INNOVATION

Asset Building
THROUGH CREDIT PILOT

JOYCE KLEIN, LUZ GOMEZ AND ELAINE EDGCOMB

FIELD at the Aspen Institute

Citi Foundation

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FIELD at the Aspen Institute works to advance the U.S. microenterprise field through knowledge and innovation. In its work, FIELD engages deeply with leaders in the microenterprise industry and provides them and their organizations with tools — including research and data, grants, peer learning, and leadership development programs — that support their efforts to innovate, scale and improve their performance. FIELD also disseminates knowledge from its work with leaders broadly, through publications, webinars and presentations.

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Executive Summary

The Asset Building through Credit Pilot Program — a collaborative program facilitated by FIELD at the Aspen Institute with six microenterprise organizations, a financial institution and the Citi Foundation — is designed to assess whether a secured credit card teamed with financial coaching can create positive credit-building behaviors and be a useful tool for assisting clients to progress toward their business development goals. Between its launch in 2011 and completion of the first pilot phase in December 2012, the program has tested a methodology that enables many nonprofits to deliver secured credit cards for their clients and coach them successfully in their use. By the end of the first phase, the pilot programs had delivered 148 secured credit cards and were tracking the initial effects of their use on credit scores.

This report summarizes the pilot's methodology, the early data results as gathered by the six microenterprise organizations and FIELD working directly with clients (without any involvement of the financial institution partner), and the pilot's lessons regarding the practice of using a secured credit card as a credit-building tool. The pilot also includes an evaluation of client outcomes conducted by the six microenterprise organizations jointly with FIELD (in terms of credit behavior and scores, use of microenterprise services, and business development). Those results will be shared in 2014, once more data is gathered. At this point, early data have demonstrated the value that a secured credit card can present for many aspiring entrepreneurs, and an indication of the changes they have experienced is included in this report. The partners engaged in this pilot have already learned many lessons with respect to how to use a secured credit card as a credit-building tool, how to effectively integrate and support this tool within microenterprise programs, and how nonprofits and for-profits can collaborate around delivery of a financial product to achieve their respective institutional ends. These findings, which will be discussed in detail in the report that follows, include lessons for coaches, organizational leaders and financial institution partners.

The Value Proposition for Microentrepreneurs

Pilot program experience demonstrated that for clients, the value proposition of a secured credit card tied with credit-building coaching and support lies in the opportunity to build credit rapidly and successfully. Higher credit scores enable entrepreneurs to access additional and/or more affordable forms of credit (particularly business credit for these entrepreneurs) and experience lower costs for other products and services (insurance, cellphones, etc.). Other features that increase the product's attractiveness to microentrepreneurs include the high likelihood of approval (the programs' knowledge of the underwriting criteria for the card helps properly screen candidates), the card's availability to those without a Social Security number, and the two percent interest rate offered on the deposit to those providing a Social Security number or an ITIN (Individual Taxpayer Identification Number).

Although there are features that clients find less attractive (the 20.99 percent annual percentage rate charged on purchases and the $35 annual fee), the impact of these features appears mitigated by the programs' guidance in how to use the card most effectively to build credit (which emphasizes paying off balances monthly) and by the overall positive effects that users experience from using it.

The ideal customers are individuals without a credit score (new to credit) or with a thin credit file (few active lines of credit). Some clients who previously had credit but are now in the process of rebuilding their credit profiles can also benefit if they meet specific conditions. These customers must be able to save or access $300 (to secure the card) and be willing to prioritize the use of those funds for credit building. In part, the coaching process involves helping clients to understand the value of making this a priority.

The pilot demonstrated the rightness of this value proposition for many clients. Early results from the six microenterprise organizations as part of this pilot facilitated by FIELD demonstrated that more than 70 percent of cardholders were able to increase their scores at the six-month point. Specifically, those without a score at intake achieved a median score of 697, and those that had a score at the time they received the card were able to increase their scores by a median of 36 points.

These positive, preliminary findings are encouraging to the programs involved and others interested in adding this financial tool to their line of products.

