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Q&A with Cathie Mahon, head of the city's Office of Financial Empowerment

As part of our series of Q&As with New York City innovators, entrepreneurs and policy experts, the Center's Jonathan Bowles interviews Cathie Mahon about Mayor Bloomberg's new anti-poverty initiatives and what her office is doing to help low income New Yorkers open banking accounts, build savings and avoid costly fees for basic financial transactions.

by Jonathan Bowles

When Mayor Bloomberg announced his high profile efforts to fight poverty in New York, the media largely focused on the highly controversial initiative to provide conditional cash payments to parents who keep their children healthy and in school. But this isn't the only pioneering idea to come out of the mayor's poverty task force, known as the Commission on Economic Opportunity (CEO). The CEO also led to the creation of the Office of Financial Empowerment (OFE), which is reportedly the first local government initiative in the nation that's specifically aimed at helping low income residents build savings and make the most of their financial resources. The Center's Jonathan Bowles recently sat down with Cathie Mahon, OFE's executive director and a longtime expert on asset building, to find out more about what the office is doing, why so many New Yorkers don't have banking accounts and what could be done to help those with low incomes avoid financial transactions that have steep user fees.

CUF: What exactly is the Office of Financial Empowerment?

CM: The Office of Financial Empowerment (OFE) was created as part of Mayor Bloomberg's broader anti-poverty work over the past year. The mayor had convened this Commission on Economic Opportunity (CEO) to look at the range of reasons why people are in poverty and devise ways the city could be strategic in helping people move out of poverty. Among the vast series of recommendations that were part of the commission's report was a section about increasing financial literacy and access to asset building opportunities. And it is that piece of the broader commission's work that OFE was created to address. OFE was the very first initiative to come out of the CEO, in December 2006.

CUF: Why was the office placed inside the Department of Consumer Affairs (DCA)?

CM: OFE's mission is to educate, empower and protect low-income consumers in the financial services market place. It's not just an office of financial education. It's not just a small asset building program. It is an office that has a comprehensive view:

people need to be educated and they need to be empowered by getting access to a means of asset building opportunities, but they also need to be protected. Our focus really integrates well with DCA, whose traditional role has been to enforce the consumer protection law, and to license and regulate specific industries and businesses that work with consumers. That helps us to keep a really sharp focus on what some of the practices are that are going on in the financial services marketplace. Also, since 2002, DCA had been running the mayor's Earned Income Tax Credit (EITC) coalition, which brings together the network of free tax preparation services, a range of funders and other players around EITC to broadcasting the message: “Here's the EITC; it's your money, come and get it.” That is a perfect model and prototype for us.

CUF: What OFE is doing is pretty unique. Why haven't there been more municipal efforts focused on financial literacy?

CM: Poverty efforts have historically focused on income generation, on increasing incomes. That should always continue to be the focus. What I think is very recent is the idea that that's not enough, that now we need to think about how we empower people to make the most of the dollars that they're earning. We're entering into a crisis of over indebtedness, and it's affecting people of all walks of life, and across all incomes—it's just that people with low incomes have less ability to navigate out of it. So we need to get in front of that and give people good options. We need to make it as easy to get onto the pathway of savings as it is today to get onto the pathway of credit and debt. And we need to get people the right kind of information to make wise choices about when they need credit, and how they want to use credit and how they're going to manage credit and that debt once they have it.

CUF: Beyond getting smaller pay checks, what's making it so difficult for low income people to save?

CM: Unfortunately, if you're already at an extremely low income level, a large percentage of your income is getting siphoned off by high-cost products and services. While we need to help people increase their incomes, we also really need to think of the expense side of the household budget—how do we get people into smart, safe banking products and services that are going to help them to cut their costs and give them the mechanism to start saving and building a nest egg. So we need to get people to the right banking products, help people when they're ready to make the choices to move into credit and help them think through the best uses of credit.

CUF: Could you elaborate on how low income people in the New York see their money siphoned off?

