strongly encourages them to enter mainstream banking. The program's efficacy might be enhanced by targeting non-account holders who lack the means to sustain an account with additional education on the use of alternative financial services.

Input from the banking community appears to support the findings which suggest that program participants who indicate that they "plan" to open an account are more financially prepared to manage and maintain an account than those who indicate that they do not plan to open an account. Participating in the mainstream banking system has substantial benefits. However, even after participating in a financial education program, it may still be in the best interest of the individual to not open an account. *The bottom line is that the best measure of program "success" may not be the number of accounts opened, but whether the program has provided the participant with the financial skills and tools needed to make that decision on their own.*

At the same time, if the primary aim of the *Money Smart* program is to facilitate the transition of the unbanked into mainstream banking, then it is critical that the program identify those participants who do not have an account but plan to open one upon completion of the program. The first probit model provided some insight into the characteristics of the typical unbanked participant. As expected, less educated, unemployed and non-City College participants were more likely to be unbanked. Moreover, single participants were more likely than married participants to be unbanked. Blacks were also more likely to be unbanked than any other ethnic group.

Interestingly, while blacks were the ethnic group most likely to be unbanked, they were also the group that indicated the greatest interest in opening an account upon completion of the program. On the other hand, Hispanics who were unbanked were the most averse to opening an account, perhaps because of immigration status and/or a lack of trust in the banking system. Recall that one of the main reasons participants without an account did not plan to open an account was that they still did not trust banks even after participating in the program.

Another key finding that is worth noting and very encouraging is that the vast majority of *Money Smart* participants is not borrowing from payday lenders and thus is not incurring the high interest burden associated with these types of loans. Instead, most participants are relying on family and friends to meet their borrowing needs. Less encouraging is the finding that very few of the unbanked participants are borrowing for investment purposes (house, education, car, etc.). Furthermore, over 60.0 percent of participants without accounts reported that they were borrowing just to pay the bills. For Welfare-to-Work participants, borrowing for other purposes meant, in many cases, that they were borrowing for necessities such as baby supplies. For City College participants, borrowing for other purposes was more likely to include borrowing for extra spending cash to pay for entertainment.

A final and very important insight that can be gained from this analysis is that the *Money Smart* program is not a "one size fits all" program. The program was originally developed with the unbanked in mind. From this analysis, it is clear that the program has moved beyond this target audience. It is also clear that many of the other target audiences have financial education needs that are inadequately being met with the *Money Smart* curriculum. For example, every Asian participant reported already having an account. In fact, this group was much more likely to hold multiple accounts, and possibly more than would be considered prudent. Based on our sample, this group clearly has educational needs than differ from other minority groups. They would likely benefit from financial education lessons related to investment strategies and retirement planning.

Perhaps, the best example to illustrate this point is City Colleges. City Colleges has been the most successful organization in the Chicago area at reaching a large target audience with the program. However, while it has had the highest participation rates, it has also had a low retention rate. One reason for this is that participation in the City Colleges' *Money Smart* program is voluntary while participation in the programs offered by the welfare-to-work groups is not optional. The lower than average retention rate for City Colleges raises additional questions about how well the *Money Smart* curriculum addresses the financial education needs of this particular target audience. Informal discussions with City College instructors confirm that this audience desires more information on advanced financial topics that are not included in the current curriculum (i.e. credit, debt management, investment strategies, retirement planning). Instructors reported that participants who dropped out of the program did so either because of outside commitments or because they felt the curriculum was too basic. This is not surprising since most of the lessons are designed to introduce students to mainstream banking, and these lessons are not well suited to engage a group that is already largely banked (nearly 80.0 percent reported having an account). However, with this said, it must also be noted that City College participants without an account were slightly more likely to drop out of the program than those with an account.

The authors of this report encourage the FDIC to review the current *Money Smart* curriculum taking into consideration the financial education needs of its various target populations. If the FDIC's interest is still primarily to target the unbanked, then the *Money Smart* curriculum may be sufficient. However, if the FDIC is interested in reaching other audiences such as community college students, it would be in their best interest to revise the curriculum or develop a more advanced curriculum to meet the financial education needs of a more general audience.

Research Limitations

It is important to point out that while this study provides considerable insight into the effectiveness of the *Money Smart* program, it is also limited in the following respects. First, attrition from the program and missing information on several surveys considerably reduced the sample size. In the end, only 92 of the participants who completed both parts of the survey did not have an account at the beginning of the program, and only 18 of those reported that they did not plan to open an account. The problem of small sample size was particularly acute for the second probit model, which estimated the probability of planning to open an account conditional on not having an account. As a consequence, the results of the model are in some cases driven by the responses of only a few individuals. Thus, while the findings provide some evidence that the *Money Smart* program succeeded in encouraging the unbanked to open accounts, one needs to be cautious and not regard these findings as conclusive.

