From Distrust to Inclusion:
Insights into the Financial Lives of Very Low-Income Consumers

January 2015

A Qualitative Research Project from the National Federation of Community Development Credit Unions

ACKNOWLEDGEMENTS

This report is the culmination of more than a year's efforts by many individuals and organizations, all of whom are dedicated to finding ways to better serve the financial needs of the very low-income population in the United States. It summarizes the findings and learnings from 50 interviews with very low-income consumers from four interview sites in different parts of the country. At the same time it examines emerging financial products and services developed in an attempt to serve this market.

Many thanks go to Joy Silha of Silha Communications, who not only designed and implemented the field interviews, but who so sensitively engaged the interviewees in ways that drew out their personal stories. In addition, we are indebted to the staff of the four sites listed below for their help in organizing the site visits, setting up interviews, providing translators when needed and offering insights and feedback:

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Guadalupe Credit Union – Diane Sandoval and Molly Falconer
St. Louis Community Credit Union and Grace Settlement House – Paul Woodruff and Bernie Powderly II

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With thanks to all,

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EXECUTIVE SUMMARY

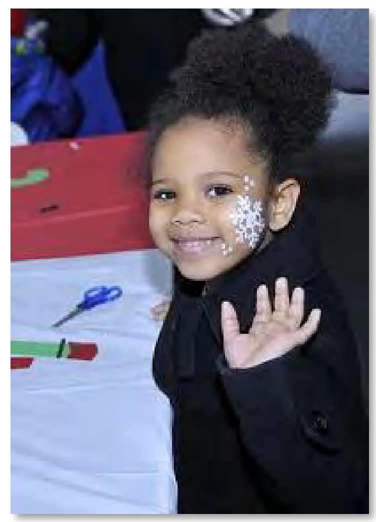
PURPOSE OF THE STUDY

With the generous support of the Ford Foundation, Kirsten Moy from the Aspen Institute joined forces with the National Federation of Community Development Credit Unions (the Federation) to study the financial service needs and behaviors of very low-income (VLI) consumers in the U.S.

The purpose of the research was twofold: first, to determine whether very low-income consumers (i.e., those with incomes of less than $20,000) constitute a distinct market segment from low- to moderate-income consumers[1] in terms of their usage and demand for financial products and services; and second, to investigate how socially-minded financial institutions could sustainably meet that market demand.

BASIS FOR FINDINGS

This study is based on a series of in-depth interviews with a diverse array of VLI people conducted by a professional market research firm. Fifty interviews were conducted over a six-month period, with VLI consumers drawn from four communities in three states. Many of these individuals had already found their way to socially-minded financial institutions, but some had not. The results of this qualitative study are more provocative than conclusive, but nevertheless serve to challenge conventional wisdom about the financial condition of VLI people, their demand for products and services, and opportunities to bring these consumers into the financial mainstream. This paper uses the words of VLI consumers themselves to present some of the central challenges they face in accessing and using financial services amidst tremendous uncertainty. In so doing, it reveals elements of our current intervention framework that may be driven more by the ease of delivery and less by the expressed needs and demonstrated demands of VLI consumers. In short, these interviews indicate that efforts to develop new products for VLI consumers may be fundamentally deficient or misguided and provides a basis to search for a better way forward.



1. **Instability and volatility is the norm.** The overriding context and dominating factor that emerged from interviews is the profound uncertainty and unpredictability of people's lives due to their work situation and lack of a safety net. Financial gaps and severe shortfalls are the rule, not the exception. The concept of "emergency" or unanticipated expenses is not appropriate to this market segment, as shortfalls are a constant. This instability and volatility of income make traditional credit products with recurring monthly payments fundamentally flawed and incompatible with the tremendous monthly fluctuations in

[1] Low- to moderate-income is generally considered those households with incomes 80% or below of Area Median Income and ranges up to $50,000 in some counties.

people's income. With inadequate income there is no capacity or cushion to withstand additional risk.

2. **Very low-income consumers have different needs.** Interviews found significant and persistent differences between the needs of VLI consumers and the products and services being developed and offered in the marketplace. While this study was not designed to compare VLI consumers with the larger low- to moderate-income market, some of the findings from these interviews may apply, albeit to a lesser degree, to the larger low-income market.

3. **Trust and relationships remain key to moving toward greater financial stability.** The VLI people interviewed for this study expressed a strong desire for help, but almost no interest in learning about financial products. Institutions that can help solve immediate problems earn trust and patronage, but institutions that push new products, even those that may provide long term benefits, are viewed with suspicion.

4. **Mobile banking technologies have not earned the trust of VLI consumers.** Although these VLI consumers have access to and high usage of mobile technologies, they do not entrust these technologies with their financial decisions or transactions. Interviewees expressed strong fears that they will get it wrong or get in trouble by using mobile tools to access products, services or information. They prefer to seek guidance and advice from people instead of technology.

5. **VLI consumers depend on cash.** Despite high levels of technology use, VLI people continue to live in a cash economy with all that connotes. In many cases, this is by preference, as negative and adverse experiences occur when trying to access formal banking systems. Prepaid card usage was still not highly prevalent, though this may be shifting.

6. **Traditional budgets are not helpful in managing household finances and flows.** Inadequate, unpredictable and wildly fluctuating incomes confound the ability of traditional budgeting tools to provide useful guidance to VLI consumers. Busy and stressed people seek more than just information and advice about how to do something; they want actual help to do it, especially in areas they find unfamiliar and intimidating (e.g., negotiation with credit bureaus and creditors).

7. **Context matters**. Products and services must be matched to fit within the context of a person's overall life, not just their financial profile. When the capacity to save is uneven and small, then the ability to borrow and repay under flexible terms is needed.

FIVE QUESTIONS FOR THE FIELD

Efforts to reach unbanked and underbanked markets have focused almost exclusively on the development of new products and technologies. While some new products and technologies have achieved mainstream success and a more limited foothold in low- and moderate-income markets, this research indicates that products and technology cannot deliver what VLI people value most:

trusted relationships. While this is not a new insight, the bulk of investment capital, grants and practitioner efforts remain focused on the development and scaling of products and technologies. This study gives rise to five challenging questions for investors and practitioners:

1. **Why do financial inclusion efforts promote "getting banked" as the first step, when many consumers consider opening accounts as something to do when they have enough steady income to support the cost?** Countless programs promote new accounts for the unbanked and measure success by the number of new accounts opened, yet VLI consumers who cannot maintain accounts will often open and close accounts multiple times – at significant cost to financial institutions themselves. Interviewees report that the VLI view accounts as useful only when their circumstances are stable enough to maintain them.

2. **Why promote static budget tools when people indicate their finances may be changing day-to-day?** Budgets are valuable tools when there is a high degree of consistency and predictability in income and expenses, but for many VLI people who experience frequent, dramatic and unpredictable changes on both sides of the ledger, a budgeting exercise may change frequently and not present the right support. More interactive counseling may be able surface strategies, resources and other supports to off-set a constantly shifting financial picture.

3. **How can we build services, products and operations that appeal to VLI consumers?** Marketing, outreach, financial education and other initiatives work hard to prepare unbanked and underbanked individuals to use existing products, services, and delivery systems that are a poor fit for VLI consumers. The promotion of products, services and systems that are a poor fit for VLI consumers is unproductive. Products designed to meet the unique needs of the VLI consumer will meet with more success.

4. **How can we scale relationships and trust?** As investors and practitioners in community development finance have increasingly focused on scaling *products*, VLI consumers have continued to seek *relationships* and *ecosystems* that meet their immediate needs. Efforts to operationalize trust in financial institutions could provide the foundation for moving VLI consumers towards a more secure financial future.

5. **How can we pay for services that improve the condition of VLI consumers and their communities?** This study points to several strategies that could reduce expenses and increase the income of financial institutions that serve VLI consumers, but there is no magic formula that will produce reliable profits from serving this market segment. While individuals, communities and society at large stand to benefit if financial institutions reduce the crippling impact of predatory lenders and increase the financial stability of VLI consumers, financial institutions themselves can expect to receive little or even negative direct return on their investments in these activities. There may be certain activities or products that are not sustainable on their own and merit subsidy whether internally generated or in the form of outside investment.

BACKGROUND FOR RESEARCH

RESEARCH OBJECTIVES

This research project sought to better understand the attitudes and behaviors of VLI consumers. The overall objective is to gain a deeper understanding of financially vulnerable and underserved consumers and gain insight into what drives their behavior. Every day, community development credit unions (CDCUs) and other mission-driven financial institutions search for the right mix of products and services to address the needs of low- and very low-income members. This study was designed to illuminate and understand the needs of VLI consumers for CDCUs and others that serve this population.