CM: First of all, if you don't have a basic savings and checking account it means you may be getting paid in cash, you maybe getting paid in check. If you're getting paid in check, you're going to a check casher. You pay a fee to get your check cashed. You most likely have to buy a number of money orders to pay your landlord and other bills. All of those basic transactional services, they're one-off fees. In the current market, with banks the way they are out there trying to seek deposits, you could be with a direct deposit checking account, if you're managing it well, you could be getting all of those things for free.

CUF: How much are each of these things?

CM: Under state regulations, the fee for the check cashing service is 1.64 percent per check. But it you've got a couple hundred-dollar check, that could be $4, $5 or $6 right there. Then you go to a place that gives you a 99 cent money order. If you get 4 or 5 of them, you might be paying $4 or $5. You also do bill pay and other services, and you're doing this every pay period or at least every month. That's a big chunk of money that's getting out just for basic transactional services. And that's not even including when you want to purchase an appliance. When your refrigerator goes out, you might go to a rent-to-own store if you don't have savings built up and don't have access to conventional credit. That means you are often paying, at a minimum, two to three times the value of the original item in the payoff. And when you go to pay your taxes, and you have immediate outstanding bills, you're encouraged to take a refinance anticipation loan, which could mean that a good chunk of your refund gets siphoned off.

CUF: It adds up pretty quickly.

CM: Yes. It is really tough to save. With simple interventions of getting people into the right products and the right kind of account situation, people could actually be amounting several hundred dollars every year in money that they're not spending in unnecessary fees and services. To reach an unbanked population, it's important to not just push people into banking products and services. There are problems with the bank products as well. If you're not managing your money well, there's a lot of money you can lose through overdraft protection fees, overdraft non-balance protection fees, and that can be $30 per bounced check. So, it's not just about just encouraging people go get banked." It's about helping to find linkages that can take people who are unbanked and get them into good products and services.

CUF: Why is it that so many low-income people aren't in the banking system today?

CM: Well, I think a lot has to do with access and the type of products. Are the hours good? Do the products make sense? There are a lot of account products out there. It's really hard for anyone to wade through, and if you're not used to having bank relationships, it's even harder. With the check cashers, it's much easier—you do this, you pay that. With banks, there seem to be a lot more hidden costs, hidden fees and it's hard to know exactly when you're going to get hit with a fee. There are some bank products that are particularly not good for people who are living paycheck to paycheck, and then there are some that are good.

CUF: These days we hear a lot about some New York neighborhoods being oversaturated by bank branches. Are there some communities with too few financial institutions?

CM: There are certainly a lot of neighborhoods where there's not enough conventional financial institutions. The state banking development district program has really been successful in getting a lot of institutions to locate in neighborhoods that are underserved.

CUF: Immigrants make up a big part of the low income population in New York and other cities today. Does this present an additional challenge in getting more people into the banking system?

CM: There's a lack of familiarity and a lack of trust among many immigrants. I think that a lot of immigrant communities had mixed experiences with the banking system in their home countries. Either they had no access at all, or in some countries, it was very risky to deal with banks because there are no insured deposits. There are also some very real limitations for some immigrants around the level of documentation that some financial institutions are requiring. Many do accept IDs from the home country, passports and matricula [consular cards], and some financial institutions will accept ITINs (individual taxpayer identification number) instead of a social security number. For us, part of it is promoting those institutions.

CUF: The most highly publicized—and most controversial—part of the mayor's poverty commission has been the decision to provide conditional cash transfers as a reward to certain behaviors. How is OFE involved in that?

CM: That is a program, called Opportunity NYC, in which they are piloting this very experimental idea that came from Mexico where government provides cash incentives to people who engage in certain activities that are in their best interest. It encourages people to achieve certain things—such as going to the doctor, having parent teacher conferences, and being engaged in the schools. We were not involved with the development of that program; it was run out of the Mayor's Center for Economic Opportunity. But we did get involved by asking the questions: "How are those cash payments going to be made? And, isn't this a great opportunity, when you're reaching a population that is probably largely unbanked, to encourage them in to put those cash payments into bank accounts?" It turned out that 53 percent of the people enrolling in the program did not have any banking relationships. So this is a great opportunity. We spent a lot of time convening financial institutions around designing an almost perfectly safe savings account where people can open this account, and they can get the conditional cash transfer payment direct deposited into that account. It has been really successful. We're only just into it, but in the first few weeks of the program more than 500 accounts were opened in this way.

