THE FINANCIAL CLINIC℠

BUILDING **FINANCIAL SECURITY** THROUGH **FINANCIAL COACHING**

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INTRODUCTION

In the growing field of financial coaching programs, The Financial Clinic (the "Clinic") has one of the most established, high-performing models in the country. In celebrating its 10th anniversary this year, the Clinic took the opportunity to reflect on the organization's inception, its growth and the achievements of its customers. Those achievements are quantified by the Clinic's six-part financial security outcomes framework explained in this report. This paper will provide background on the development of these outcomes, as well as present how one-on-one financial coaching has been used to further the Clinic's mission of helping working-poor Americans build financial security.

Through statistics and a story about a Clinic customer, the Clinic aims to illustrate how effective financial coaching is for customers who are prepared to work holistically on their finances, or whose issues can be resolved with the support of a coach. While financial insecurity is pervasive, not everyone needs a financial coach: Since 2008, the Clinic has led numerous cross-sector initiatives exploring the versatility of financial development work across different populations. The diversity of human services that have successfully adapted financial strategies into their programs demonstrates the valuable and far reaching role financial security can play as an integral part of the nonprofit sector. This paper will conclude with a discussion of the Clinic's Ecosystem, which is its emerging strategy to provide comprehensive services to those who need it most.

WELFARE, INCOME, AND THE CLINIC'S FOUNDING

For nearly 100 years, anti-poverty policies and programs have primarily focused on income-based strategies, from cash assistance to workforce training programs. When healthy, working-age individuals are in need of cash assistance, policy makers have sought to make the receipt of cash benefits dependent upon training or work requirements. The enactment of the Temporary Assistance for Needy Families (TANF) program in 1996 advanced stringent work requirements for cash assistance.[1] Not only is receipt of cash assistance a high bar, but TANF benefits are not enough to pull recipients above the federal poverty line.[2] Those who are able to transition from cash assistance to employment find that—due in part to a decade of stagnant wages[3]—many who work full-time still struggle to stay out of poverty: The Bureau of Labor Statistics reports that 4.2 percent of full-time workers and 15.5 percent of part-time workers can be classified as working poor.[4] Although the income side of financial insecurity is critically important, more employment, regulation and programs are not absolute guarantees for financial security.

> ***Those who are able to transition from cash assistance to employment find that—due in part to a decade of stagnant wages—many who work full time still struggle to stay out of poverty.***

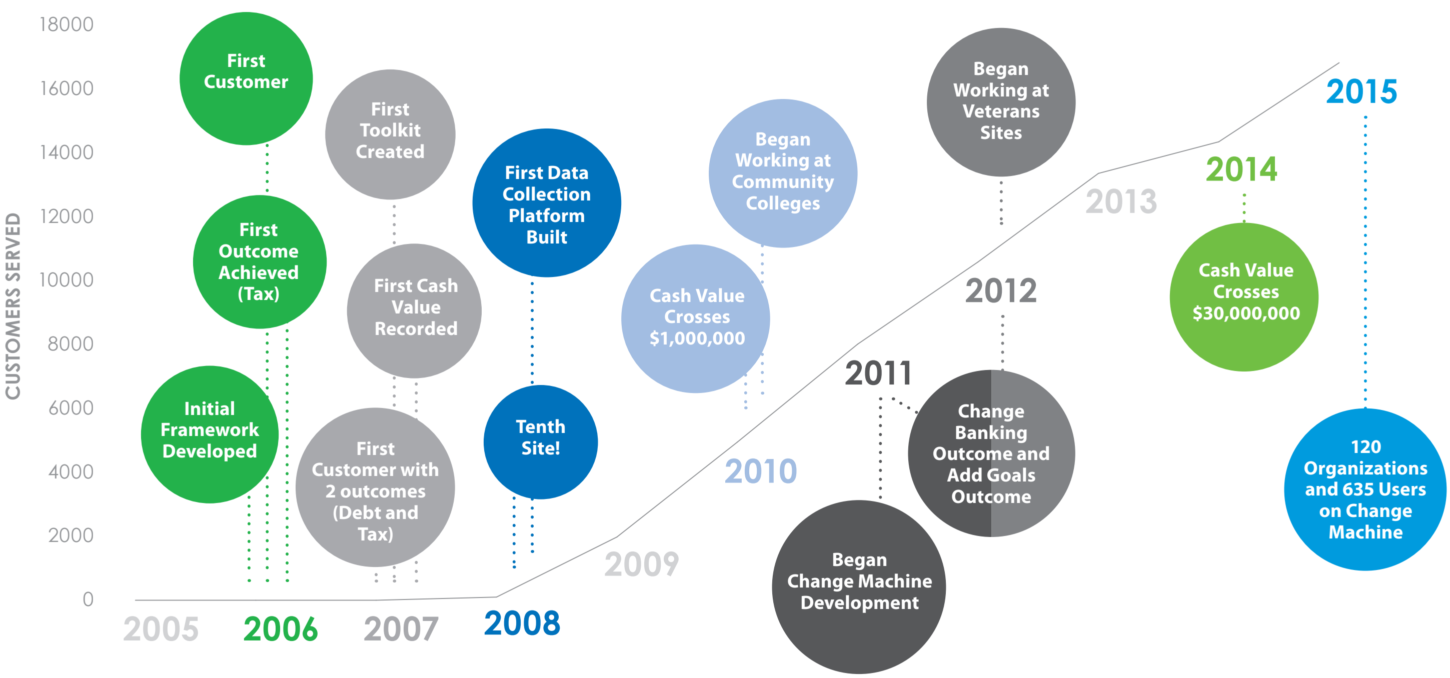
A background in labor market policy provided the Clinic's founder, Mae Watson Grote, with a firsthand view of this reality, and infused her with a passion for systemic solutions. Coming from workforce development, she knew how transformational income supports could be in aiding new, low-income entrants to the labor market.[5] Additionally, appreciating that asset development, for myriad reasons, should be the focus of anti-poverty efforts,[6] income supports and savings became the first pillar of a holistic approach to addressing financial security through financial coaching.