The research explored whether VLI consumers constitute a separate segment that needs different products, services and distribution channels to help end their cycle of poverty. Specifically, the research objectives were to:

- better understand how VLI consumers think and feel about their financial situation
- gain insight into VLI consumer behaviors and basis for financial decisions
- understand sources of information and assistance
- gain insight into products/services VLI consumers feel might be useful and why
- discover key barriers (emotional, psychological, and financial) that get in the way of their progress
- gain insight into how to create a course of action for VLI consumers to gain greater control over their financial lives

METHODOLOGY

This research is qualitative in nature, consisting of in-depth interviews with consumers, front-line staff and managers of community development financial institutions serving a very low-income market. The findings from this research are not intended to be generalized or evaluative, but rather are designed to offer greater insights for financial institutions serving this market and develop hypotheses for future research and program design.

The research team conducted 50 interviews in the locations detailed below. Each site has a different approach to serving low-income consumers. Each site was responsible for recruiting consumers from among its members or customers and outside of it. The interviews were conducted on-site. The sites took responsibility for recruiting, setting up appointments and providing interview space. In some cases a translator was provided. Each interview was conducted for about one hour and respondents were guaranteed confidentiality. All interviews were conducted by Joy Silha, a Qualitative Researcher with decades of experience in market research for diverse industries and services. Concurrent to the consumer interviews, the research team met with site staff at each host institution to better understand their approach to serving the VLI market, the products and services offered and what their impressions of consumer needs and challenges were.

THE RESEARCH SITES

Four financial institutions were selected for the diversity of their members or customers, their focus on serving low- and very low-income consumers and their innovative approaches.

- Guadalupe Credit Union in Santa Fe, NM serving approximate 14,000 members
- Community Check Cashing in Oakland, CA providing transactional services to 1300-1600 consumers monthly
- Self Help Community Trust/Prospera based in San Jose, CA serving 50,000 members
- St. Louis Community Credit Union in St. Louis, MO serving 48,000 members

INTERVIEW RESPONDENTS

Interview respondents were recruited and pre-screened for eligibility by the host sites. Eligibility was determined based on U.S. Department of Housing and Urban Development (HUD) guidelines of individuals whose household income was 50 percent or more below the median household income of that area. Incomes of most interviewees were under $20,000; St. Louis had the lowest income population, with most of the people interviewed reporting incomes of less than $10,000. Only a few people in the study had incomes that exceeded the HUD guideline. Some interviewees had family members who contributed to the expenses of the household. A few interviewees did report incomes over $25,000, but these individuals had large numbers of dependents that more than offset their slightly higher incomes. Interviewers spoke with the financial decision-maker in the household, i.e., the person who came to the site to complete transactions or gain assistance. The interviewees were married and unmarried, of various ages, and included 18 men, 28 women and 4 couples. The majority of interviewees reported having children under age 18. About 25 percent were unemployed (with the highest percentage of unemployed in St. Louis); 40 percent worked full time, and 35 percent had part-time or multiple jobs. Diverse ethnicities were represented, with Latinos and African Americans predominating.

LIVING SITUATIONS

The interviewees included many single mothers or grandmothers with several children to care for, sometimes with no support or assistance. Many came from blended families with children from prior relationships. The single mother or grandmother demographic was particularly strong in St. Louis compared with the other locations. Other interviewees reported living together with several families, often in very small apartments (2-3 rooms).

Among the interviewees there were several married couples with young or grown children living with them. Several interviewees (particularly among Latino respondents), reported that they support family members out of the household or country, particularly in Mexico, Colombia, Cuba and also the Philippines. Some interviewees reported receiving some public assistance in addition to employment income either in the form of Food Stamps or from SSI Disability.

WORK SITUATIONS

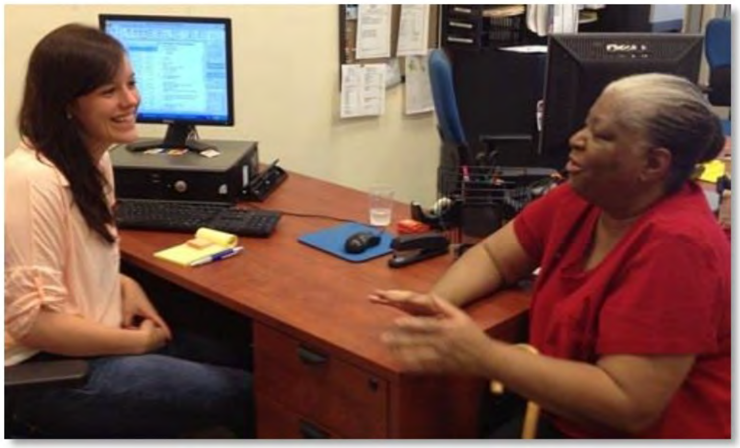
Interviewees reported various sources of employment, primarily in low-wage service positions including cleaning, cooking, cashiers, retail workers, caretaking for the elderly and/or children. There were also janitors, handymen, gardeners and security guards.

Many reported not earning a living wage. Often, these were seasonal workers who only have income during part of the year. Some respondents were holding more than one low-paying job and some had erratic night hours. Others were unemployed – they had lost their jobs and were searching, but could not find work. These respondents reported that they do whatever they can, including odd jobs for friends or acquaintances for small amounts of cash to supplement or replace income. Employment income routinely did not match up with recurring expenses.

One person reported that finances are very stressful; they're up at 3 a.m., worrying and losing sleep wondering "how will I feed the kids?" Another person reported that they don't like being on food stamps; they felt it is degrading and don't even let their kids know. They use coupons and go to multiple stores, anything to try and make it work. Others talked about wanting their children to experience some of the same things as their peers, to be "normal," do what their peers do and have what they have.

Again and again interviewees believed that if they could just get that one good-paying job, worries over finances would go away. When asked what scares her most, one person said, "Not having a job." When asked if there was anything other than a job that could help, she could not think of anything. The interviewee repeated the need for more money, more jobs. Her husband is working two jobs; she applied and got a second job at night for three days a week, but sees it as temporary.

They don't have time for any more work, but are still not making it. They have a son and daughter in college, about which they are very proud.



FINDINGS: DEMAND SIDE

STRATEGY FOR SURVIVAL: NOT SUSTAINABLE

Many VLI consumers said they default to financial strategies that address immediate needs but may not be sustainable. This is not necessarily a conscious decision, but more a response to circumstances whereby the VLI tap the resources that are at their immediate disposal. Strategies that interviewees use include:

- juggling bills
- borrowing from family or relying on elders
- using pawn shops or storefronts for transactions and payday lending for quick cash
- rent-to-own, if they need furniture
- defaulting on overdrafts, bank charges
- falling behind on credit cards

Interviewees said that they were constantly juggling escalating, everyday expenses for the children and school, groceries, phone transportation, medical, rent or mortgage bills.

"I'm just hanging on."

"I'm trying to climb out of the hole."

"Pick myself up, dust myself off."

"I'm getting over this hump."

"I'm over my head."

As one person put it, expenses are a "hot potato," having to decide with each payday what to pay as a constant struggle. The interviews probed people's thoughts and feelings about their finances. Not surprisingly, there is a high level of on-going stress and anxiety due to uncertainty and lack of financial cushion. Interviewees discussed feeling unsure and uneducated when faced with financial decisions and being intimidated by money matters. With limited margins every wrong decision can be very costly. Often people reported they avoid making financial decisions entirely. The worries and anxiety about their own capacity are coupled with a fear of institutions in general, which were described as "not friendly," "cold" and "suits". Others expressed a sense that they "didn't belong there."

Many equated self-respect and self-image with their financial standing and particularly their credit; few were clear about exactly what their credit history would show, adding to their anxiety. Many expressed a fear of rejection when dealing with financial institutions as it reflects on their self-worth. It was common for respondents to describe being embarrassed for not understanding basic concepts or by past mistakes and debts.

Money management choices were generally based on convenience, desperation and default. People discussed managing their money day-to-day, week-to-week, with very little or no savings, primarily informal savings at home. If they receive extra from a tax refund, they used it pay debt or to save a bit at home. In most cases, people felt they can't afford to make mistakes.

Some respondents expressed interest in financial counseling, although it was usually around a specific goal and where they felt they could use information for a specific purpose, such as learning about buying a house. Community Check Cashing refers customers to a nearby nonprofit for financial education classes. St. Louis Community Credit Union requires its financial counseling clients to meet certain milestones to move forward to the next session. At Guadalupe Credit Union, the counseling is delivered on-site by credit union staff trained as financial counselors.

