Applying Behavioral Economics in Asset-Building Services

Pamela Chan, CFED

CWDA Conference – October 9, 2014
CFED advances policies and programs that help low- and moderate-income households to build and preserve economically mobilizing assets. This includes buying a home, pursuing higher education, starting a business and savings for the future.
How can I help my clients improve their credit scores?

How do I help my clients open safe, affordable bank accounts?

What can I do to help families build savings?

How do I teach my clients to follow a budget?

How can I help my clients get out of debt?

How can I help my clients improve their credit scores?
Innovation Research & Design

CFED partners with organizations serving economically vulnerable consumers to improve or create new strategies that shift financial behaviors and outcomes.

- How can I help my clients make payments on-time?
- How can I get clients to make a deposit?
- How can I get people to sign up for my program?
- How can I help clients to increase savings contributions?
- How can I encourage clients to use their accounts more?
The BETA Project (2013)

An initiative to build the capacity of asset building programs that want to apply insights and lessons from behavioral economics to their own products and services.
Our Methodology: Behavioral Diagnosis and Design
Problem: Despite multiple avenues for payment, many lease purchase program clients fail to pay their rent on time.
Behavioral Diagnosis Highlights

1. Residents are anchored on the 10th of the month for payment.

2. Residents prioritize other bills.

3. Residents do not respond to the $25 late fee.
Designed Solutions: Monthly Raffle with Reminders

Play for your purse,

Pay on time for the chance to win a $100 cash prize each month!

Offer valid from April through July 2013 only
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.

Expires: 4/1/2014
Serial: [789011]

Date Used: __________________________
Resident Signature: _________________________
The Raffle Doubled On-Time Payment

![Bar chart showing percentage of residents paid by date after 1st of the month, with a significant p-value of less than 0.0001.](chart_image)

- Paid by 1st
- Paid by 2nd
- Paid by 3rd

- Control
- Raffle
Raffle Effects Were Sticky Throughout the Month

- Paid by 10th (not significant)
- Paid by 15th (not significant)
- Paid by 20th (p<0.10)
- Paid by 25 (p<0.05)

Date Paid After 1st of the Month

Percentage of Residents Paid

- Control
- Raffle
Adding the Waiver Did Not Change the Positive Effect of the Raffle

Percentage of Residents Paid

- Paid by 1st
- Paid by 2nd
- Paid by 3rd

(Date Paid After 1st of the Month)

(None are statistically significant)

Orange: Raffle
Blue: Raffle + Waiver
Problem: Borrowers have difficulties making consistent, on-time repayments using the Automated Clearing House (ACH) electronic withdrawal system.
Behavioral Diagnosis Highlights

1. Borrowers may **forget** to check for sufficient funds before the due date.

2. Borrowers tend to stick with the **default** payment date, even though it may not be ideal.

3. Borrowers may be deterred by **hassles** associated with making deposits.
This Month’s Payment

Due Date: 05/21/2015
If paying by Automatic Bank Withdrawal, we suggest you deposit sufficient funds by Monday, 5/18/2015
Total Amount Due: $999.99

Payment History

Last Payment Date: 04/22/2013
Last Payment Amount: $999.99
Balance as of 04/30/13: $999999.99
Total Payment(s) Past Due $0.00

For Automatic Bank Withdrawal Payments:
Try this simple tool to help yourself pay on time and avoid fees!

Make My Accion Loan Payment

I will make a deposit at the bank in the amount of $________ on the following date and time:
(Day of Week) (Month/Day) @ (Time)

Please post on your refrigerator

NOTE: Unless you are pre-approved by Accion to use methods listed below, please notify Accion at least 7 business days before the Due Date by calling 1-800-215-7373

Loan # 99999
(Include Loan # on your check, money order, or cashier’s check)

Due Date: 05/21/2015
Total Amount Due: $999.99 Amount Enclosed: $________

Payment Method (NO CASH PLEASE)
☐ Check ☐ Money Order ☐ Cashier’s Check
☐ Online Payment: www.acciontexas.org/make-a-payment

Fill out if there is a change of address: ____________________________
Designed Solutions: Email and Text Message Reminders

A Friendly Reminder: Your Accion Payment is Due!

Accion Texas <BorrowerServices@acciontexas.org>
To: JoeSmith@gmail.com

Tue, Apr 23, 2013 at 9:00 AM

Dear Joe,

Thank you for your business. Your Accion loan payment is due in 10 days!

This is a friendly reminder to make sure you have enough funds in your account for the payment.

If you have any questions or concerns, please call us TODAY at 1-888-215-2373.

Warm regards,
Accion

Click here if you don't wish to receive these messages in the future.
No Significant Effect Overall

- 81% paid on time
- 85% paid within 2 days
The Number of Fees Charged Decreased

Control vs. Treatment*

*Difference is statistically significant at p<0.10.
More Borrowers with Small Loan Payments Paid On-Time

Proportion of Payments Made on Due Date

Monthly Principal Payment, By Quartile

*Difference is statistically significant at p<0.10.
**Problem:** Individuals open credit union accounts during a five-week financial education course, but do not use these accounts or use them infrequently.
Behavioral Diagnosis Highlights

1. Clients take action during the course to open accounts, but **not to start using** the accounts.

2. Clients may be deterred by **hassles** associated with accessing the account on a regular basis.

3. After the course ends, client **attention** shifts away from the account.
Find My ATM

Make a plan to find the nearest ATM location to your home or work.

Detach this sheet, fold it in half, and use it to record your ATM location below.

What is the website for looking it up?  www._______________com
Where will I look it up?

Which day will I do it?

What time will I do it?

