About Financial Capability Services

NOTE: This resource was initially developed as an appendix to *Building Financial Capability: A Planning Guide for Integrated Services* (the Guide), a resource for community-based organizations interested in integrating financial capability services into existing programs for low-income people. For more information on the Guide or to download the full Guide, go to: http://www.acf.hhs.gov/programs/ocs/resource/afi-resource-guide-building-financial-capability.

Financial capability is defined as "the capacity, based on knowledge, skills, and access, to manage financial resources effectively."[1] Financial capability is a critical step towards financial security, and many people (regardless of socioeconomic background) may lack one or more factors of the financial capability equation. Some may lack the knowledge (e.g., understanding the terms of their credit card account) or the skills (e.g., calculating the total costs of using credit) needed to manage their financial lives effectively. Others may not have the access to resources necessary for managing their finances well (e.g., high quality but affordable financial services). Challenges in any of these areas will negatively affect financial capability.

Knowledge + Skills + Access to Resources = Financial Capability

This document provides an in-depth look at ten key financial capability services:

- Financial Education
- Financial Coaching
- Financial Counseling
- Credit Counseling
- Credit Building
- Access to Safe and Affordable Financial Products
- Free Tax Preparation Assistance
- Access to Federal and State Benefits
- Incentivized Savings Programs
- Asset Ownership Programs

Each service addresses a different aspect of financial capability. Some services are more suitable for clients who are just beginning to work towards financial capability. Other services will work for clients who have already built basic knowledge and skills and are ready to advance. The services also vary in the amount of resources and specialized knowledge needed for implementation. The descriptions in this document provide detailed information on each service—an explanation of what it is, why it is important, and how to implement it.

[1] United States Department of the Treasury. *Amended Charter: President's Advisory Council on Financial Capability*. Washington, DC: Department of the Treasury, 2010. Available at: http://www.treasury.gov/resource-center/financial-education/Documents/PACFC%202010%20Amended%20Charter.pdf.

Financial Education

What It Is

Financial education is one or more standalone workshops or classes that involve the transfer of information, often in a group setting, on a specific set of topics such as how to budget, use mainstream financial products, save, manage credit, reduce debt, access available tax credits, and more.[2]

Why It's Important

Understanding basic financial concepts is an important component of setting and achieving financial goals. Research indicates that individuals with knowledge about financial matters and skills in financial decision-making are more likely to plan for retirement, have an emergency fund, and make better investment choices in general.[3] They are also less likely to rack up high interest payments and fees on their credit cards.[4]

How to Implement It

- Financial education can be delivered to your clients in many ways, such as:
- Offering a series of financial literacy workshops that cover topics including budgeting, debt, credit, savings, and asset building.
- Integrating financial topics within non-financial workshops (e.g., learning how to put together a budget as part of a computer class on Excel).
- Providing access to online financial education courses.

For improved effectiveness, you should tailor the financial education curriculum and delivery method to your audience. For example, working families may have limited availability to attend in-person workshops but may be able to complete an online course at their own pace. Also, it is important to choose topics that are relevant and timely for the audience. For example, when working with high school students you may wish to focus on specific topics such as understanding credit and student loans.

A wide range of tools, resources, and curricula is available to help you start or expand a financial education program, including the FDIC's *Money Smart* (https://www.fdic.gov/consumers/consumer/moneysmart/) and resources developed by the National Endowment for Financial Education (NEFE) (http://www.financialworkshopkits.org).

It is important to note that classroom-based financial education alone may not be adequate to substantially change financial behaviors. Consider pairing financial education with opportunities to apply that knowledge—such as opening and saving in an account—to increase impact.

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[2] Collins, J. Michael. *Financial Coaching: An Asset Building Strategy*. Madison, WI: The Center for Financial Security, 2014. Available at: http://assetfunders.org/educate/resources/financial-coaching-an-asset-building-strategy.