LIVING IN A CASH CULTURE

The interviewees tend to operate on a cash basis, because it gives them a greater sense of control. One person expressed it as, "I can watch it grow." Having money immediately accessible means they can help family and friends now. The credit union members who were interviewed are banked, but many use "checkless" checking accounts with debit cards, not checks. Others interviewees tended to be unbanked, relying upon cash. There were concerns about it being difficult to get to the bank or credit union when it is open or having the transportation to get there. People expressed greater comfort with cash because it is readily in hand in case they need it; they can see it, feel it, account for it, and they just find it easier. This indicates a mental association with getting accounts only when there is enough money that it is not immediately needed. Accounts at banks and credit unions are almost viewed as a next tier step rather than an option for those that are living so close to the financial edge. Few respondents reported using pre-paid debit cards, though this may shift over time.

The following table provides a quick grouping of reasons why people chose to remain in a cash culture.

Get money now	*Cashing checks and getting cash immediately offers a sense of control*
Need money now	*Pay bills in cash at the last minute*
Spend money now	*If any money is left over, spend it on luxuries because it might not be there in the future – or, pay debt*
Keep money at home	*Have savings nearby for emergencies – "you never know"*

BUDGETING METHODS USED ARE PRACTICAL AND TANGIBLE

Budgeting methods mentioned in interviews include paying bills first in cash, sorting money in envelopes or jars, or sorting cash by what's due. For many, this manual and tangible process ensured the must-pays were covered first before considering the extras – personal expenses, children's needs, special events, etc. Some talked about paying past debt, if possible. Some reported having savings left over after paying bills, but not regularly.

A written, prepared budget seems unrealistic in many people's worlds. Their budget is in their head – they know what bills need to be paid and when – first the rent, then other bills. They use different methods to manage the cash. One person used the sorting method because that's what she learned from her parents, putting the cash in piles for different bills. Another person, who has a checking account, used cash for rent, but then used the checking account for other bills; this helps her control spending. When asked if a budget could help them manage better, one person commented that, "If I don't have income, advice [about how to manage money] isn't going to help me!" Like the bank or credit union accounts, financial education and counseling was considered something you might need when there was a little more to work with.

SOCIAL NETWORKS ARE SIGNIFICANT FACTORS ON HOUSEHOLD FINANCES BOTH POSITIVELY AND NEGATIVELY

Many people expressed a strong belief in financially helping family and friends at all costs, even at their own expense. One interviewee described sending half her pay to their two grown sons in the Philippines who suffer from asthma. She knew that doing so meant she couldn't save enough to travel to visit them or bring them to the U.S. where their asthma might not be so bad. Another person, who had managed to save over $35,000, helped out a relative with an $8,500 loan to buy a motorcycle. The loan was not paid back and now he and his father have medical problems and resulting financial troubles. He knows he used a big part of his financial cushion for the loan to his relative. While these are just two examples, there were many other stories about helping someone else and an expression of feeling good when able to help someone else.

SMALL SAVINGS STRATEGIES HELPED PEOPLE PUT A FEW DOLLARS ASIDE FOR RAINY DAYS

Saving is perceived as good, but interviewees usually just didn't have money to save. In discussions about savings we heard people express a genuine desire to save. VLI people know savings provide a back-up in emergencies or can help them meet their dreams and get ahead, but, interviewees felt they "can't do it now." They would get behind on bills and always end up spending the savings.

An interviewee keeps two at-home savings funds – an Emergency fund and a Happy fund. She tries to keep at least $500 in each, using them for emergencies and sometimes a road trip. Naming their savings helps this family to set aside money – it's easier to save for a specific purpose or goal.

A woman tosses all the change from her wallet into a pretty, painted box every day. If she takes $2 out for something she puts $4 back in. In a year she saved $700!

There can be a downside to home savings: one man said he saved money in his child's mattress, unbeknownst to his wife. One day she threw out the mattress and he lost all he had saved there.

Saving at home feels safer and easier than in a financial institution. There were strong barriers and perceptions of barriers to saving in institutions. The most significant barrier is the ready access to cash that almost all those interviewed identified as very important. Saving at home feels "like I have more control" – easy access for an emergency is best.

Savings at home methods include jars, envelopes, under the mattress, in a home safe. This feels more casual, easier, and not serious; just toss "extra change" in a jar and then take it when needed. One person said that saving in a bank is serious, more structured and they would feel bad if she took her money out. Tradition and family habits definitely play a large role with a common refrain, "it's how my (mother, grandfather, etc.) saved!"

PEOPLE EXPRESS MIXED FEELINGS ABOUT CREDIT AS WELL – FOR MANY, CREDIT AND DEBT ARE SYNONYMOUS

Interviewees expressed fear and confusion about borrowing. Some associate credit with payday loans, credit cards and other debt. There was anxiety that credit cards are a quick way to amass debt. People expressed belief that credit cards make it too easy to spend, but are hard to pay back. They expressed fear of rejection, compounded by an assumption that there was too much "paperwork" involved in obtaining a personal loan.

Some very low-income consumers felt they were not ready for credit – that they can't handle it. But some also feel that good credit brings good things. Credit means a better life, helps you get ahead and get the "good things" in life. Interviewees knew that they can get a loan with good credit; although the fact that they can get better rates too was a surprise to some. People argued that if you have bad credit doors are closed, but if it's good, there are more opportunities. Some mentioned that credit is good to have for an emergency. Good credit was consistently equated with higher self-esteem – a sign of success. Through financial counseling some have learned the advantage to credit and understand how it can help them towards their goals or help with their small business.

Credit scores are the great unknown to many of the interviewees. Some had no idea what the score is and why it's important. If they do know what a credit score is, they may be afraid to find out what the number is, believing it will make them feel bad about themselves if it's low.

> *"I don't want to know my credit score."*
>
> *"I don't need another nail in my coffin."*
>
> *"I don't want to know. It says you're worth nothing."*

The VLI consumers interviewed who did have credit or debt challenges generally fell into debt primarily from their life situation and failed strategies to make ends meet. Here are the most common examples cited:

- medical costs (no insurance)
- school loans (though never finished school)
- overdue utilities (juggling the bills)
- bank charges (past accounts, not understanding charges)
- car loans (with non-functioning cars)
- payday loans

The number of people with debt varied by site – in Santa Fe and San Jose from 60-65 percent of those interviewed held some amount of debt, and in St. Louis and Oakland 75-85 percent reported debt. This is primarily non-productive debt. Even in cases where the intention was to borrow for a productive purpose, often it did not work. One woman interviewed had a student loan for nursing school, but had to leave school because there was just too much going on in her life. Another's husband was injured and the wife had to go back to work and give up school. Yet another borrowed to get a car, but the car ceased to work within months.

Others reflected on what it would take to feel in control of their credit. Several respondents expressed interest in building credit, feeling that it would help them get ahead. However, they are not sure HOW to build credit; it seems hard given past debt, bad prior experiences and current income fluctuations. These consumers expressed an interest in being better educated about credit before they hear about specific products; they need to understand how it can help them. One comment summed it up, *"I don't know why I need better credit…I honestly didn't know…Then I thought, maybe I do need that because Loretta (at Guadalupe Credit Union) said a personal loan helps build credit, so I can get a lower interest rate*."

Payday loans reinforced interviewees' negative self-image. Payday lenders offer convenience – storefront locations are close by, are open at odd hours and offer easy transactions. The feeling is "comfortable," this is my "tribe," "I don't have to explain myself" and "they don't judge me." But these consumers know they are getting a bad deal; trapped in a cycle results in what one commenter described as a "second [class] citizen feeling."

PRIOR EXPERIENCES WITH FINANCIAL INSTITUTIONS IS OFTEN NEGATIVE

Many of the respondents who were unbanked previously had held an account at a bank. There were many negative experiences reported with banks, usually due to a lack of explanation or orientation to bank products; then overdrafts and unexpected fees resulted in an accumulation of debt. Many people closed accounts and walked away with the debt unpaid. Others found certain bank practices such as holding checks for a week to ten days as a major deterrent because they needed their cash sooner. Interview respondents expressed views that banks are cold and judgmental, places where they ask a lot of intimidating questions. Comments included:

- “Treat you like a number”
- “Not my world”
- “Can’t call on phone”
- “Move you like cattle”
- “Big and robotic”
- “Fees and fees and fees and a lot of jargon”

The internet was not a major consideration among interview respondents. Only a few people mentioned going on the internet for financial help. Mainly they did research on the internet. There was more of a negative feeling about using the Internet for finances or accessing financial services. Not generally on people’s radars, the internet was considered unreliable, with no sense of who was giving information or offering services. There was high level of skepticism about fraud and fear of scams. A few had gotten caught in internet payday loans and were subsequently inundated with more bad offers. There was also no personal interaction or guidance.