Date: ___/___/___
Time: ___:___ AM/PM

NTFCU account holders can look up ATM locations at:
www.nufcu.com/ATMLocator/

Brooklyn Coop account holders can look up ATM locations at:
http://www.allpointnetwork.com/

My ATM Location

Street Address: ____________________________
Borough/City: ____________________________
Intersection: ____________________________
Subway or Bus Stop; ____________________________

Designed Solutions: Plan-Making Activities and Pouch
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.
Clients Found the Plan-making Activities Useful

Please rate how useful the Take Action Plans were during the course:

- 5 - Highest Rating
- 4
- 3 - Neutral
- 2
- 1 - Lowest Rating

(81 responses total)
Effect on Account Opening and Usage Rates Was Suggestive

- 53% of clients offered an account at Neighborhood Trust Federal Credit Union in treatment group opened an account, compared to 19% in comparison group
- 52% of treatment group clients offered an account at NTFCU had multiple (2 or more) transactions during testing period, compared to 15% in comparison group
- However, results are indicative in nature only due to inability to randomize based on small sample size
Key Takeaways for Practice

- Shifting behaviors requires understanding the target population’s decision-making context.
  - “Customer insight” techniques such as client experience mapping and prototyping are incredibly helpful.

- The diagnosis and design are only our best guess.
  - Testing is necessary to know if a nudge is going to work in real life or not, but apply wisely as it can be complicated.

- Impacts (if any) are often small, but significant.
  - A one time fix isn’t enough, need to apply regularly to find the right package of nudges.
DIY Behavioral Diagnosis & Design Using the EAST Framework
The EAST Framework is a simple way to diagnose behavioral barriers and identify potential solutions.

Is the Desired Behavior Easy?

- Small details matter; little challenge can bring on procrastination...sometimes indefinitely
  - Things that are a little annoying to do, probably won’t get done

- Potential solutions:
  - Defaults
  - Removing hassles
  - Simplifying messages
Is the Desired Behavior Attractive?

- People can only pay attention to so much at one time and people have a lot on their plates
  - Things that don’t capture people’s attention or seem appealing get lost

- Potential solutions
  - Attract attention with images, colors, personalization, etc.
  - Offer carefully designed rewards
  - Impose carefully designed sanctions
Does the Desired Behavior Leverage Social Cues?

- People are heavily influenced by what others around them do or say
  - Things that don’t seem like a social norm are less likely to get done

- Potential Solutions:
  - Show that most people perform the desired behavior
  - Use the power of social networks
  - Encourage people to make a commitments to others
Is the Desired Behavior *Timely*?

- People easily forget things that aren’t top of mind at that moment
  - Things that don’t seem so important at the moment or that seem too far in the future often don’t get done

- Potential solutions:
  - Prompt people when they are mostly likely receptive
  - Adjust the immediate costs and benefits to taking action
  - Help people plan out steps to action
How might we help borrowers make deposits in time for their auto-payments?
Redesigned statement

### This Month’s Payment

<table>
<thead>
<tr>
<th>Due Date: 05/21/2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>If paying by <strong>Automatic Bank Withdrawal</strong>, we suggest you deposit sufficient funds by <strong>Monday, 5/18/2015</strong></td>
</tr>
<tr>
<td><strong>Total Amount Due:</strong> $999.99</td>
</tr>
</tbody>
</table>

### Payment History

<table>
<thead>
<tr>
<th>Last Payment Date: 4/22/2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Last Payment Amount: $999.99</td>
</tr>
<tr>
<td>Balance as of 4/30/13:</td>
</tr>
<tr>
<td>$99999.99</td>
</tr>
<tr>
<td>Total Payment(s) Past Due:</td>
</tr>
<tr>
<td>$0.00</td>
</tr>
</tbody>
</table>

---

For **Automatic Bank Withdrawal Payments**:

Try this simple tool to help yourself pay on time and avoid fees!

---

Make My Accion Loan Payment

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

(____) (____) (____)

Please post on your refrigerator

---

NOTE: Unless you are pre-approved by Accion to use methods listed below, please notify Accion at least 7 business days before the Due Date by calling 1-800-215-7373

**Loan # 99999**

(Inclue Loan # on your check, money order, or cashier’s check)

Due Date: 05/21/2015

Total Amount Due: $999.99

Amount Enclosed: $______

Payment Method (NO CASH PLEASE):

- [ ] Check
- [ ] Money Order
- [ ] Cashier’s Check
- [ ] Online Payment: [www.acciontexas.org/make-a-payment](http://www.acciontexas.org/make-a-payment)

Fill out if there is a change of address:

---
Easy?

1. Suggested deposit date clear and obvious

2. Simplified past payment information

3. Laid out what to do if you can’t make your payment or need to change form of payment
Attractive?

1. Modernized the layout and design of the statement

2. Included a picture of the CEO with a thank you message

3. Added a real post-it note
Social?

Did not focus on addressing techniques to establish social norms or commitments to other people.

Included a small feature - positive reinforcement for not owing any past due payment.
Timely?

Simple guidance to plan making the deposit
Timely?

Email and text reminders

A Friendly Reminder: Your Accion Payment is Due!

Accion Texas <BorrowerServices@acciontexas.org>
To: JoeSmith@gmail.com

Dear Joe,

Thank you for your business. Your Accion loan payment is due in 10 days!

This is a friendly reminder to make sure you have enough funds in your account for the payment.

If you have any questions or concerns, please call us TODAY at 1-888-215-2373.

Warm regards,
Accion

Click here if you don’t wish to receive these messages in the future.
Contact

Pamela Chan
Sr. Research Manager, CFED

Email: pchan[at]cfed.org