A second limitation of this study is that since participants were not randomly selected into the program and attrition from the program was likely not random, the results may suffer from sample selection bias. However, it is impossible to correct for the possible bias given the lack of data on individuals who chose not to participate.

Measurement error in variables of interest is a third potential limitation of this study. In particular, the key measure of program efficacy—whether unbanked participants enter mainstream banking—is imperfectly measured. For instance, a high proportion of unbanked participants cited financial hardship as an impediment to opening an account in the past. For this reason, one must be skeptical about whether the 80.0 percent of unbanked participants who reported their intention to open (and maintain) an account in the near future would actually open an account. To this end, a follow-up questionnaire is needed to determine what proportion of participants who reported an intention to open an account actually did so. The follow-up interview, however, entails additional research costs. In addition, as indicated in a previous section, efforts were made to obtain cooperation from participating banks to collect account information on program participants. However, these efforts were met with little success. To conduct a successful evaluation of the *Money Smart* program in the future, it is critical that this information be collected, especially if the target audience is the unbanked.

A rigorous program evaluation would ideally include a control group as well. In this way, the effect of program participation on individuals' future financial behavior could be better isolated. Again, this solution would require the expenditure of additional resources.

Finally, stronger communication and coordination with program instructors and community banks would do much to improve the quantity and quality of data collected and hence the reliability of the findings. Better communication and coordination is especially needed for program sites serving immigrant communities. Regrettably, a disproportionate number of surveys from these program sites had to be dropped from the sample due to missing information.

Concluding Remarks

The main objectives of this report have been to: 1) investigate the account activity and financial behavior of the *Money Smart* program participants, 2) examine the effectiveness of the *Money Smart* program in providing the unbanked with financial knowledge and helping them to enter mainstream banking, and 3) provide an evaluation model that other researchers can follow to evaluate similar programs so that comparisons can be made across programs that have the same goal of moving individuals towards mainstream banking. The findings from this report provide significant insight into how financial education programs such as *Money Smart* can more effectively meet the financial needs of the unbanked and their communities. However, there is still much work to be done before our understanding is complete. The authors of this report encourage other researchers and educators to use this report as a foundation for future research and program evaluation related to the unbanked.

References

Beverly, S., Tescher, J., Romich, J., and Marzahl, D. (2001). Linking Tax Refunds and Low-Cost Bank Accounts: Findings from the Extra Credit Savings Program.

Bond, P. and Townsend, R. (1996). Formal and Informal Financing in a Chicago Ethnic Neighborhood. *Economic Perspectives*, July/August, 3-27.

Caskey, John P. (1994). *Fringe Banking: Check-cashing outlets, pawnshops, and the poor.* New York: Russell Sage Foundation.

Caskey, John P. (1997). *Beyond Cash-and-Carry: Financial Savings, Financial Services, and Low-Income Households in Two Communities* (Report written for the Consumer Federation of America and the Ford Foundation.) Swarthmore, PA: Swarthmore College.

Good, B. A. (1999). Bringing the Unbanked Onboard. Federal Reserve Bank of Cleveland, January 15, 1999.

Hogarth, J. M. and Anguelov, C. (2002). Why Don't Households Have a Checking Account? An Empirical Study of Reasons and Responses. *Consumer Interests Annual*, vol. 48, 1-12.

Hogarth, J. M. and O'Donnell, K. H. (1997). Being accountable: A Descriptive Study of Unbanked Households in the U.S. *Proceedings of the Association for Financial Counseling and Planning Education,* Phoenix, Arizona.

Hogarth, J. M. and O'Donnell, K. H. (1999). Banking Relationships of Lower-Income Families and the Governmental Trend toward Electronic Payment. *Federal Reserve Bulletin*, July, 459-473.

Prescott, E. S. and Tatar, D. D. (1999). Means of Payment, the Unbanked, and EFT '99. Federal Reserve Bank of Richmond *Economic Quarterly*, vol. 85/4, 49-70.

Rhine, S. L. W. and Toussaint-Comeau, M. (1999). The Use of Formal and Informal Markets Among Black Households. *Consumer Interests Annual*, vol. 45, 146-151.

Rhine, S. L. W., Greene, W. H., Toussaint-Comeau, M., and Hogarth, J. M. (2001). Currency Exchange Use and the Unbanked: An Empirical Analysis. Federal Reserve Bank of Chicago, Consumer and Community Affairs, Policy Study 2001-02.