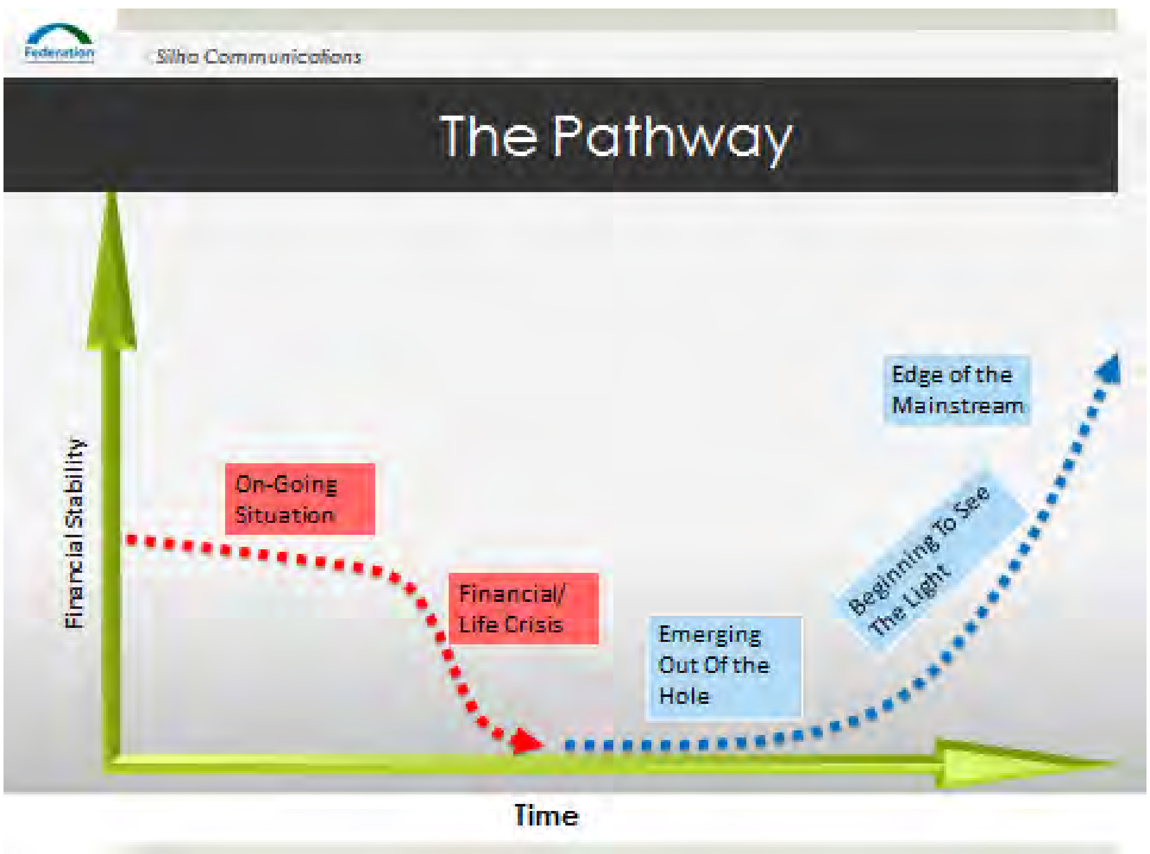
A few interviewees that had joined a credit union used online banking, but it was not very popular. People preferred the interpersonal connection.   Among non-members there was an awareness of credit unions, but only a vague understanding of what a credit union is or does. They heard it might be “better,” but were not sure how or why. Even with access to a credit union they might continue using check cashers, as it’s more convenient. Credit union terms like “membership” were confusing, and some people who had joined a credit union indicated that they were still not sure what membership means. Some suggested that in appearance a credit union may seem similar to a bank initially, feeling like they have to “walk into an institution.”

Of those who did go to credit unions it was usually because a trusted friend or family member – often an older member (parent, aunt, or employer) – recommended it. Those who had joined as a result of such a referral and were helped, expressed a feeling like they were a part of a family because of the way they are welcomed and accommodated.

IDENTIFYING PATHWAYS TO FINANCIAL STABILITY

Before designing interventions – products, services and programs – for a very low-income population, it is critical to recognize that not every VLI consumer operates the same way at the same stage of financial stability or instability. As at any income level, conditions vary widely across the population and over time, although with VLI consumers the cycles are accelerated.

One striking observation from the interviews was that people felt themselves at different spots along a continuum from crisis to stability, but few considered the point where they were on the day of the interview to be a static or permanent spot. Nor did people assume that they alone could affect their ability to move forward on that continuum toward financial stability. So while people discussed their strategies for coping at the present time, they also saw themselves either several paces ahead or behind in the immediate future. The figure below sketches out some of these stages, and we attempt to describe each stage with some reflections on appropriate interventions for each.



PHASE I: STATUS QUO

This phase was frequently described as a habitual challenge of making ends meet, not having enough each month, the juggling of bills and other payments. Some of this population may be banking regularly with a financial institution, occasionally delinquent on loans and at times overdrawing accounts, but generally catching up. Courtesy overdraft fees prompted some people in this phase to be sunk in debt, unable to catch up from having overdrawn an account and racking up significant fees.

PHASE 2: FINANCIAL/LIFE CRISIS

This is where something occurs that shakes up or challenges the existing fragile situation. This could be an emergency, job loss or shrinkage, health issues, utilities cut-off, break-up or divorce. These are situations in which people generally seek help. This is a particular challenge for a mission-driven financial service provider. On the one hand this is the moment when trust is most critical and expectations are highest, yet there is a limit on what and how a financial institution can do to help address this challenge. In this phase it is particularly important to provide the person with an advisor, counselor or coach who can actively listen and help to solve the immediate, if sometimes small problems. Linkages with social service providers or emergency benefits programs may be critical, so needs can be addressed without raising unrealistic expectations. This can include simple benefits screening or check-ups, referrals to reliable services for support or simple, straightforward "next steps." While the staff need to be trained to make people feel supported (and not judged), staff alone may not be able to fully address all the financial challenges an individual in crisis is experiencing.

PHASE 3: EMERGING OUT OF THE HOLE

Certain interviewees talked about just emerging from a crisis or digging themselves out of a hole. At this point their key financial goal is to more reliably and steadily make ends meet and make some progress (paying down some debt/starting to save). People may be more likely or inclined to budget and to begin small savings. Across the board, people expressed hesitation at traditional "taught" budgeting methods. In this phase people are more likely to employ strategies such as physically separating or sorting cash. This implies an opportunity for linked but separate accounts that allows some degree of fluidity and liquidity, but requires mental accounting.

PHASE 4: BEGINNING TO SEE THE LIGHT

Interviewees expressed having enough room and cushion to begin to prepare for the unexpected or even to set goals. In this phase, people felt they had moved beyond a day-to-day survival mode. Several indicated a sense of impermanence in this phase. This is a particularly significant phase to have the right financial services to help people build upon their cushion and create a more permanent sense of financial stability. This is a phase where people expressed interest in emergency savings (this feels achievable), and to begin to build or re-build credit. Interviewees felt more empowered to take steps to achieve future goals.

PHASE 5: EDGE OF THE MAINSTREAM

Interviewees in this phase reported having a greater degree of stability. For some, this may have resulted from slightly higher incomes, although income alone did not ensure greater financial stability. Economic mobility led this group to express a greater degree of hope about the future. It is possible and even advisable to appeal to the aspirations of this group. Many expressed interest in starting a business to supplement income, to get higher education for themselves or their children. This is where more asset-building and aspirational products and services will most resonate.

FINDINGS: SUPPLY SIDE

What does it look like to deliver safe financial products and services to low-income consumers that are appropriate to different stages on the continuum and that meet identified needs? The following are select examples from four sites and a scan of promising practices from a range of credit unions that serve low-income and very low-income consumers and communities.

INNOVATIVE COMMUNITY FINANCIAL SERVICE PROVIDERS

I. GUADALUPE CREDIT UNION, SANTA FE, NEW MEXICO

Guadalupe Credit Union (GCU) has four Santa Fe locations and 14,000 members. A Spanish-language branch (viewed here) is designed like a community center and is a place families come and hang out.

GCU offers a wide range of products, including alternative payday loans, signature loans and lines of credit, subprime auto loans, mobile home loans and Quinceanera loans. Services offered include one-on-one financial counseling and referrals to other supportive services through a local Resource Guide. Until March 2013, GCU did not use credit scores, but now uses a mix of credit scoring and traditional underwriting; if someone has no score, it places them in the middle range of risk.