[3] Lusardi, Annamaria. *Financial Literacy and High Cost Borrowing in the United States*. NBER Working Paper No. 18969. Cambridge, MA: National Bureau of Economic Research, 2013. Available at: http://www.nber.org/papers/w18969.

[4] Robb, Cliff and Deanna Sharpe. *Effect of Personal Financial Knowledge on College Students' Credit Card Behavior*. Alexandria, VA: Association for Financial Counseling and Planning Education, 2009. Available at: http://files.eric.ed.gov/fulltext/EJ859561.pdf.

Financial Coaching

What It Is

Financial coaching is multiple one-on-one interactions that empower clients to set and achieve their unique financial goals through behavior change and skill development. Coaches help clients develop their capability to practice sound financial management by providing guidance, support, and motivation to hold clients accountable to their self-defined goals.[5]

Financial coaches do not necessarily need to be financial experts but do need to have strong coaching skills such as active listening and motivational interviewing. Coaching emphasizes *behavior changes* (rather than targeting specific issues) to help people build decision-making skills for long-term planning. As such, financial coaching is usually a long-term process.[6]

Why It's Important

Recent field experience and research indicates that financial coaching is a high-impact service, providing a broad range of benefits for participants.[7] For example, The Financial Clinic in New York found that clients who achieved financial milestones had significantly higher employment results than those who did not accomplish financial goals.[8] In another study by NeighborWorks America, 54 percent of clients who started the coaching program with no savings had accumulated savings by the end of the program, with a median savings balance of $668.[9]

How to Implement It

Financial coaching can be delivered to your clients in many ways, including[10]:

- Training your staff in financial coaching techniques to provide one-on-one, targeted coaching to help clients set and achieve financial goals as part of ongoing service delivery.
- Providing website-based financial coaching options, such as My Budget Coach[11] or Change Machine.[12]
- Partnering with employers to provide on-site financial coaching to employees.

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[5] Collins, J. Michael. *Financial Coaching: An Asset Building Strategy*. Madison, WI: The Center for Financial Security, 2014. Available at: http://assetfunders.org/educate/resources/financial-coaching-an-asset-building-strategy.

[6] For more information about the differences between financial coaching, counseling, and education, see Collins, J. Michael. *Financial Coaching: An Asset Building Strategy*. Madison, WI: The Center for Financial Security, 2014. Available at: http://assetfunders.org/educate/resources/financial-coaching-an-asset-building-strategy.

[7] Golden, Olivia, Pamela Loprest and Gregory Mills. *Economic Security for Extremely Vulnerable Families: Themes and Options for Workforce Development and Asset Strategies*. Washington, DC: Urban Institute, 2012. Available at: http://www.urban.org/publications/412699.html.

[8] Smith, Rebecca, Mae Watson Grote and Katrina Ron. *Scaling Financial Development: Improving Outcomes and Influencing Impact*. New York, NY: The Financial Clinic, 2011. Available at: http://thefinancialclinic.org/wp-content/uploads/2013/03/scaling-financial-development.pdf.

[9] NeighborWorks America. *Scaling Financial Coaching: Critical Lessons and Effective Practices*. Washington, D.C.: Neighborhood Reinvestment Corporation, 2013. Available at: http://www.neighborworks.org/Documents/HomeandFinance_Docs/FinancialSecurity_Docs/FinancialCoaching_Docs/Executive-Summary.

[10] Collins, J. Michael. *Financial Coaching: An Asset Building Strategy*. Madison, WI: The Center for Financial Security, 2014. Available at: http://assetfunders.org/educate/resources/financial-coaching-an-asset-building-strategy.

[11] For more information about My Budget Coach, see: https://www.mybudgetcoach.org/.

[12] For more information about Change Machine, see: https://change-machine.org/.