When acknowledging that income is not the only driver of financial security, the situation becomes more challenging. In our increasingly complex financial system, it is not sufficient to focus on debt and credit. Inability to accumulate assets or to access banking services can severely limit an individual's options. Additionally, poor tax planning can lead to missed credits.[7]

Working to help customers establish goals empowers them to strive beyond these barriers, and keep them motivated when the barriers prove difficult to break through. How the Clinic's customers struggle with these myriad issues represent the impetus for the development of the Clinic's mission and model.

The Clinic primarily addresses these issues through one-on-one financial coaching. This report will further elaborate upon these barriers, explaining how coaching builds financial security. In subsequent reports, the Clinic will seek to highlight issues that would be more appropriately addressed at a systemic level, based on the experience and data that the Clinic has and continues to collect.

CLINIC COACHING HISTORY

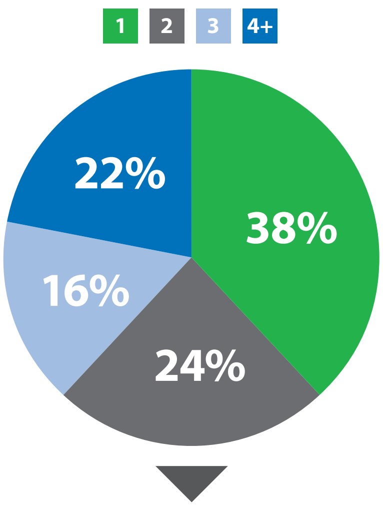


WHO DO WE SERVE

The Clinic was founded with the expectation that it would primarily assist working-poor individuals. Indeed, the Clinic's customers' average income is less than $20,000 a year, and they only "get by" through a patchwork of income supports and help of friends and family, as well as forgoing basic necessities. Half of the people the Clinic has served have been unemployed with another 25 percent working part-time only. Most of the Clinic's customers rely on Medicaid or Medicare for healthcare. In addition, the majority of people served live in multi-person households and only about a quarter completed a college degree. The depth of financial insecurity faced by the Clinic's customers is staggering, and the average customer cannot depend on future earnings alone to address it. The customer and the financial coach work together to create financial security within the customer's current situation and establish goals which inform a path beyond that situation.