Guadalupe has recently begun participating in a national pilot to test the Federation's Borrow and Save small dollar loan, which offers a loan up to $500 and includes a mandatory savings component and reporting to all three credit bureaus. GCU also offers *Smart Cash Payday Loans* with loans up to $500, fees of only $12 per $100 borrowed, 150 days maximum term, an easy application and instant approval at the teller line.

While Guadalupe's alternative payday loan product, second chance checking, and shared secured cards are among the most common services taken by many of their members, GCU also stands out in the way it has created and tailored its products for the population it serves: e.g., subprime auto lending (critical in an area like Santa Fe), mobile home lending, and its products and services for the Latino population, both longstanding residents of the area and recent immigrants. Some of the more popular products include:

Flexible Vehicle Loans (includes automobiles, trucks, motorcycles and conversion vans) are critical to helping low-income and very low-income members get to and from work:

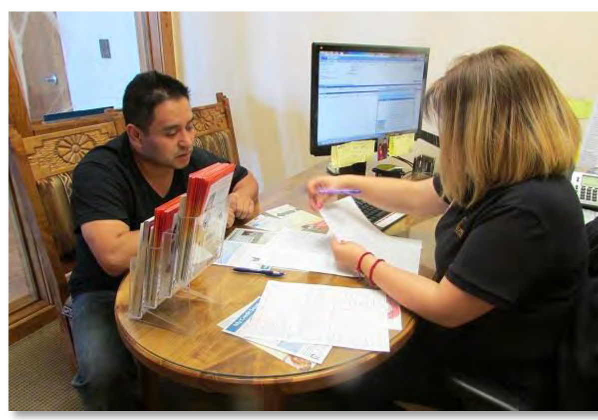
- New, used and even "classic" (over 20 years old) vehicles
- Interest rates, term and maximum amounts based on credit score, with loans to borrowers with credit scores as low as 550 or even lower also considered
- Borrowers with no credit are placed in the middle spectrum

Manufactured Home Loans are a means to help very low-income people achieve affordable homeownership. Many lenders, however, will not make manufactured housing loans because of challenges in valuing collateral and the lack of secondary market outlets. This is a key strategy the credit union employs to help its member become asset owners and financially independent. These loans are for manufactured homes on permanent foundations, both single-wide and double-wide. Interest rates and maximum loan-to-value depend on credit score, but loans to borrowers with credit scores as low as 550 or even lower considered; borrowers with no credit are placed in the middle spectrum as with vehicle loans.

Legalization Financing presents an important opportunity to provide dollar loans to help off-set the costs of legalization fees, encouraging those individuals and families who qualify to take advantage of legalization opportunities. The credit union offers immigration-related financing for citizenship, permanent residence and most recently a customized product for young people qualifying for *Deferred Action for Childhood Arrivals*.

ITIN Mortgages use an Individual Taxpayer Identification Number issued by the IRS to people who are not eligible for a Social Security Number. ITINs can be used to open an account and gain access to financial products, including mortgages. Guadalupe offers an ITIN mortgage for its undocumented members.

Interview respondents generally found GCU through word of mouth, recommendations from a trusted family or friend, a boss or co-worker. People came to the credit union because they needed an alternative to a bank for direct deposit for a job or SSI. They enjoyed the community feel of the Latino branch. The credit union becomes "like family" – a trusted source. GCU establishes a relationship and trust by having staff from whom the member can seek advice. People are made to feel comfortable "not knowing" things. Members feel GCU assists them with "my problems – understands my problems".



II. COMMUNITY CHECK CASHING, OAKLAND, CA

Community Check Cashing, run by Community Development Finance (CDF), is a nonprofit, full-service stand-alone check cashing store located in a transit mall in Oakland, CA with other nonprofit services and small businesses. It offers a broad range of transactional services for low-income families and provides formal coaching on a one-on-one basis, as well as informal financial coaching at the teller window. Luis, the bilingual Store Manager, offers his own personal style of coaching, building trust by listening, observing and offering guidance.

Community Check Cashing offers payday lending at a lower cost than other lenders, as well as small installment loans. Their payday loan fee is half of the $15 fee limit California allows at $7.50 per $100. They offer even lower prices on another product, a 12 percent APR loan for those in coaching and flexible repayment.

The organization does allow rollover of loans. One branch manager interviewed helps people get out of the payday loan cycle by encouraging customers to take smaller amounts each time, helping enable them to eventually pay off their loan. When appropriate, Community Check Cashing refers customers to other nonprofit services.

While key products of this nonprofit are check cashing and an alternative pay day loan, what distinguishes CDF are the characteristics of their process, the thoroughness of the underwriting, the degree of flexibility in repayment and the attempt by staff to reduce customers' dependence on pay day loans over time.

Interview respondents typically found CDF by walking past the inviting storefront. With the location in a transit mall with other nonprofits, customers said that they were referred by other nonprofits or work programs or came in after seeing a staff presentation. The combination of CDF's welcoming presence and the personal connection they forged with customers were highlighted as very important for building trust.

CDF's application process is extensive, especially for a small loan. They use a long application and ask a number of questions. They ask for a budget as part of the process. They require three months' bank statements, three months' pay stubs and a copy of a bill. They also tell prospective borrowers that the approval process can take a few hours. The behavior of the applicant at the window is a part of their underwriting. Inappropriate behavior (e.g., anger at staff for the time it takes to process a loan), may disqualify an applicant who might otherwise be approved for a loan. CDF believes in and practices character underwriting.

If the decision is to approve the loan, the next decision is the loan amount. CDF may not lend the full amount requested. They often start most people off at amounts lower than they initially request and let them prove themselves over time if they want to qualify for larger amounts.

CDF allows partial repayments and payments outside of scheduled dates. CDF works with delinquent borrowers and may wait for long periods of time if the borrower has indicated a credible willingness to work with CDF toward repayment; they create payment schedules (sometimes fairly firm and other times fairly loose) that are usually set by the borrower, depending on the reason for not being able to repay and his future ability to pay.

Staff at the window know their loan customers and may, at what they consider an appropriate time, counsel the customer to begin decreasing their dependence on pay day loans, e.g., by taking a smaller loan or borrowing less frequently. CDF has had success with certain customers using this approach. Researchers heard of a number of people that were helped by one branch manager who explained to borrowers how they could move away from using payday loans; the personal touch helped them slowly move off these loans.

III. COMMUNITY TRUST PROSPERA, SAN JOSE, CALIFORNIA

COMMUNITY TRUST Prospera A DIVISION OF SELF-HELP FCU

Community Trust Prospera, a division of Self-Help Federal Credit Union, positions itself as a check cashing transactional storefront – it doesn't look like a credit union. Though designed to attract unbanked families with a familiar look and feel and to "meet consumers where they are," a full line of credit union services are also available.

Tellers are trained to deliver "in-line financial education at the point of service" with "low pressure" offers for account and loan services and some referrals to outside services.

Mainstream financial products are designed specifically around LMI customer needs and include "checkless" checking, savings ("5 For Me," My Piggy Bank), and credit building (Fresh Start Loan) and responsible loans – signature, auto and mortgages. Community Trust Prospera has a goal of developing a sustainable, replicable model to reach unbanked members of the community and provide a path to the financial mainstream.

Check cashing customers reported coming to the check-casher/credit union because of its convenient storefront location in a local mini mall close to their homes. Others reported being referred by friends or family who believed they could get help at the credit union and in a few cases by local businesses, such as a car dealer who recommended the credit union for financing options.

Check-cashing services in a storefront location: Community Trust Prospera cashes all types of checks, including personal (two-party), employer and government checks. The rates are affordable – starting at 1 per cent of the value of the check and even lower for credit union members; in addition every 5th or 10th check is free (up to first $1000 of the check value). A current government-issued ID is required for check cashing services.

5 for Me: The "*5 for Me*" account is a savings account designed to offer check-cashing clients a way to start saving and to create a pathway to convert transactors to savers. Features include:

- opening minimum balance of $5
- one-time account opening fee of $5
- saver agrees to transfer a minimum of $5 into this savings account, from each check cashed
- no monthly service fee
- funds are transferred automatically during the check-cashing process
- dividends paid on balances of $100 and over
- unlimited deposits & six withdrawals per month

Fresh Start Loan: Fresh Start is a loan secured with a deposit designed for someone who is interested in either building or rebuilding a credit score:

- Term: 12 months or 24 months
- Amount: minimum $500; maximum $3,000
- Amount of loan deposited and held in borrower's savings account
- Monthly loan payment reported to the credit bureaus
- Upon payment of the loan, full amount of the loan plus all dividends earned disbursed to the borrower
- Members who successfully repay the Fresh Start loan are often able to borrow more money at a lower interest rate than previously possible

IV. ST. LOUIS COMMUNITY CREDIT UNION, ST. LOUIS, MISSOURI

St. Louis Community Credit Union

St. Louis Community Credit Union, formerly Teachers Credit Union, transitioned to a community charter in 1995-96, became certified as a CDFI in 2009 and created a foundation for community development in 2010. It partners with nonprofits such as Grace Hill and Kingdom House to locate micro-branches in lower-income communities.