Lessons for Coaches

Although all organizations within the pilot had some expertise working with clients on credit issues, each had to learn how to integrate a credit-building approach to successfully support clients in using the secured card. Specifically, coaches must:

- Be able to pull and analyze credit reports.
- Emphasize credit building, instead of credit repair in their messages, and, in particular, emphasize three key practices — always paying on time, keeping balances under 30 percent of available credit at all times, and not using the card to increase consumption.
- Offer individualized coaching tailored to each client's unique credit situation.
- Help clients with card activation and setting up a consistent payment process that works for each client.
- Monitor each client regularly in the early months.
- Develop and apply standardized tools (such as budgeting worksheets, simple credit action plans and FAQs) that can increase the efficiency of the coaching process.

Lessons for Organizational Leaders

The experience of the ABC pilot demonstrates that support from organizational leaders — at the executive and program manager levels — is critical to successful delivery of a secured card. Most importantly, leaders must articulate and signal that building credit is critically related to the organization's mission, and must then follow through with support (in terms of resources and recognition) and incentives (measures for tracking and rewarding delivery) for coaches working to deliver the card on the front lines. In addition, managers must:

- Invest resources in marketing, recognizing that marketing the card is not a simple task given potential clients' lack of familiarity with the product and how it might help them.
- Build internal marketing and referral mechanisms, as entrepreneurs who come to the organization seeking other supports for their businesses appear the most likely to see the card's value and use it to build credit.
- Build systems to track referral sources, the client pipeline and production in order to assess the effectiveness of specific marketing strategies as well as to set and monitor appropriate production goals.
- Establish mechanisms to help clients accumulate the card deposit, either through a savings or loan product, to help those who could benefit from the card but lack the funds to apply.
- Invest in the professional development of coaches to strengthen their knowledge and skills with respect to credit building.
- Hire coaches with strong selling skills and build the sales skills of current staff, as coaches who believe in the product and can sell the product will achieve the highest sales volume.

Finally, managers need to consider more than the terms of the card when selecting a financial institution with which to partner. Although it is natural to look first at the basic terms of the card — size of deposit required, interest rate and fees — when evaluating a potential partnership, experience suggests other factors are critical to the long-term success of the partnership:

- Financial support for credit and financial coaching.
- Transparency about underwriting criteria.
- A designated point person at the credit company who can address and help to resolve application issues.
- Features of the card that can increase its value to the client.

Because the length of time that clients have a revolving line of credit is a factor in their credit score, it is important to weigh the prospects for a long-term relationship with overall support from the card issuer as part of the analysis.

Lessons for Financial Institution Partners

This pilot program demonstrated the value of offering access to an ongoing bank product, rather than developing a specialized product that might not be available over the long term. This strategy allowed the pilot to be up and running relatively quickly — although there were some unanticipated delays — and gave the bank the opportunity to assess whether to offer the card more widely. In addition, for financial institutions to engage successfully with nonprofit providers, they need to:

- Provide clarity around underwriting standards, in order to facilitate high approval rates among partner clients.
- Understand the costs involved in product delivery, and either assure that nonprofit partners can cover these costs under their existing service model or help compensate them for additional costs.
- Identify additional products that clients can access that would help them borrow, or save for, the deposit required on the card.
- Recognize and plan for the time required to execute legal agreements.
- Research and assess the competitive status of the markets the institution is seeking to serve, in order to select those with the greatest advantage.
- Leverage mobile technologies to support good payment behavior.
- Seek ways to facilitate access to clients' monthly statements to help nonprofits support clients' payment performance.
- Structure the relationship with the nonprofit for scale. The "hub and spoke" model used in this pilot is one method that can facilitate scale.
- Be clear up front about their expectations for nonprofit partners in terms of key metrics, such as number of cards approved, delinquency rates, etc.