Rhine, S. L. W. and Toussaint-Comeau, M., Hogarth, J. M., and Greene, W. H. (2001). The Role of Alternative Services in Serving Low- and Moderate-Income Neighborhoods. *Changing Financial Markets and Community Development Conference Proceedings*, Washington, DC, September 2001.

Toussaint-Comeau, M. and Rhine, S. L. W. (2000). Delivery of Financial Literacy Programs. Federal Reserve Bank of Chicago, Consumer and Community Affairs, Policy Study 2000-7, www.chicagofed.org/publications/publicpolicystudies/ccapolicystudy/pdf/cca-2000-7.

Toussaint-Comeau, M. and Rhine, S. L. W. (2002). Increasing Participation in Mainstream Financial Markets by Black Households. *Advancing the Consumer Interest*, vol. 13, 24-29.

Appendix

1. *Money Smart* Evaluation Form – Part I
2. *Money Smart* Evaluation Form – Part II
3. *Money Smart* Evaluation Cover Sheet

ID Number ___________

Money Smart
Evaluation Form – Part I

Dear Participant:

Before participating in the *Money Smart* program, the FDIC would like you to take a few minutes to answer the following questions. Your answers are very important to us, because they will help us to better meet the financial needs of your community and improve our program. We hope that you will choose to answer this survey. Your information will be kept confidential. Your responses will be used only for evaluation purposes by a researcher at the University of Illinois and the Money Smart evaluation team. **Please do not put your name on this evaluation.**

Information on Your Current Banking Activities:

1. Do you currently have a checking account? ____ yes ____no

    How many checks do you usually write in a month?
    ____ 0
    ____ 1-2
    ____ 3-5
    ____ more than 5
    ____ I do not have a checking account

    How many deposits do you usually make in a month?
    ____ 0
    ____ 1-2
    ____ 3-5
    ____ more than 5
    ____ I do not have a checking account

2. Do you have a savings account? ____ yes ____no

    How many accounts do you have?
    ____ 1
    ____ 2
    ____ 3 or more
    ____ I do not have a savings account

How many deposits do you usually make in a month?
____ 0
____ 1-2
____ 3-5
____ more than 5
____ I do not have a savings account

How many withdrawals do you usually make in a month?
____ 0
____ 1-2
____ 3-5
____ more than 5
____ I do not have a savings account

3. If you do **not** have a checking or savings account, why not? (Check all that apply)
____ Don't have enough money
____ Don't trust banks
____ Poor credit history and banks won't let me open an account
____ Banks don't have convenient hours or locations
____ Don't like dealing with banks, prefer currency exchanges
____ Don't write enough checks
____ Don't have a social security number
____ Don't have a ITIN number
____ Don't have a photo ID (example, driver's license)
____ Bank fees/costs are too high
____ Don't want the government to know how much money I have
____ other ____________________

Where do you cash your checks? (Check all that apply)
____ currency exchange or payday lender
____ grocery store
____ bank or credit union
____ convenience store (example, liquor store or gas station)
____ employer
____ other ____________________

How much do you pay to cash your checks per month?
____ $0
____ $1.00 - $4.99
____ $5.00 - $9.99
____ $10.00 - $19.99
____ $20.00 - $29.99
____ more than $30.00

4. If you do **not** have a checking account, how do you pay your bills? (Check all that apply)
____ cash
____ money order
____ credit card
____ other ____

5. Do you wire money? ____ yes ____no

How often do you wire money per month?
____ 1-2 times
____ 3-5 times
____ more than 5 times
____ I do not wire money

6. Do you borrow money? ____ yes ____no

Who do you borrow money from? (Check all that apply)
____ family and friends
____ payday lender or title loan company
____ rent-to-own center
____ credit cards
____ bank
____ other ____
____ I do not borrow money

What are you borrowing money for? (Check all that apply)
____ to pay the bills (groceries, rent, utilities)
____ for furniture, appliances, TV, VCR, stereo
____ for a car
____ for an education
____ for a house
____ other ____
____ I do not borrow money

Do you know the interest rate on your loans?
____ yes
____ no
____ I'm not sure

Please check the best response for each statement:

7. I know how to open a checking account.
   ____ yes
   ____ no
   ____ I'm not sure

8. I know how to write a check.
   ____ yes
   ____ no
   ____ I'm not sure

9. I know how to use an ATM/debit card.
   ____ yes
   ____ no
   ____ I'm not sure

10. I know the cost of having a bank account.
   ____ yes
   ____ no
   ____ I'm not sure

11. I have compared the costs of using a bank versus a currency exchange.
   ____ yes
   ____ no
   ____ I'm not sure

12. I know how much it costs to borrow money from a bank.
   ____ yes
   ____ no
   ____ I'm not sure

13. I know what an APR (annual percentage rate) is.
   ____ yes
   ____ no
   ____ I'm not sure

ID Number ___________

Money Smart
Evaluation Form – Part II

Dear Participant:

Thank you for participating in our *Money Smart* program!