Interviews were conducted at Grace Hill, a settlement house (a multi-service, hub-like location), to identify economic and social challenges in St. Louis; it is also known as a neighborhood center. Grace Hill brings together a Community Health Center, Head Start/Early Head Start, transitional housing, a Women's Business Center and a branch of St. Louis Community Credit Union.

The credit union is a micro-branch (350 square feet) with two teller stations and two service reps that offers checking and savings, check cashing, loans, money orders, and free financial counseling. Between 2,500 and 3,000 people a year participate in financial literacy classes. The credit union packages some of its financial counseling services around its Credit Check-Up service, where they help members pull their credit and understand what appears on their credit report, thus demystifying the process.

The credit union is continually exploring new products to better serve those members that have faced challenges in accessing credit in the past. The following is a selection of some of the innovative products they have developed:

Credit Matters Loans: In conjunction with their Credit Check-Up service, St. Louis Community offers a loan to help establish good credit or rebuild poor credit. The Credit Matters loan is a savings-secured loan and every member qualifies. At the start, the proceeds of the loan (say, $600) are placed into a restricted savings account. Over a period of twelve months, as the borrower makes monthly payments (about $50), the same amount becomes available in his savings account. The successful payment history is reported to the credit bureaus, and can positively impact the borrower's credit score.

Freedom Loans: A payday loan alternative with the following features:

- The borrower must be a current member of the credit union with an active checking account in good standing that has been open for at least 90 days
- Maximum loan amount: $500

- Maximum term: 90 - 180 days
- No credit check
- Annual fee of $25 - $55
- Financial counseling is available and encouraged at no additional charge
- Automatic transfer of payments available
- Each *Freedom Loan* advance requires a 10 percent deposit into a restricted access savings account at the Credit Union to help the borrower avoid borrowing in the future

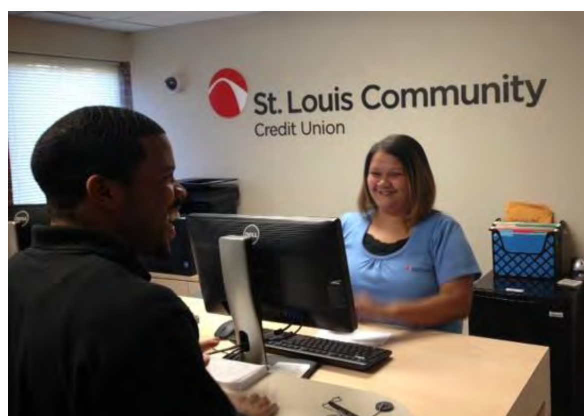
Payday Saver Loans*:* This loan enables a member to consolidate up to $1,000 of payday loans at a reasonable interest rate and repayment period with no credit check required. Following are features of the *Payday Saver Loan*:

- The borrower must be a current member of St. Louis Community Credit Union with an active checking account in good standing that has been open at least six months
- No credit checks
- Maximum loan amount: $1,000
- Repayment term: up to 12 months
- Annual percentage rate: 25 percent
- Application fee: $25
- Automatic transfer of payment is available
- Financial counseling is available and encouraged at no additional charge

Interview respondents reported coming to the credit union because it was conveniently located in a community center, they were recommended or referred by family, friends or non-profit social service providers, or came across the credit union on their own by seeking other services at Grace Hill. Some reported attending on-going financial literacy classes, helping them understand and act upon basic financial concepts.

"I'd call Grace Hill before I call my family."

From the point of view of experienced credit union staff, building relationships is critical to both the member's success and the institution's. Attacking the customer's immediate problem is the first step and the first test. Solutions need to begin with "where the member is." In order to begin building momentum and trust, the credit union must work with the member on solving his most pressing, immediate concern. Given where the member is, talking about one small issue, like opening a savings account, helps VLI consumers slowly incorporate information and implement change. An overall financial evaluation or lengthy screening and paperwork may be intimidating to consumers.



MORE PROMISING PRACTICES: LESSONS FROM THE FEDERATION'S EMERGING MARKET REVIEWS

In addition to the four community financial institutions featured above, the Federation conducted a scan from our Emerging Markets Reviews (EMRs). EMRs are an intensive audit of credit union products, services and delivery systems to identify and address how credit unions can better align their operations with the needs of a changing and evolving community and membership. The Federation has developed a compilation of best practices surfaced through 15 EMRs conducted in 2013-2014. The following identifies approaches to meeting the needs of VLI consumers depending upon where they are on the financial stability pathway referenced on page 16.

BETTER CHECKING ACCOUNTS

Most community development credit unions provide basic checking or "share-draft" services. Many of the community development credit unions (CDCUs) studied offer free checking provided that members keep a minimum balance of as low as $75 or $100. CDCUs typically do not rely upon Chex System or other screening tools. Even those credit unions that do conduct a checking account review will seek to start those who have had challenges with a second chance.

Second Chance Checking Accounts: Second Chance or Fresh Start accounts are generally remedial, restricted accounts that train members how to use basic checking properly. Credit unions using Chex system reviews (to surface instances of fraud or check-kiting), will offer pathways to help the member get back on track. Second chance checking accounts are generally combined with financial education and provide credit union members with the opportunity to repair prior credit or banking challenges while limiting the ways in which the member can get into trouble again. Some credit unions structure the second chance account as a savings or share account or as a checkless checking account that allows members to graduate into 'regular' checking accounts after completing financial education. Other alternatives to a second chance checking account are a savings account with financial education included for six months with a transition to a checking account after six months of positive experience.

Overdraft Lines of Credit: Checking accounts can be structured with relatively low minimum balance at no- or low-cost. Lines of credit attached to traditional checking accounts enable members to cover short-term overdrafts. These lines of credit generally carry higher interest than a typical loan but are at or below 18 percent interest. If the member doesn't qualify for the line of credit now they can be provided with a second chance account to get started and financial education to work on their credit and grow into this product.

Pre-paid Debit Cards (Reloadable Prepaid): Prepaid cards present an option for members who may not have sufficient funds each month to afford the standard checking accounts. Prepaid debit cards allow for greater flexibility in account opening procedures and help the credit union connect to a broader swath of the community. Credit unions offer this option either directly to consumers or through select employer groups (SEGs) as a payroll card. The key component is to eliminate any overdraft possibility.

Additional components include:

- transparent fee structure with clear limits to fees for each transaction and information on how to avoid fees (e.g., checking balances online versus calling customer service)
- savings component with transfer capability between accounts
- cardholder website that provides 24/7 balance and transaction information, along with customer service details; this also provides an opportunity for marketing the credit union
- identification of the appropriate target market for a pre-paid card with clear pathways to graduate into formal checking accounts

ONLINE BANKING AND MOBILE APPLICATIONS

Bridging the digital divide has long presented a challenge for banking low-income and financially disconnected individuals and communities. However, the preponderance of mobile and specifically smart phone usage across all populations now presents an opportunity to offer real solutions and access to new forms of transactions. With relatively minor investments, credit unions can now reach much more broadly and deeply without brick and mortar branches.

But simply because the population is well-versed and equipped with smart phones does not automatically transfer into high take-up of online banking mobile applications right away. Hope Credit Union launched an enhanced version of Hope Mobile, its mobile banking app. The upgrade not only allows members to check balances and transfer funds, find branches and ATMs, but also incorporates remote deposit capture that enables members to deposit checks using their phone's camera. Very low-income consumers may need additional personal support to build the requisite level of trust to make mobile applications effective at the lowest income ranges.

SAVINGS

Though saving is hard for many consumers, interviewees indicated a high level of informal saving at home. Several respondents suggested that they would save for specific, achievable purposes.

Commitment Savings Plans: One of the strongest brand identity products for credit unions is the Club Account. These flexible accounts encourage members to save throughout the year for a special need or time with easy deposit functions. Whether it's a Christmas, back-to-school, or vacation club, or a special event like a Quinceanera club, these accounts provide incentives and support for members to set and achieve specific goals. The key feature of a club account is limited access for withdrawals generally pegged to a specific purpose or need.