The initial findings of the pilot show promise on several fronts. Entrepreneurs are accessing cards, and approval rates are high. Both coaches and clients seem to be mastering the key practices needed to use cards successfully. Moving forward, the primary challenge will be whether the key institutional partners in the pilot — the microenterprise programs and the financial institution — can develop a model that makes business sense to both. Phase II of the ABC pilot is focusing explicitly on three issues — demonstrating more definitively the value to clients in terms of credit-building outcomes, identifying sustainable business models, and increasing card volume. Results on all three will be available in 2014.

Introduction: The Power of Credit

Microenterprise development practitioners have always understood the importance of credit. The field was created in response to the reality that many aspiring entrepreneurs were denied access to credit by the formal financial system. Their businesses were too informal, too small, too new, or in industry sectors from which banks shied away. The owners may have had little traditional collateral to pledge or limited income, or limited time in the country. Yet, microlenders lent to them successfully, because they devised ways to assess character through close engagement with their applicants, and combined that with innovative approaches to overcoming other gaps in borrowers' backgrounds.

Over the years, as microlenders refined their strategies to assist the disadvantaged, the formal financial sector refined its tools of analysis for assessing creditworthiness. The credit score, which summarizes the result of that analysis, has become not only the portal to business or consumer loans, but also an arbiter of one's access to, and price for, many other essential services. Access to an apartment or office space, vehicle insurance, or phone service can be conditioned by one's credit score. And, the cost of credit for those without a good score can be staggering. Experts have noted that a difference of 100 points can make a huge difference. An individual with a 650 score (considered fair to poor, depending on the lender) can expect to pay more than $200,000 more for financial services over a lifetime compared to an individual with a 750 score (considered good to excellent). This represents the difference in interest charged for the same amount of money borrowed for student loans, credit card purchases, car purchases, home mortgages and home improvement loans.[1]

The credit score has clearly become an increasingly important part of one's financial life. Yet, as it has done so, more people have found themselves hindered due to either poor scores or lack of scores entirely. With the erosion of credit quality and the burgeoning of a new crop of unbanked consumers during the financial crisis, many microenterprise organizations have sought new approaches to serve clients facing these challenges, which for some entrepreneurs have even become barriers to microenterprise lending. So, in addition to offering financial literacy training and technical assistance (350 programs that responded to the 2011 U.S. Microenterprise Census reported providing these services), more programs are helping clients build their credit directly by offering financial products, often combined with coaching, to enable them to measurably improve their credit scores. To that end, microlenders report repayment performance on microenterprise loans to the credit bureaus, directly or through Credit Builders Alliance, and offer credit-builder loans — small-dollar loans — that also allow borrowers to demonstrate repayment performance and serve as stepping stones to larger loans. These products reflect research that suggests that impacting financial behavior requires combining financial education with products that clients can use to put that knowledge into practice (applied learning). The practice of integrating credit building into microenterprise programs also reflects the finding that delivering financial information at "teachable moments" can positively impact retention of that information and knowledge gains. Entrepreneurs who approach microenterprise organizations with a particular business need are certainly at such a

[1] Liz Weston, "Lifetime Cost of Bad Credit: $201,712." *MSN Money,* October 13, 2011, http://money.msn.com/credit-rating/lifetime-cost-of-bad-credit-201712-dollars-weston.aspx?page=0

teachable moment. And the financial products microenterprise organizations offer are tools that immediately enable these entrepreneurs to learn by doing.

The Asset Building through Credit Pilot Program — a collaborative program facilitated by FIELD at the Aspen Institute with six microenterprise organizations, a financial institution, and the Citi Foundation — was designed to test these findings and assess whether an additional tool, a secured credit card teamed with financial coaching, can create positive credit-building behaviors and be a useful tool for assisting clients to progress toward their business development goals. Why another product and why a credit card? Although positive performance on any product helps build an individual's credit, practitioners have learned that progress toward a good score accelerates when someone has at least three active trade lines that include a combination of installment and revolving credit. For microentrepreneurs with limited or no credit, and eager to build their businesses, time is of the essence. Adding a credit card to the arsenal of financial products a microlender can offer helps clients see positive change much more quickly. And, a secured card can be offered by microenterprise organizations focused on training and technical assistance that do not offer other financial products.