To deliver financial coaching effectively and in line with best practices, staff members need extensive training and a specialized set of skills.[13] An important factor to consider is that financial coaching is a time- and resource-intensive service, and it may take several sessions over the course of a year or longer to help clients change behavior and build the capacity to save and invest.[14]

[13] For information about financial coaching training curricula, see Collins, J. Michael and Hallie B. Lienhardt. *Research Brief 2014-8.2. Financial Coaching Training Curricula: Field Inventory and Summary Brief*. Madison, WI: The Center for Financial Security, 2013. Available at: http://fyi.uwex.edu/financialcoaching/files/2014/08/CFS-Financial-Coaching-Curricula-Brief1.pdf.
[14] Collins, J. Michael, Christi Baker and Rochelle Gorey. *Financial Coaching: A New Approach for Asset Building*. Baltimore, MD: The Annie E. Casey Foundation, 2007. http://www.aecf.org/m/resourcedoc/AECF-FinancialCoaching-2007-Full.pdf.

Financial Counseling

What It Is

Financial counseling is individual one-on-one sessions driven by the counselor to help clients address specific financial matters like managing credit or purchasing a home. Financial counseling is usually short-term and focuses on immediate client needs. Additionally, financial counselors often make referrals and may take an advocacy or mediation role on behalf of the client.[15]

Why It's Important

Financial counseling can serve as a direct intervention when clients face immediate, acute problems where expertise is required.[16] Financial counselors can help clients navigate through a variety of complex financial challenges including foreclosure prevention and debt issues.[17] The Assessing Financial Capability Outcomes (AFCO) project found that participants who received financial counseling were more likely to stay current on debt payments, and reduced their past-due debt by 14 percent over 12 months compared to a 5 percent reduction experienced by participants who did not receive counseling.[18]

How to Implement It

Financial counseling can be delivered to your clients in many ways, such as:

- Training your staff as financial counselors so they can address specific financial topics and issues
- Referring clients with unique financial needs to a third-party organization to receive specialized financial counseling

Counselors must have specific training or even certification on various financial topics such as home buying or foreclosure. It is important that financial counselors not only have expertise in specific financial topics, but also understand the motivation and psychological importance of money decisions to individuals.[19]

[15] Collins, J. Michael. *Financial Coaching: An Asset Building Strategy*. Madison, WI: The Center for Financial Security, 2014. Available at: http://assetfunders.org/educate/resources/financial-coaching-an-asset-building-strategy.

[16] *Ibid.*

[17] Wiggins, Rebecca. *"What is Financial Counseling."* Association for Financial Counseling and Planning Education website landing page. Available at: http://www.afcpe.org/about-us/what-is-financial-counseling/.

[18] Corporation for Enterprise Development. *Research Brief: Financial Counseling and Access for the Financially Vulnerable.* Washington, DC: CFED, 2014. Available at: http://cfed.org/assets/pdfs/AFCO_Adult_Research_Brief.pdf.

[19] Langrehr, Virginia B. *Financial Counseling and Planning: Similarities and Distinctions.* Alexandria, VA: AFCPE, no date. Available at: http://afcpe.org/assets/pdf/vol28.pdf.

Credit Counseling

What It Is

Credit counseling helps people manage and reduce debt and take positive steps to improve their credit. For example, a credit counselor might work with an individual to review his credit report, identify outstanding debts, and develop a plan for paying down those debts. Many credit counselors take an exam to become a certified credit counselor, which is a requirement of non-profit credit counseling agencies to maintain membership with the National Foundation for Credit Counseling.

Why It's Important

With erratic incomes, the absence of a savings safety net, and lack of access to affordable credit, many low-income families turn to high-cost check cashing, pawnshops, or payday lending services with interest rates reaching up to 400 percent. This in turn leads many families to end up in a cycle of debt that prevents them from achieving financial security.

How to Implement It

You can help clients better manage their debt and build credit by:

- Referring clients to a certified credit counselor who can help them develop a plan for paying down high levels of debt and building credit
- Training staff to pull clients' credit reports, review them with clients for incorrect or fraudulent information, and, if necessary, refer them to a Legal Aid partner for assistance in addressing issues

As with financial coaching and financial counseling, credit counselors need in-depth training and specialized knowledge.