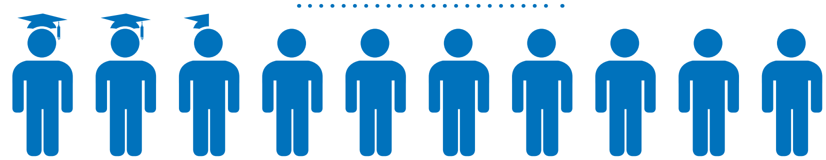
HOUSEHOLD COMPOSITION

CUSTOMERS BY HOUSEHOLD SIZE

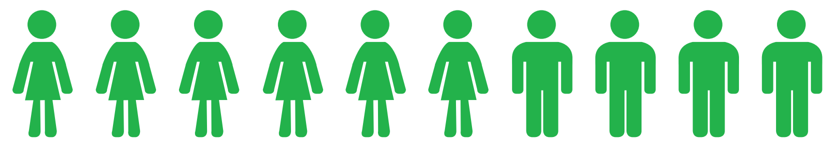


Greater than 80% are unmarried

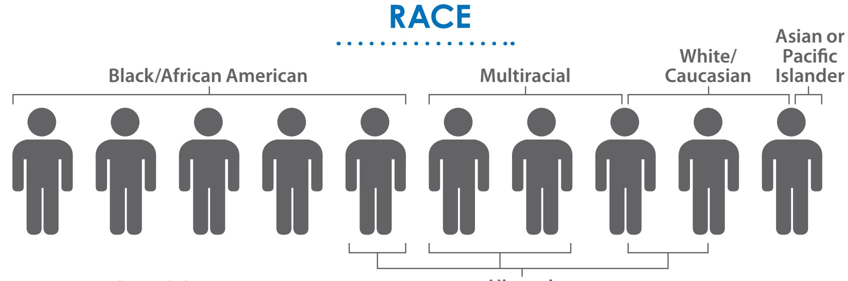
EDUCATION



GENDER

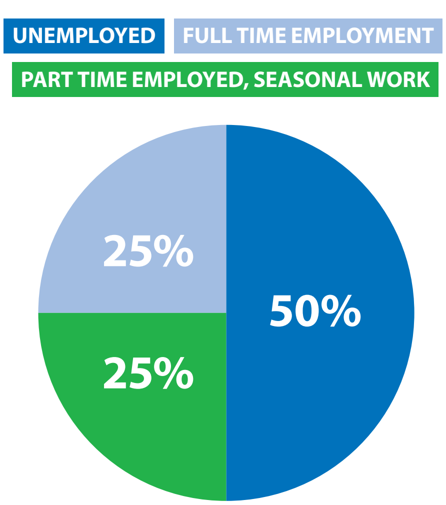


RACE



*1% American Indian or Alaska Native

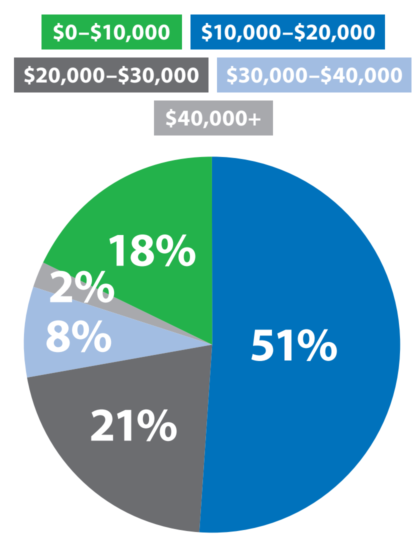
INCOME



MEDIAN AGE IS

38 YEARS OLD

INCOME LEVEL



10
YEARS

15,000
CUSTOMERS

30,000
MEETINGS

$15,000,000
IN CASH VALUE

AND OVER **4,000**
OUTCOMES

From its inception, the Clinic has been committed to quantifying the work done by coaches and the progress made by customers in a way that is not only tangible, but actionable. This drive led the Clinic to define an outcomes framework early on. Over the years, the Clinic has refined its model and created a proprietary database—Change Machine—to enhance outcome reporting capabilities.

The charts showing customer progress reflect the Clinic's commitment to outcome tracking as they were compiled using data from three databases over 10 years of services. (This is not the case for line-item financial transaction costs, which the Clinic began tracking in 2014.)

The data in the charts only show baseline and final averages for customers who improved in each area; that is, the customers who achieved outcomes.