This report presents the pilot's lessons regarding the practice of using a secured card as a credit-building tool. Launched in 2011, the pilot also includes an evaluation of client outcomes — that is, the changes that clients experience with respect to credit behaviors, credit scores and progress toward their business goals after receiving the secured card. Those results will be shared in 2014 once more data is gathered on clients' card use and the effects on their scores. At this point, early data have demonstrated the value that a secured card can present for many aspiring entrepreneurs, and illustrations of the changes they have experienced will be included in this text. Practitioners engaged in the pilot have already learned many lessons with respect to how to message, market and deliver the card; integrate it in their program offerings; and support their clients in its use. Some of these lessons are specific to using a secured card as a tool. Others are broadly useful to the larger practice of building credit and of developing partnerships between nonprofits and financial institutions to deliver financial products to un- or under-banked clients. It is hoped that sharing these now will help others — microenterprise organization leaders, front-line coaches and financial partners — interested in using a secured card or other financial tool to build upon this experience to the benefit of many other microentrepreneurs in need of building credit.

The following pages include:

- A description of the Asset Building through Credit Pilot Program, specifically, its structure and its partners.
- Key findings from the data collection effort.
- Lessons for coaches.
- Lessons for organizational leaders.
- Lessons for financial institution partners.
- Concluding thoughts and insights into credit building.

The Asset Building through Credit Pilot Program

The Asset Building through Credit (ABC) Pilot Program is a collaborative effort among FIELD, microenterprise programs, a financial institution and a foundation, all working together to answer several key questions:

- Can a secured card teamed with education help entrepreneurs build their credit and their businesses?
- Can the product help microenterprise organizations build scale?
- Can these organizations offer the product in a financially sustainable way?

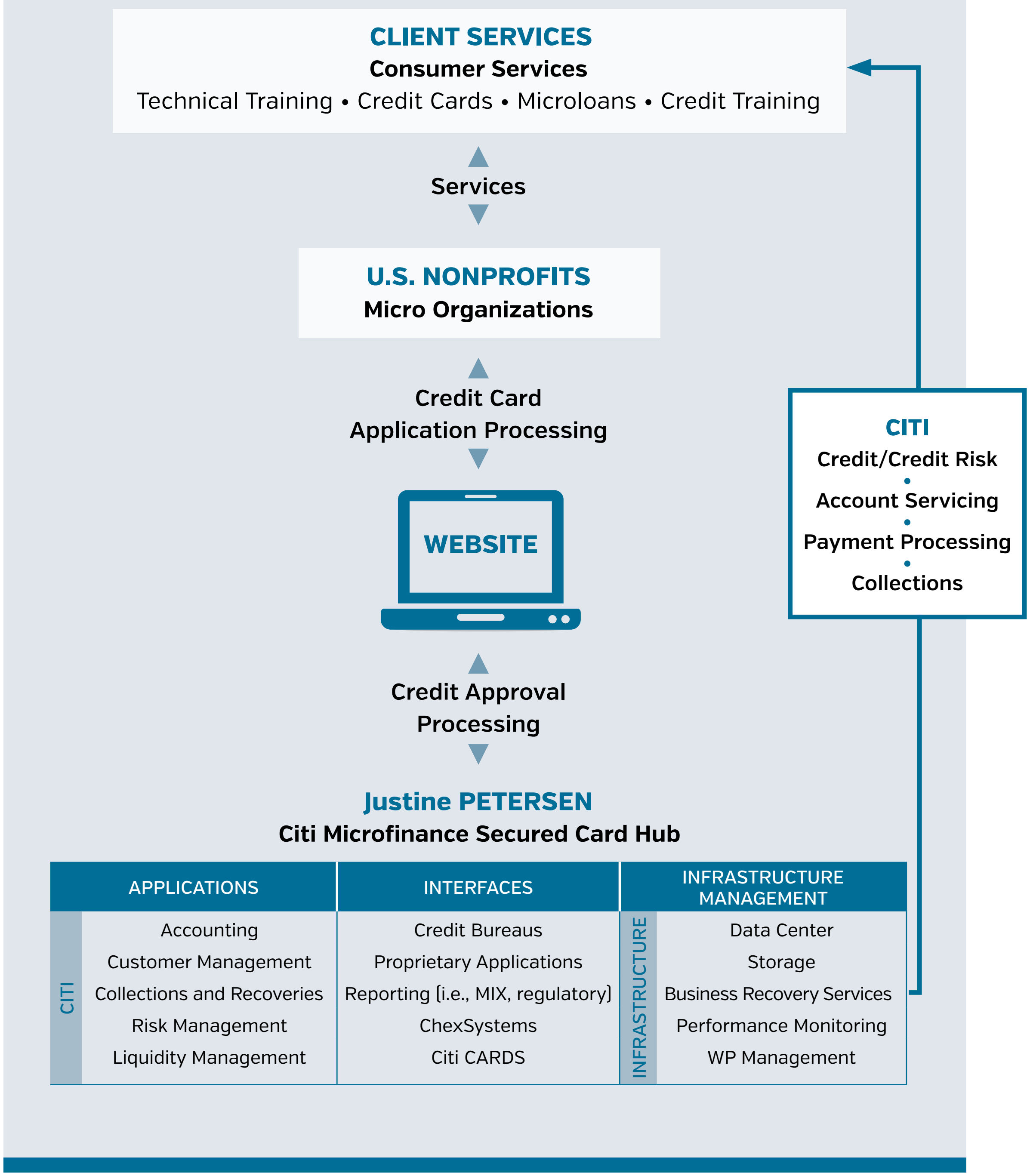
> In nine months between June 2009 and March 2010, Justine PETERSEN processed 163 credit card applications to Banamex USA, of which 137 (84 percent) were approved. The typical card recipient had a "thin file" with no revolving credit, an average score of 575, and approximately $3,000–4,000 in collection debt. Sixty-one percent of the clients were entrepreneurs and 72 percent purchased an additional financial product from Justine PETERSEN, either a credit-building or microenterprise loan.