Credit Building

What It Is

Credit building focuses on helping clients with no credit history or a thin credit file begin to establish a positive credit record—such as through opening a small dollar installment loan or a secured credit card—and assisting clients with low credit scores to improve them through good credit behaviors (e.g., paying credit card bills on time).[20]

Why It's Important

A good credit history and high credit scores increase a person's ability to get a job, secure affordable and safe rental housing, or qualify for an affordable mortgage or small business loan—all key elements to building a financially secure future. Good credit also means lower interest rates and fewer fees that may save an individual, family, or small business hundreds of dollars a month – money that could be put toward paying other bills or building emergency savings.[21]

How to Implement It

You can help clients build credit by:

- Partnering with a local nonprofit lender, bank, or credit union to provide clients with a secure, affordable credit product and ensuring that clients' on-time payments are reported to the credit bureaus.[22]

- Creating a lending circle to help clients build or rebuild their credit and achieve their financial goals.[23]
- Collaborating with the Local Initiatives Support Corporation (LISC) in cities where they partner with Justine PETERSEN to offer credit building "Twin Accounts™," which combine a small dollar loan with financial counseling and matched savings. Alternatively, partner with Working Credit NFP, which offers a similar product called "CW-3" in areas where LISC does not operate.[24]
- Assisting clients in self-enrolling in rent-reporting programs like WilliamPaid.com or ClearNow to report on-time rent payments to the three major credit bureaus.[25]

Credit-building financial products may not be for everyone – at least not right away. It is important to make sure your staff is trained to talk through the pros and cons of each option and explore them with each client based on the client's circumstances.[26]

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[20] More information on credit building is available from the Credit Builders' Alliance: http://creditbuildersalliance.org.
[21] National Affordable Housing Management Association. *Making Rent Payments Matter: Building Credit with the Credit Builders Alliance.* Winter 2013. Available at: http://creditbuildersalliance.org/sites/default/files/Power%20of%20Rent%20Reporting%20NAHMA%20Update_1.pdf.
[22] For a list of nonprofits in your area that may be offering loans visit http://creditbuildersalliance.org/find-a-member and for a list of financial institutions offering credit building and other credit products visit www.assetplatform.org.
[23] For more information about lending circles, see: http://lendingcircles.org/.
[24] For more information about Twin Accounts™, see: http://www.lisc-chicago.org/news/2561.
[25] For more information about rental payment reporting options, see http://creditbuildersalliance.org/whats-new/hot-topics/power-rent-reporting-cbas-pilot or contact programs@creditbuildersalliance.org.
[26] For in-depth training on how to identify who is a good credit-building candidate, see Justine PETERSEN's online credit building coaching training.

Access to Safe and Affordable Financial Products

What It Is

This service assists clients in transitioning from high-cost alternative financial service providers (e.g. check cashers and payday lenders) to low-cost and low-risk mainstream financial services. This includes opening checking and savings accounts, using direct deposit, managing credit cards, and opening restricted savings accounts such as retirement and money market accounts.[27]

Why It's Important

Many low-income families are vulnerable to predatory financial services providers, such as check cashers, pawnshops, payday lenders, and car title lenders, that charge excessive fees and interest. Some families fall into debt, or go deeper into debt, because they use high-interest credit cards to pay medical or other bills. Safe and affordable financial products provide families with mechanisms to make necessary financial transactions, such as cashing checks and paying bills, and enable them to save for unexpected expenses or financial goals. In addition, using mainstream credit helps families build the positive credit history that is important for achieving asset ownership, such as purchasing a home or running a small business.

How to Implement It

You do not need to be an expert on financial products to help the families you serve gain familiarity with their banking options. Options include:

- Working with local Bank On[28] programs, credit unions, community banks, and other financial institutions to help clients access low-cost account options.
- Partnering with a local financial institution to help clients set up accounts at your program site.
- Ensuring that your financial education provides information on how to compare different account options and understand fee structures.