GOALS OUTCOME: ACHIEVE A FINANCIAL GOAL

The Clinic believes that financial goals are action-driven because they feature three distinct qualities: asset-oriented, forward-thinking and passionately-held. "Asset-oriented" means that the goals are rooted in the customers' strengths; "forward-thinking" encourages a future orientation; and "passionately-held" refers to how goals need to be self-identified and personal in nature. Financial coaches encourage goals to feature all three of these qualities, ensuring that the goals are actionable and that customers are able to achieve them.

These goals are then broken up into manageable parts, which serve to highlight the importance of the other outcome areas. Working toward and achieving the financial security outcomes lays the foundation for attaining the goal. When asked during a first meeting why they are meeting with a financial coach, many customers answer, "to get the creditors to stop calling me" or "to understand this notice." Financial coaches explain that they will work together to address these issues, but that the customer needs to establish a financial goal first. The Clinic has found goal-setting to be an effective strategy because it ties financial security to something that is truly important to the customer and often moves them toward a significant life goal.

50%
OF CUSTOMERS DO NOT HAVE A CLEAR GOAL IN MIND

Step 1: Identify a goal(s)

Step 2: Understand what motivates the customer

Step 3: Map out a financial action plan (set action steps in the five outcome areas)

ASSETS OUTCOME:
SAVE CONSISTENTLY

The assets outcome is about developing habits which foster financial security beyond the coaching relationship. Building assets is at the heart of the Clinic's anti-poverty mission. As shown in the story below and elsewhere,[8] having assets, however meager, can shore households against volatile income, give purpose and meaning to budgeting, and help keep people from taking on bad debt in difficult times, which can then lead to a cycle of never ending debt payments. Most importantly, developing assets helps foster confidence and change an individual's outlook on their future.

DEVELOPING SAVINGS HABITS

6,009 → **833**

77% of Clinic customers who had their savings assessed had $0 in savings when they began coaching

14% are developing or established a savings habit with an average savings increase over $1,100

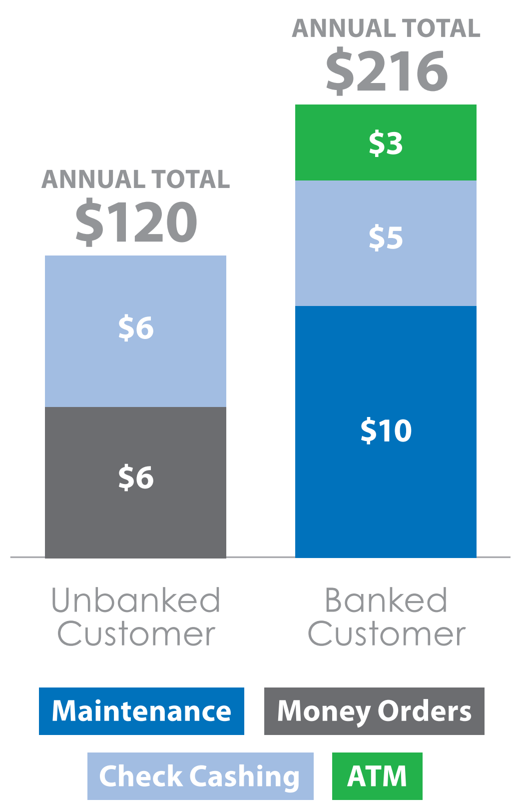
> ***Developing assets helps foster confidence and change an individual's outlook on their future.***

BANKING OUTCOME:
DECREASE THE COST OF FINANCIAL TRANSACTIONS

Achieving this outcome requires an examination of all financial activity, which reveals the true cost of the customer's financial transactions. Although the amount saved through working on banking is never extraordinary, issues discovered through a review of banking activities are often indicative of other challenges.

Although the Clinic works with customers to open convenient, low-cost bank accounts, this is viewed as a potentially important step and not the outcome itself. It is not uncommon for Clinic coaches to see banked customers spending more on financial transaction costs than unbanked customers. Having a bank account in the presence of sound financial habits shifts banking from being a drain on financial resources to supporting bigger-picture financial goals.