Now that you have completed the program, the FDIC would like you to take a few minutes and answer the following questions. Your answers are very important to us, because they will help us to better meet the financial needs of your community and improve our program. We hope that you will choose to answer this survey. Your information will be kept confidential. Your responses will be used only for evaluation purposes by a researcher at the University of Illinois and the Money Smart evaluation team. **Please do not put your name on this evaluation.**

Information about the *Money Smart* Program:

Please check the response that best indicates how much you agree with each statement:

1. Because of this program, I am more financially knowledgeable.
   ____ strongly agree
   ____ agree
   ____ I am not sure
   ____ disagree
   ____ strongly disagree

2. Because of this program, I feel I can manage my finances better.
   ____ strongly agree
   ____ agree
   ____ I am not sure
   ____ disagree
   ____ strongly disagree

3. I feel that I can use what I learned in this program on my own.
   ____ strongly agree
   ____ agree
   ____ I am not sure
   ____ disagree
   ____ strongly disagree

Information on Your Future Banking Activities:

4. After participating in this program, do you plan to open a bank account?
    ____ yes, because____
    ____

    ____no, because____
    ____

    ____no, because I already have an account

5. If so, what type of account do you plan to open? (Check all the apply)
    ____ savings account
    ____ checking account
    ____ other ______________________________
    ____ I do not plan on opening an account
    ____ I already have an account

6. If you open a bank account, how many deposits do you plan to make a month?
    ____ 0
    ____ 1-2
    ____ 3-5
    ____ more than 5
    ____ I do not plan on opening an account
    ____ I already have an account

7. How many checks do you think you will write a month?
    ____ 0
    ____ 1-2
    ____ 3-5
    ____ more than 5
    ____ I do not plan on opening a checking account
    ____ I already have a checking account

8. Do you plan to borrow money from a bank?
    ____ yes, because____
    ____

    ____no, because____
    ____

Some Information About You:

9. What is your age?
   ____ under 25
   ____ 25 to 34
   ____ 35 to 44
   ____ 45 to 54
   ____ 55 to 64
   ____ 65 or over

10. How much schooling have you finished?
   ____ less than high school graduate
   ____ high school
   ____ some college
   ____ college (B.A. or B.S. degree)
   ____ graduate school

11. What is your gender?
   ____ male ____ female

12. What is your ethnicity?
   ____ White (non-Hispanic)
   ____ African American (non-Hispanic)
   ____ Hispanic
   ____ Asian
   ____ other

13. What is your martial status?
   ____ single
   ____ divorced/separated
   ____ widowed
   ____ married

14. How many people live in your household? ____

15. How many of these are children under age 18? ____

16. What is your current work status?
   ____ working part-time ____ working full-time ____ not currently working

17. What is your annual household income from work, aid, and all other sources?
   ____ under $4,999
   ____ $5,000 to $9,999
   ____ $10,000 to $19,999
   ____ $20,000 to $29,999
   ____ over $30,000

Money Smart Evaluation Cover Sheet

Site: ____

Instructor: ____

Completion date: ____

Module(s) taught (check all that apply)

_____ 1. Bank on It	_____ 6. Keep It Safe
_____ 2. Borrowing Basics	_____ 7. To Your Credit
_____ 3. Check It Out	_____ 8. Charge It Right
_____ 4. Money Matters	_____ 9. Loan to Own
_____ 5. Pay Yourself First	_____ 10. Your Own Home

What exposure did this class have to banks or bankers? Check all that apply

_____ Received name(s) of banks participating in the program

_____ Received list accounts and special considerations offered to Money Smart graduates by participating bank(s)

_____ Bank tour

_____ Banker served as a guest speaker

_____ Other ________________________________

_____ None

Reminders:

- Please check that each evaluation has an ID number on it.
- Please check that each ID number begins with the letter identifying your site

Return this form together with all Part I and Part II evaluations, and the *Participant Identification-Confidential* form in the enclosed pre-addressed envelope to:

Nancy Chen, Regional Administrator
Women's Bureau, US Dept. of Labor
230 S. Dearborn St., Room 1022
Chicago, IL 60604
Ph. 312-353-6985

Feel free to contact Karen Chan (312-578-9956) or Angela Lyons (217-244-2612) with any questions or comments about the evaluation process.