CUF: So how does it work for someone who is going to get these cash payments?

CM: On a bi-monthly basis, there's going to be a reporting of different things that people are doing on these different health, education, and workforce participation indicators. Based on that, participants will be getting payments through direct deposit. That was where we helped to create this Opportunity NYC account. The very first payment that will be made is $50 if you either have an account, or you open one of these accounts. You will get a $50 payment just to have that account.

CUF: Is direct deposit required?

CM: It's strongly encouraged. You get the $50 incentive if you either have one or open one. You can opt out and receive a stored value card instead. But, using this opt-out approach as opposed to making you opt-in is part of the reason that we've been successful in getting so many accounts opened thus far.

CUF: Are you going to expand the program?

CM: We're thinking that this could be a model for getting unbanked people into accounts.

CUF: Your office is also involved in efforts around the Earned Income Tax Credit?

CM: The EITC campaign is going to enter into its sixth year. We convened an EITC coalition, which has about 150 partners—including Vita [Volunteer Income Tax Assistance] sites, commercial tax preparers, funders, distribution networks, community based organizations and city agencies—to get the word out about EITC. We produce over two million pieces of literature in 11 different languages. People can call 311 to find out where there are free tax preparation services nearby and whether they qualify for EITC. And since the city now has a childcare tax credit, we're figuring out how we can make sure that people are aware they can qualify for that.

CUF: Are there still a lot of people who aren't taking advantage of the EITC?

CM: Originally, of roughly a million people who qualify [for the EITC] in New York, only about 800,000 file for it. So there are 200,000 people out there that the campaign has targeted. Each year, more and more New Yorkers file for EITC.

CUF: What else is the office working on?

CM: We're building out an online directory of financial education offerings in the city. The database was designed to have very specific information, like if you want a class on budgeting, you live in Queens and you speak this language, here are five places you can go and directions on how to get there. Borrowing a page from the EITC campaign, we would eventually do large scale public education message campaigns. It will provide general information about getting out from under high-cost debt—where should you turn and who should you talk to.

CUF: Are there financial institutions and nonprofits already doing some of this work across the five boroughs?

CM: Absolutely. The community development financial institutions that are in the city are obviously a great example, whether they're the community development credit unions or loan funds, microlenders, community development banks. I think we can help provide some outreach and education about these great providers which are out there. There's a lot of opportunity to continue to grow the capacity of these great providers.

CUF: Beyond what OFE is doing, what improvements are needed among financial institutions, community based organizations and other actors?

CM: We are going to be strengthened by other municipalities doing this. We've been having already some great conversations with cities like San Francisco and others who've been implementing similar type of strategies about how we can best raise this issue on the national level, and I think it’s going to be important. The fact of the matter is that financial institutions are increasingly serving multiple markets. The more that we're talking with a common voice with other cities to financial institutions; the more we're all going to have a stronger hand.

CUF: What should financial institutions be doing to get more low income people into the banking system?

CM: It's about making sure they are accessible to as many people as possible, both in terms of their physical presence in neighborhoods, how they're reaching out to neighborhood residents and what products they offer. If you're unbanked, you need to get started with a simple, easy to understand and easy to use product that's not going to get you into trouble.

CUF: Finally, I know you were in the non-profit sector before this. Why did you come to work in government?

CM: I spent a number of years working with a range of community development financial institutions, local non-profits and national think tanks on issues of access to credit and banking. The problem is that a lot of the amazing asset building programs and community development finance programs out there are doing such incredible, high impact, transformative work for people but on a very small scale. Coming in to city government, to this groundbreaking administration, at this point in time, was a unique moment to try some things out that get these programs to the broadest segment of the low-income population as possible. It's the absolute dream job.

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