IT IS NOT UNCOMMON TO SEE BANKED CUSTOMERS SPEND MORE ON FINANCIAL TRANSACTIONS THAN UNBANKED CUSTOMERS

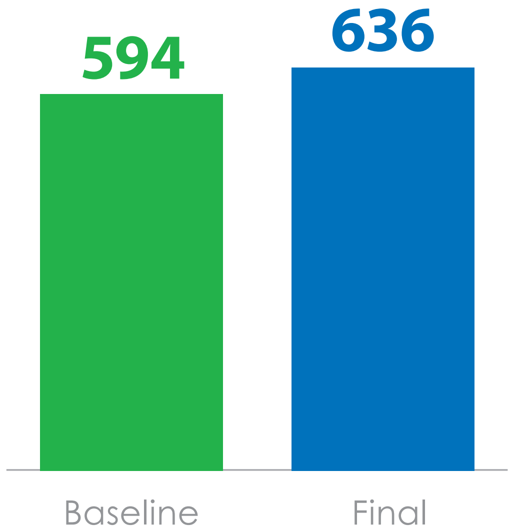


*These are actual monthly fees for customers seen in Brooklyn in 2014.

CREDIT OUTCOME: ESTABLISH OR INCREASE CREDIT SCORE

A poor credit report and score serves as a barrier, excluding individuals from jobs to housing, not to mention the increased cost of borrowing at higher interest rates. When customers meet with a coach, they generally understand that they should be looking at their credit history, but they do not have a good grasp of what is positively or adversely affecting their credit. Given that poor credit disproportionately affects low-income individuals and that the majority of Clinic customers seek out a coach for this very reason, credit building strategies are an essential part of the puzzle that builds financial security.

AVERAGE CREDIT SCORE INCREASE: 42 POINTS



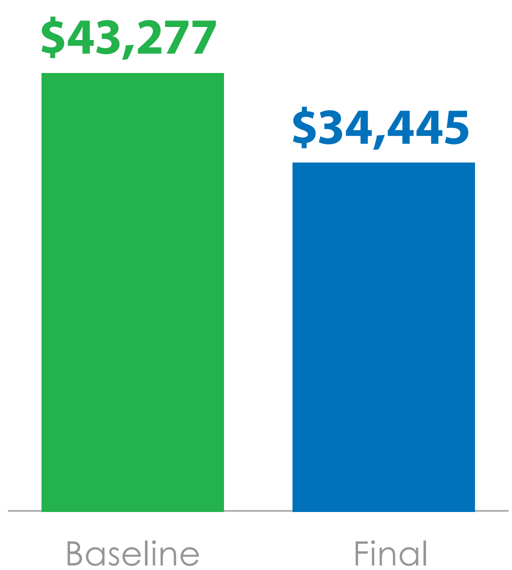
*Over 70% of customers, who had a change in credit score, had an increase in credit score from program start to end. This chart shows the numbers for those who had increases in scores (n=912).

**23% of customers have no FICO score at program entry due to either the absence of a credit record or a thin file.

DEBT OUTCOME: DECREASE DEBT

Debt, being closely related to credit, also serves as a barrier to customers, preventing them from moving past "bad times" or financial mismanagement toward financial security. For many customers, debt was accumulated for basic living expenses and to make ends meet during difficult times. Customers often assume that debt is something that could be dealt with later, because the short-term consequences to missing debt payments are usually minor, or because they believe they will have more income in the future. It eventually hits a tipping point where the customer is forced to address it because of collection calls and threats of legal action.

AVERAGE DEBT DECREASE: $8,831



*Over 70% of customers, who had a change in debt, decreased their debt from program start to end. This chart shows the number for those who had decreases in debt (n=1147).

TAXES OUTCOME: SAVE A PORTION OF INCOME TAX REFUND TOWARD A FINANCIAL GOAL

Many Clinic customers receive a substantial portion of their annual income—up to 45 percent for some—at tax time through a variety of credits, but mostly from the Earned Income Tax Credit. This important financial moment can either serve to direct individuals toward financial coaching and year-round tax planning, or be leveraged as an opportunity to save toward a goal.

CUSTOMER PROFILE

Bridgette* first came into contact with the Clinic through its free income tax preparation services. After her tax return was prepared, she was asked if she would be interested in receiving financial coaching, and if she was, would she be willing to fill out a form answering some questions about her financial situation. With some hesitation, and visible discomfort, she consented. After slowly filling in her first and last name on the form, she asked if a staff member could fill out the form, explaining that she could not read. She could read, but at such a low reading level that she was unable to comprehend anything beyond the basic questions.