[27] For more information on financial products and services that support the financial health of low-income families, visit the Center for Financial Services Innovation's website at: http://www.cfsinnovation.com.
[28] For more information on Bank On programs, go to http://joinbankon.org.

Free Tax Preparation Assistance

What It Is

Free tax preparation assistance programs help low-income workers prepare and file their taxes without the high costs often charged by paid preparers. They also build client awareness of tax credits for which they may be eligible, such as the Earned Income Tax Credit (EITC) and the Child Tax Credit (CTC). Programs such as Volunteer Income Tax Assistance (VITA) or Tax Counseling for the Elderly (TCE) help clients complete their taxes for free and receive these valuable tax credits.

Why It's Important

Tax credits, such as the EITC and CTC, lift more families above the poverty line than any other poverty-reduction effort. In 2015, 27.5 million taxpayers received $66.7 billion from the EITC alone.[29] It is estimated that up to 80 percent of EITC-eligible families claim the EITC.[30] However, many low-income Americans have their taxes prepared by paid preparers whose high fees take a big bite out of their refunds.

How to Implement It

You can help your clients file their taxes for free and access the tax credits they are eligible for by:

- Hosting a local VITA site, which prepares tax returns for low- and moderate-income taxpayers for free, at your organization.
- Providing information to your clients on the EITC, CTC, or other tax credits for which they may qualify to raise awareness.
- Referring clients to VITA sites in your area so that they can avoid high-cost paid preparers.[31]

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[29] Internal Revenue Service. Statistics for 2014 Tax Year Returns With EITC. Washington, DC: IRS, no date. Available at: http://www.eitc.irs.gov/EITC-Central/eitcstats.

[30] *Ibid.*

[31] For information about VITA or TCE sites near you, see: http://irs.treasury.gov/freetaxprep/.

Access to Federal and State Benefits

What It Is

This service involves screening clients for federal and state benefits, such as the Supplemental Nutrition Assistance Program (SNAP, or Food Stamps), Temporary Assistance for Needy Families (TANF), or Medicaid, and providing assistance in accessing the benefits for which they are eligible.

Why It's Important

While a long-term goal of building financial capability is to reduce the need for benefits, many families require support in the short term. Low-wage workers can receive thousands of dollars in additional income and services through federal and state programs that are often underused. For example, only about 60 percent of eligible families in the U.S. participate in SNAP, also known as Food Stamps. Other programs for which clients may qualify include TANF, the Low Income Home Energy Assistance Program (LIHEAP), Medicaid, and the State Children's Health Insurance Program (CHIP). Federal and state benefit programs can not only help with daily living expenses, they can also help families to save and build the assets they need for a secure financial future.

How to Implement It

Here are some things you can do to build clients' knowledge about the benefits for which they are eligible and to make it easier for them to navigate the process:

- Add screening for public benefits and income supports to your intake and assessment process.
- If your organization already offers assistance in accessing benefits through various departments, ensure that you have a smooth internal referral process so that benefits enrollment does not slip through the cracks.

Incentivized Savings Programs

What It Is

Incentivized savings programs help participants save towards a goal—often, though not always, an asset goal— by providing incentives that keep participants motivated and reward savings behavior. Examples of common savings incentives include:

- Savings matches – such as providing $1 for every $1 saved by participants.
- Initial deposits – such as providing $50 to seed an account upon participant enrollment.
- Benchmark incentives – such as providing financial rewards for achieving certain milestones (e.g. completing financial education, making consistent deposits, etc.).
- Prize-linked incentives – such as entering participants into a drawing for cash prizes when they make deposits.

Individual Development Accounts (IDAs) are the most common type of incentivized savings program. IDAs are designed specifically to help participants save for and purchase an asset, such as a home, vehicle, small business, or postsecondary education. The Assets for Independence (AFI) program is an Administration for Children and Families (ACF) IDA initiative that provides grants to local nonprofits and government agencies to run IDA programs for low-income individuals and families.[32] Other matched savings programs may allow participants to save toward purchasing a computer, vehicle, or other specific goal.