Facilitated Savings/Automatic Savings: CDCUs can be uniquely positioned to facilitate increased emergency savings among millions of the least affluent households. Facilitated savings, such as automatic transfers from checking to savings or CD account to payroll deduction, provide the means to ensure automatic savings. For people living close to the margins, setting up regular payment options can be problematic without flexibility on withdrawals. Some ideas can be linked to more infrequent events such as the arrival of tax refunds or other expected windfalls. Many online banking systems will allow members to pre-arrange specific transfers over the course of the year; this option needs to be marketed to a population with less stable inflows. Select Federal Credit Union participated in the SaveUSA program offering low- and moderate-income tax filers the chance to deposit from $200 to $1,000 of their tax refund directly into a special savings account with a special incentive – a 50 percent matching payment if the savings are left untouched for about a year.

Prize-Linked Savings (PLS): These accounts encourage consumers to save by creating a fun experience around the savings process. In these initiatives savers participate together to reach a common savings goal. In prized-linked savings, savers experience rewards of prizes and incentives. Both programs reframe the act of saving as fun. Features of the game can be customized to suit a variety of savings products and programs. The product is now also available through credit unions in Nebraska, North Carolina and Washington. The Doorways to Dreams Fund (D2D) has tracked and documented its Save to Win program's growth, success and potential as it continues to promote financially positive behaviors across a diverse set of accountholders. In Michigan 80 percent of accounts that were open in December 2011 were still open in December 2012.

Getting people on the right track is not about any one particular product, but a pathway to a realizable goal.

CONSUMER LOAN PRODUCTS

Personal Unsecured Loans (Signature Loans): All credit unions offer small unsecured loans or lines of credit. Typical unsecured personal loans range from as low as a few hundred dollars to $10,000. Loans are less than 18 percent and generally carry repayment terms from 3 months to several years depending upon the financial ability of the member to make monthly payments. These loans are underwritten to determine the borrower's capacity to repay and their prior credit experience. To combat predatory lending a growing number of credit unions are offering Payday Loan Alternatives and Emergency Loans with more flexible underwriting criteria. Through an analysis of transaction histories, ACH payments, credit reports, and staff conversations with members, a credit union can determine which of the members are using payday lending services.

Payday Loan Alternatives & Emergency Loans: A better payday loan alternative will allow borrowers to choose to pay in installments even for very small loans ranging from $200-$1,000. Features include:

- Loan Period between 3 and 12 months

- Interest rates below NCUA guidelines of 28 percent
- Maximum of three loans per year
- No Rollovers
- No Credit Report
- Application Fees less than $25
- Open-Ended Application for one year
- A minimum of 15 percent in required savings
- Refunds of portion of interest paid on amount in savings
- Loans available to new members

StretchPay Loans: Like a payday alternative loan, certain credit unions like Hope Credit Union and ASI Federal Credit Union have developed lines of credit for people who experience emergencies on a fairly frequent basis. The Hope StretchPay product combines elements of a one- time emergency loan, but it permits only four draws within a twelve month period. At the time of the third advance, the data processing system alerts the Member Service Representative, who then notifies the member that he is eligible for a total of four draws on the line within 12 months. At the time of the fourth advance, the member meets with the Branch Manager or Assistant Branch Manager to determine the nature of the member's need to continue taking advances on the line of credit. The Manager has the ability to grant a further advance on the line, but may also refer the member to financial counseling either in conjunction with or instead of another draw.

Borrow and Save™: The Federation's Borrow and Save™ product couples a small dollar loan with a required savings component, and is designed as an alternative to high cost small dollar loans in the existing market. Loans range from $100 to $1,000, require no collateral, have an average interest rate of 18 percent and carry a term from three to 36 months. Credit unions require between 10-50 percent of the loan to be placed in a restricted savings account. Four credit unions piloted Borrow and Save™ which has now expanded to 14 credit unions.

Borrow and Save™

Credit Builder Loans: Credit Builder Loans are designed to help borrowers with no or poor credit to rebuild their credit. These loans are fully or partially secured. Financial counseling and coaching paired with the loan product yields significant results. Credit scores are generally reviewed with the borrower both prior to loan and post repayment (and possibly at least once during the course of the loan), to demonstrate the impact upon the borrower's creditworthiness. The amounts typically range to up to $5,000 with a structured repayment process that is manageable for the borrower.

Immigration Loans: The Citizenship or Dreamer Act (DACA) loan provides immigrants with assistance for legal costs. Eligible applicants in need of financing submit the citizenship application and are referred to the credit union to obtain a loan to apply. These small dollar loans

($681 for Citizenship and $495 for DACA) are typically promoted in coordination with non-profit partners who provide support in the processing of citizenship, DACA or other legalization applications. These loans generally require no credit check, with checks cut directly to Homeland Security. Latino Community Credit Union offers a DREAMer loan to assist young individuals brought to the United States as children to finance the deferred action application process through the United States Citizens and Immigration Service (USCIS). Interest on these modest loans is the same as all other loans, but there are no fees associated with the application process.

Energy Efficiency Loans: Energy efficiency financing programs have been offered to consumers in the past three decades, including energy efficiency mortgages and home equity lines of credit. Public funding for energy efficiency programs can be used to buy down interest rates for loans provided by the credit union. This can be essential for low and very low-income people to reduce utility bills over time. It is important to search for government partners with the right subsidy. Energy efficiency loans can have a positive environmental impact and also lower the monthly energy bill of the borrower.

Transportation Loans: The main staple of many credit union loan portfolios is the vehicle loan. For serving low and very low-income consumers, a car expands economic opportunity and mobility. Used vehicles are the primary option for the vast majority of LMI consumers. Credit unions seeking to make car ownership affordable and reliable for very low-income members can develop partnerships to foster additional car lending in conjunction with local social service agencies through “wheels to work” programs.

Rotating Savings and Credit Groups (Money Pools): Money pools are one of the world’s oldest savings mechanisms, used worldwide by people without access to formal savings vehicles. In Mexico, money pools are called Cundinas. In a money pool, a group of people, often families and friends, agree to each contribute a set amount of money once per agreed upon time frame. At the end of each period one person receives the entire sum. The following period, when the loan is repaid, the next person in the group receives the funds until all participants have had a turn. MariSol Federal Credit Union has developed a partnership with eMoneyPool, a domestic microfinance provider that acts as a credit worthiness tool for credit unions and their underbanked members. The credit union refers all individuals looking to build or rebuild their credit to eMoneyPool so they can prove their credit worthiness. These individuals will cycle through a money pool, normally making 10 payments over the course of six months; after the last payment they receive a "certificate of completion" from eMoneyPool. MariSol FCU will then accept this certificate as evidence of good credit and offers the individuals an introductory loan at fair market rates. MariSol FCU benefits from being able to recapture a portion of their loan denials, and their members benefit from the convenient "stepping stone" option that gives them a path to qualifying for credit.

Affordable Homeownership: Purchasing a home is out of reach for many families due to insufficient funds for down payment and closing costs, high debts and low credit scores. Credit union strategies to help members achieve the dream of homeownership run the gamut from incentivized savings to credit building and repair strategies to non-conforming mortgage loans.

Affordable homeownership best practice products combine:

- targeted financial and homeownership counseling to ensure the home buyer is ready
- credit repair loans to augment financial counseling efforts to increase creditworthiness
- incentivized savings efforts such as Individual Development Accounts (IDAs); first home clubs or higher rate homeowner CDs
- high loan-to-value (up to 97 percent) with creative mortgage insurance
- post-purchase counseling and support

CONCLUSION: DELIVERING FINANCIAL SERVICE TO VERY LOW-INCOME CONSUMERS

While the interviews conducted in this research do not point to specific products and services, they do suggest certain themes about how credit unions can shape products and services that will best meet the needs of the VLI consumer. The pathway to financial stability provides a guide to different market segments within the very low-income population based upon the interviews conducted for this study. The EMR scan has surfaced products and services that can help "meet people where they are." This report reflects on the themes and "better practice" products to highlight some points of intersection and includes a broader sense of not just what is delivered, but how, and in what context. Though not an exhaustive set of observations they do point to the need for the field as a whole to step back from the particularities of a product or a single institutional approach and reflect on the bigger ecosystem of delivery to support the diverse needs of this population. This review serves more as a starting point to build from, based on what is working, and to identify gaps for future research, piloting and testing.

KEY THEMES SURFACED IN THE RESEARCH

TRUST AND RELATIONSHIPS ARE THE KEY BUILDING BLOCKS UPON WHICH ALL ELSE IS BUILT

VLI people came to the interview sites because of relationships and trust in the four institutions at those locations. They value these institutions first and foremost for the relationships. When we asked to describe what trust meant to them, interviewees indicated the importance of being seen and understood, being respected, not being judged for "not knowing," and having the staff with whom they're working able to step into their world. Finally, products and services alone are not enough to change a person's financial situation; relationships and guidance are critical.