The pilot builds on the early experience of Justine PETERSEN (JP), a microlender based in St. Louis, Mo., which worked with Citi and its subsidiary, Banamex USA (BUSA), to offer a secured credit card to microentrepreneurs and others in its market with no or very limited credit. Uptake of the card in that market and the early positive changes documented in the credit scores of the card users suggested that the product had real value for aspiring, disadvantaged entrepreneurs. If so, how could more be reached and how might the working partnership that Justine PETERSEN and Banamex USA developed be leveraged to reach other markets? Citi Microfinance, a business unit of Citi working to expand access to financial products and services to the underserved, conceived a structure and technology platform that would enable other microenterprise organizations to efficiently and effectively deliver the product in their local communities. As envisioned:

- Banamex USA provides a secured credit card to qualified applicants recruited and assisted by microenterprise development organizations that coach them on credit building and assist them in completing the credit card application. The card offers a low security deposit. Underwriting is transparent to the partners who are assisting clients and to the applicants.
- Justine PETERSEN serves as the intermediary between Banamex USA and the microenterprise organizations — providing training and technical assistance to the staff, reviewing applications, and processing completed ones to Banamex USA. Justine PETERSEN received training on the underwriting process to assist all applications, so that applications submitted through the organization are almost always completed for credit evaluation by BUSA.

- Citi Microfinance built a web portal that enables microenterprise organizations to electronically submit and monitor the process of their clients' applications. Justine PETERSEN staff use the portal to review and clear applications to Banamex USA and to monitor the process of all applications.
- Microenterprise development organizations promote the card in their markets, coach clients on credit building, assist them with their applications and card use, and monitor performance.

The **Partnership Model**



FIELD joined the partnership to help select the practitioner partners, facilitate the participatory learning agenda that would accompany the pilot, document best practices, and implement the evaluation of client outcomes.