Child Savings Accounts (CSAs) are long-term, incentivized accounts, established for children as early as birth. Accounts are usually seeded with an initial deposit and built by contributions from family, friends and the children themselves. Accounts are augmented by savings matches and/or other incentives, and the savings are used to purchase an asset – typically to finance postsecondary education.

Save to Win, which was created by Michigan credit unions in partnership with Doorways to Dreams Fund (D2D), is an example of a prize-linked savings program. Save to Win offers special balance building certificates of deposit (CDs) in which members are entered into raffles for cash prizes with each deposit of $25 or more. Participating credit unions offer both a large annual jackpot and a range of regularly awarded smaller prizes to encourage participants to save.[33] Save to Win has been replicated in other states due to its demonstrated effectiveness and positive results.

Why It's Important

Cash savings help individuals and families weather job loss, health crisis, or other emergencies and are a critically important step toward financial security. Yet more than 43 percent of U.S. households experience liquid asset poverty, which means that they do not have enough savings to live at the federal poverty level for three months in the absence of income.[34] Providing savings incentives can encourage low-income families to establish savings to weather financial crises and start building wealth, which can be leveraged to acquire lasting assets. Savings incentives can also shorten the amount of time families need to save enough to purchase a home, start a business, buy or repair a vehicle, or pay for postsecondary education (theirs or their children's).

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[32] More information on the AFI program is available at: http://www.acf.hhs.gov/programs/ocs/programs/afi.
[33] More information on Doorways to Dreams Fund "Prize-Linked Savings" Is available at: http://www.d2dfund.org/prize_linked_savings.
[34] Brooks, Jennifer, Kasey Wiedrich, Lebaron Sims, Jr., and Jennifer Medina. *Treading Water in the Deep End.* Washington, DC: CFED, 2014. Available at: http://assetsandopportunity.org/assets/pdf/2014_Scorecard_Report.pdf.

How to Implement It

Working with your clients to establish matched savings can encompass a wide range of options, including:

- Applying for an AFI grant to provide IDAs for your clients who may be ready to purchase a home, small business, or postsecondary education.
- Helping parents of kindergarteners start to save for their children's postsecondary education by providing a matched CSA upon school enrollment[35]
- Establishing a prize-linked savings program that encourages participants to build emergency savings by entering them into raffles for cash prizes based on deposit activity

[35] More information on Children's Savings Accounts is available at: http://cfed.org/programs/csa.

Asset Ownership Programs

What It Is

Asset ownership programs help clients purchase or maintain assets such as savings, a home, a vehicle, a small business, or education. Asset ownership services can include down-payment assistance, foreclosure counseling, homeownership counseling, business development classes, and a range of other entrepreneurship programs. They can also include matched savings programs that help people purchase assets.

Why It's Important

Savings provides a buffer against financial crises, such as job loss or a medical emergency. Asset ownership helps individuals increase their net worth (assets minus debts). However, many Americans struggle to acquire and keep assets; more than a quarter of U.S. households are asset poor, which means they have insufficient net worth to live at the poverty level for three months in the absence of income.[36] Wealth-building strategies help clients build lasting financial security and climb the economic ladder.

How to Implement It

Organizations can help low-income families build assets by:

- Helping an aspiring entrepreneur develop a business plan and secure the capital she needs to launch a successful business.
- Providing homeownership classes to help families purchase a home and prepare to be responsible homeowners.

Referring clients experiencing difficulties paying their mortgage to a housing counselor to help them avoid foreclosure and maintain their home.

[36] Brooks, Jennifer, Kasey Wiedrich, Lebaron Sims, Jr., and Jennifer Medina. *Treading Water in the Deep End.* Washington, DC: CFED, 2014. Available at: http://assetsandopportunity.org/assets/pdf/2014_Scorecard_Report.pdf.