Each of the sites included in the study actively work to build trust; these financial institutions are active in the communities they serve and try to understand the pressures in that community. St. Louis Community Credit Union's Grace Hill branch, for example, received high praise for helping consumers with many aspects of their life, including health care, children, life skills, housing, business, employment and referrals for services. They connect and refer people to solve a problem from several directions.

PEOPLE BEFORE PRODUCTS!

Product promotion, even for a product designed specifically for low-income consumers, is often perceived as a sales pitch, which can undermine the trust that has been built to that point. Interview subjects responded better to the term "financial services" than "financial products." The language that distinguishes between products and services commonly used inside of financial institutions may actually alienate the very people that these institutions wish to serve.

Each place we researched created a safe environment and relationship that allowed people to be honest and to face some of their problems. In order to provide assistance to VLI consumers, the framework needs to extend into their entire lives. Offering financial assistance, products and services needs to be coupled with assistance in other areas of their lives; otherwise these consumers remain vulnerable and are likely to fall back into a desperate cycle. Other types of assistance might include:

- on-going relationship and guidance, a sense of belonging
- assisting with work issues/unemployment
- help in getting medical care/insurance
- providing referrals that can help reduce uncertainty and vulnerability

ALL OF OUR SITES DEMONSTRATED THIS PROCESS

All of the interview sites demonstrated a holistic approach. They expressed and demonstrated an understanding of the person's dilemma. Each of the sites approached their consumers with a goal of attacking one immediate problem. They listened and helped find a solution to that one problem first, before approaching longer term financial goals.

STRUCTURE SERVICES TO ALLOW PEOPLE TO EXPERIENCE SMALL SUCCESSES THAT WILL MOVE THEM TO A BETTER PLACE

Very low-income interviewees find themselves at different places with their financial stability – and it is not static. Progress along the continuum is not guaranteed or even expected. Forward movement and backward slides happen frequently and with varying effect. As evidenced in the section above, interviewees identified themselves through a series of statements that indicated where they considered themselves to be at one stage or another on a continuum of financial stability.

The services (or interventions) that will help VLI consumers succeed must be appropriate to where they are on the continuum. Understanding where someone is on that continuum will help providers identify those services that are most likely to be taken up, be effective and help VLI members succeed. Services that help to lower uncertainty are important. Simplicity and clarity are essential.

TRANSACTIONAL PRODUCTS AND SERVICES ARE THE FOUNDATION – ALL ELSE BUILDS FROM THERE

Transactional products are most important in the early stages of the continuum and also in the early stages of building the relationship between provider and consumer. Interviewees in most stages (but particularly in those early stages), reported a comfort level with using primarily transactional services. It is critical that these services be accessible, immediate, straightforward and transparent, with immediate availability of cash, clear fee structures and simple interactions. For credit unions and others who strive to serve this marketplace, the starting point should be the services people are already using and comfortable with. Additional services can be offered over time, in line with where people are in the financial stability continuum.

Storefronts offer unique opportunities. Interviewees spoke of storefronts as feeling more familiar, comfortable and "people-friendly." In the words of one interviewee, they are "in my world." Very low-income consumers are more likely to enter on their own initiative, without a recommendation. They are easy to approach and walk into and are an accessible part of the community. Making financial changes in this environment is less confrontational and less formal. People at the window or desk are "like me" and VLI consumers can readily recognize that.

MICRO-DEBT AND MINI-SAVINGS PRODUCTS AND SERVICES CAN SUPPORT PEOPLE IN MOVING ALONG THE CONTINUUM

People have varying experience with credit and debt at all stages of the continuum. Some indicated a need for credit but a fear of debt. For each stage, starting with very small loans can help ensure consumers aren't borrowing more than they need and "earn" access to larger loans and better terms based on performance and as their needs grow. Very small loans can have minimal and flexible underwriting, increasing as loan amounts increase.

Most people need help saving, and this is particularly true for people with limited cash flows and tight margins. Most people who were able to accumulate savings were able to do so from extra cash, windfall moments, or putting money in a savings jar or under the mattress. There were some who had direct deposit and therefore dedicated a portion to savings more readily. Many interviewees responded positively to having vehicles that limited access to their savings.

Credit unions need products and services to let people save small amounts of cash when they have it. This would enable people to start to accumulate very small amounts of savings. There were conflicted feelings about savings – the need for saving at home with full access versus limiting access to an account. This reflects the fundamental difference between what we're terming "mini-savings" – small amounts of cash around when you need them versus savings in an account, considered more formal and less accessible. The question for mission-driven financial institutions is what that threshold is for converting from mini-savings to an account and how to help people convert.

FACILITATED SAVINGS, FORCED SAVINGS AND FUN SAVINGS

For most moderate and middle-income people, savings is facilitated through automatic payroll deductions and direct deposit. For very low-income people who tend not to have regular jobs and therefore do not have steady direct deposits, other ways must be found to facilitate savings.

"Out of sight, out of mind."

"I don't think about spending it."

"I live on less money."

"If I don't have it, I won't spend it."

The promising practice surfaced above in Prospera's "5 for Me" program, where $5 out of each paycheck cashed is automatically deposited into a savings account, provides an example of facilitated savings. This is often an option that a customer may not take up initially, but after some time will come back and open an account, reflecting the process of moving into a slightly more stable stage on the financial continuum and/or a growing relationship with the provider.

When interviewees were asked what would encourage them to save at a financial institution, they suggested:

- giving the savings a purpose and naming the account for those purposes such as car, Christmas, Quinceanera (or similar family events)
- make it easy, automatic – taken out of paycheck, taken out of every cashed check
- using language to encourage saving, for example, Prospera's "5 for Me" club account

Respondents echoed what researchers have heard before about limiting access to a portion of the funds. One Prospera client talked about being encouraged to open a savings account. He started small, putting just a part of each check in, then all of his paycheck. The client paid his bills and moved the rest to savings; in just four months, he had saved $7,000 – by not having the cash in hand.

DESIGN AND PROMOTE SERVICES THAT MINIMIZE REJECTION

As many interviewees lacked confidence in their own knowledge and ability to navigate financial services, they fear rejection and find the banking experience very negative. Developing and promoting products that minimize rejection can build trust quickly. While nobody expects a financial institution to take unwarranted risk, the importance is finding either messaging or alternatives that reinforce the positive.

Identify existing products with a 0 percent rejection rate and promote the message that everyone wins. This could be a savings product that has no minimum balances, or a check-cashing service open to all. Certainly many credit union small-dollar loan programs emphasize the "no credit check" feature to the loan – sending a message that poor credit will not be held against the borrower. Others have implemented and marketed second-chance checking accounts particularly to those who have had problems in the past. These consumers may require some level of financial education and counseling, but credit unions can promote this as a way for everyone to get into checking accounts. Finally, many experienced and savvy loan officers emphasize that they never say “no”, they say “when”. This builds that trust and those lasting relationships with members that are so deeply valued.

HOW WE CAN DO IT DIFFERENTLY

NEW CRITERIA FOR ASSET BUILDING AND OUR FINANCIAL SERVICES WORK WITH LOW-INCOME CONSUMERS

While the themes outlined above are not new or surprising, the field has moved in the opposite direction. Subsidies are steered to scaling product or a particular type of innovation, and less investment is directed toward overall institution-building. Limited time horizons on grant funds and an increasing move toward mission-related investments, with expectations on short-term returns on investment, force organizations away from building core infrastructure that would generate efficiencies and enable more staff to focus on the member/customer relationships where they are needed most. Three key areas of innovation that the researchers propose are:

- Development and testing of a new framework with more realistic goals for our asset building and financial services work. Fundamental to this framework will be methods to scale relationships. Investments in formalized financial counseling and coaching will enable financial institutions to concentrate some of those trusted relationships into trained counselors who can provide that needed guidance and track their results over time.

- Exploration of the infrastructure needed to enable these delivery channels and distribution systems and networks to reach greater and greater numbers of people. Generate greater efficiencies in back-office operations and allow more front-office investment in helping consumers understand, select and utilize the financial products and services most appropriate to their needs. Similarly, an investment in mobile banking technology may not completely replace the need for interaction between consumer and financial institution staff, but it may improve the quality of those interactions to ensure that time spent with consumers is more educational and less focused on the mechanics of transactions.

- Initiation or expansion of demonstration projects utilizing strategies emerging from the new framework and incorporating financial products and services into a broader framework with greater emphasis on evaluating the overall business model and less focus on the particularities of a single product, service or intervention.

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