As she answered the assessment questions, it became clear that she was not only functionally illiterate, she was financially illiterate. Because of her lack of education, she had never engaged with the financial system (she did not have a personal bank account or a credit card), rather she relied on her mother to manage her finances. Her stated interest in receiving financial coaching was to acquire a department store credit card, so that she would have more financial freedom and be able to make larger purchases. The financial coach was able to show her that building credit would not only give her more financial freedom, it could also contribute to an action-driven financial goal. Working together they were able to establish the short-term goals of opening a savings account and saving $2,000 for emergencies. Bridgette's long-term goal is to buy a house.

Despite the challenges Bridgette faced, she was employed (although with a poverty-level salary), and she had only a few hundred dollars in debt. In reviewing her entire financial situation, the Clinic coach uncovered that the bank account Bridgette shared with her mother incurred ATM fees reaching over $100 annually. The revelation of the extent of the ATM fees led to a reduction in costs, while the coach helped her find and open her own low-cost bank account not only to save money, but to lay the groundwork to build savings. This was a big step for Bridgette as she had been distrustful of banks, even though she had technically shared an account with her mother.

Simultaneously working on multiple areas on both sides of the balance sheet is where real change and progress happens.

Over the next six months, Bridgette and her coach negotiated with creditors to reduce the small amount of debt she had, and worked on her credit from having no credit history to amassing a strong score of 692. She also saved $1,000. The importance of this shift from indebtedness to new savings and good financial standing was realized when her partner lost his job and she was able to support them both while he searched for new employment. In less than a year, the financial coach was able to empower Bridgette to go from being financially dependent to supporting others and taking significant steps toward achieving her goals. Overcoming financial insecurity is a commendable feat for any working-poor American; in Bridgette's case, the additional barriers she faced make her achievements even more exemplary.

In this situation, the desire for improved credit for everyday purposes served as the catalyst for receiving financial coaching, but the coach's ability to show Bridgette other areas for improvement and helping her to make progress changed her whole outlook. Now, with good credit and savings, her new long-term goal of home ownership does not seem far-fetched.

Simultaneously working on multiple areas on both sides of the balance sheet is where real change and progress happens. The coach could have simply helped Bridgette establish credit, but by helping her define and solidify her goals and investigating and highlighting the seemingly small banking fees that she was incurring, the coach was able to lay the foundation for financial mobility.

*Bridgette's name has been changed for privacy.

CONCLUSION

After years of experience, the Clinic has affirmed that progress in these six areas—assets, banking, credit, debt, taxes and financial goals—can result in greater financial security. Instead of simply offering products, or helping individuals maximize their use of available benefits by helping to fill-out applications, the Clinic uses the tools of coaching to help individuals set goals, create action plans, and follow through via mutual accountability.

After 10 years of coaching, the Clinic has also found that while financial insecurity is pervasive, not everyone needs a financial coach. The Clinic can reach more customers by "baking in" financial security strategies into partners' services and programs. Its emerging "financial security ecosystem" model trains front-line staff to address basic financial insecurity issues and refer customers to expert financial coaches and personal finance attorneys. The Clinic is conducting a pilot of this ecosystem model and expects to find that it increases the scale and deepens the impact of services that build financial security.

> ***While financial insecurity is pervasive, not everyone needs a financial coach.***

ENDNOTES

[1] Robert Moffit. *The Temporary Assistance for Needy Families Program* (Working Paper No. 8749). 2002. National Bureau of Economic Research.

[2] *Chart Book: TANF at 18*. 2014. Center on Budget and Policy Priorities.

[3] Heidi Shierholz and Lawrence Mishel. *A Decade of Flat Wages: The Key Barrier to Shared Prosperity and a Rising Middle Class*. 2013. Economic Policy Institute.

[4] *A Profile of the Working Poor*, 2012. 2014. The U.S. Bureau of Labor Statistics.

[5] Mae Watson Grote. *Unrealized Gains: How Workforce Organizations Can Put Money in the Pockets of Low-Wage Workers*. 2004. Public/Private Ventures.

[6] Michael W. Sherraden. *Assets and the Poor: A New American Welfare Policy*. 1991. M. E. Sharpe.

[7] *Earned Income Tax Credit Participation*. 2001. The U.S. Government Accountability Office.

[8] Michael W. Sherraden. *Assets and the Poor: A New American Welfare Policy*. 1991. M. E. Sharpe