Evaluation Design

The evaluation involves three key components:

- Tracking data on client characteristics and outcomes, in order to understand the profile of customers who applied for and received the cards, and to capture outcomes in terms of changes in credit scores and progress on their business development plans.
- Site visits to the grantee organizations, which involved interviews with organizational leaders, staff engaged in delivering the secured card, and clients who had received the card, in order to document practices, experiences and lessons.
- Peer learning calls, aimed at building the capacity of the sites to deliver the card and also at capturing lessons regarding effective practices.

The product offered to clients combines the secured credit card with credit coaching. Secured credit cards are secured by the deposit a user places with the credit card company. In this case, the card is a Banamex USA card that requires a minimum $300 deposit and enables users to charge up to the amount on deposit. After 12 months, performance with the card, a user may apply and be evaluated for an unsecured card. The features of the Banamex USA card are detailed on the next page. Of particular note is the two percent interest paid on the deposit, a feature that some cardholders viewed as especially positive. Although the interest rate charged to cardholders appeared high to some users, the coaching emphasizes using the card in a limited way and paying on time, thereby mitigating the impact of the rate.

FEATURES AND PRICING	BANAMEX USA SECURED CARD*
Credit Line	$300–$25,000. Credit line equal to the deposited amount and the ability to pay credit obligations.
Graduation to Unsecured	Eligible to request review after 12 months of on-time payment
Annual Membership Fee	$35
APR for Purchases	20.99% Fixed
APR on Cash Advances	24.99% Fixed
Interest on Deposit	2.00% APY for customers with a SSN or ITIN
Balance Transfers	None
Default APR	None
Over Limit Fee	None
Transaction Fee on Cash Advances	6% of the amount of each advance but not less than $15
Transaction Fee on Purchases in Foreign Currency	3% of the amount of each purchase after its conversion into U.S. dollars
Minimum Finance Charge	$0.50
NSF Fee	$25
Pay-by-Phone Fee	$14.95 if assisted by live representative

* Banamex USA secured card is not given to anyone who has an indication of fraud, has had bankruptcy in the last 24 months, or has debt burden more than 50 percent.

The product incorporates coaching. Microenterprise staff coach clients on the importance of building personal credit, explain what a credit score and a credit report are, and show how to read them. They introduce the secured card as a potential credit-building tool and explain how it can, along with other products and practices, build credit. They explain card features and its use, and assist applicants in completing applications. Staff help clients activate cards when necessary and monitor their performances at least quarterly and often more frequently in the first few months. They offer follow-up coaching in person or by phone, emphasizing a set of key messages (described in detail later in this paper) that promote productive use of the card for credit building.

FIELD, in conjunction with Justine PETERSEN and Citi Foundation staff, selected five microenterprise development organizations to participate in the pilot. These institutions received $45,000 grants to assist with startup and early implementation expenses; and to underwrite the costs of participating in the evaluation, which requires regular participation in peer learning as well as collecting and providing data on client characteristics and performance, and staff time; and project-related expenditures (both grant- and non-grant funded). The selected organizations had experience in financial education and/or credit building, credit report analysis, and providing microenterprise development services and supporting the delivery of financial products. Each organization was selected for its deep experience in a distinctive geographic market and connections to a diverse group of aspiring entrepreneurs. Each also proposed a distinctive model for the secured card pilot designed to integrate the product into current offerings. The organizations and their models are described in Box 1.

Box 1: **Participating Microenterprise Development Organizations**

Champlain Valley Office of Economic Opportunity Inc. (CVOEO) and Central Vermont Community Action Council (CVCAC): These two Community Action Agencies serving rural Vermont worked in partnership to deliver the secured credit card to their target markets, which include northwestern and central Vermont metropolitan and rural communities. Each organization has more than 20 years of experience teaching money management skills to the self-employed, and both offer a wide range of credit- and asset-building services, including group training and individual coaching around credit, matched savings accounts, free tax-preparation services, and credit clinics. CVOEO's business counselors sometimes served as the first provider of credit education, but dedicated financial coaches provided in-depth assistance to those who sought to build their credit and assisted those interested in using the secured card as a tool for that purpose. At CVCAC, staff who serve as business counselors were also responsible for credit coaching. These staff gained experience in reviewing credit reports and credit coaching as the organization expanded its programming to take on the issue of credit building. Both organizations received training from Credit Builders Alliance and use CBA's Access Program, which enables organizations that are not lenders to pull credit reports for educational purposes.

Latino Economic Development Center (LEDC): Since 1991, the Latino Economic Development Center has equipped Latinos and Washington, D.C., metropolitan area residents and businesses with the financial tools and skills they need to thrive, helping to build stable and capable financial futures for all. LEDC began providing business training and microloans in the D.C. area (including northern Virginia and Maryland) in 1997. Over the past several years, LEDC has embedded credit advising and coaching as a core element of its microenterprise programming, with a strong focus on one-on-one coaching. For this program, LEDC appointed a dedicated financial capability consultant to market the program and manage the coaching relationship with all clients interested in using the secured card. Business and housing counselors and loan officers from LEDC's other programs also marketed the program to their customers and referred interested entrepreneurs and aspiring entrepreneurs to the financial capability consultant who assists and coaches them through the entire process of applying for, originating and managing the secured card.

Local Development Corporation of East New York (LDCENY): The corporation's Women's Brooklyn Enterprise Center was the home for this credit-building project. WBEC has provided entrepreneurial, financial education and technical assistance to women and minorities in Brooklyn since 1988. In 2002, WBEC began providing one-on-one counseling and financial education in conjunction with its business training. One experienced financial coach provided most of these services, with some consultant support for group training. A two-hour credit-building workshop provided an entry point for many clients interested in the card. Some participated in a longer-term money management course, and some were referred by business counselors teaching business planning. The financial coach worked one-on-one with all clients interested in pursuing the secured card product, supported the application process and card use, and helped clients with budgeting and savings if they needed support in accumulating the minimum $300 deposit required. LDCENY's participation with Credit Builders Alliance enabled staff to access client credit reports.

continued on next page

Mission Economic Development Agency (MEDA): Since its inception in 1973, San Francisco-based MEDA has worked to assist low- to moderate-income Latino families to build assets. MEDA's Business Development Program provides comprehensive technical assistance and training services and incorporates financial education with a focus on savings, debt and credit. In 2010, MEDA developed a targeted financial education and credit coaching program, which supports its efforts to offer secured cards to its customers. The secured card product is embedded in its business counseling program. All business counselors market the card and offer it to appropriate clients, sometimes enabling them to bundle the card with other financial products offered by partner institutions.

Pacific Asian Consortium in Employment (PACE): With a long-standing history serving Pacific Asian and other diverse communities in Los Angeles County, the Business Development Center at PACE was founded in 1994. PACE's Financial Education and Asset Building Program (FE/AB) has provided a wide variety of training and individual counseling aimed at building credit since 2003. Two financial education coaches from this program market the card to PACE clients served under a variety of programs (from business development to Head Start). Many are referred to PACE's financial education workshops by their counselors and identified in that setting as candidates for the secured card. The financial counselors manage clients' access to and use of this product.

As of the publication of this document, the first phase of implementation of the ABC pilot has been completed. During Phase I, each of the participating sites engaged in a start-up phase during which it designed its secured card program and received training and assistance from the project partners to build its capacity to deliver the BUSA secured card. The online portal and legal agreements between the parties were also developed during the start-up phase. In addition, FIELD developed the evaluation plan and tools, and the sites were trained on the evaluation process. After the start-up phase, the pilot sites then marketed and delivered the card to microentrepreneurs for a 12-month period. As noted above, this report shares the findings on the first phase of the demonstration, with a particular focus on the lessons learned regarding the practice of delivering a secured credit card. Two of the pilot sites are continuing with a second phase of the demonstration, and data on final program outcomes and further lessons relating to program delivery and sustainability will be available in 2014.

What the Data Tell Us

As discussed in the previous section, the ABC pilot program was designed to test whether a secured credit card offered with coaching could help microentrepreneurs build credit and their businesses. It was also designed to test whether the product would enable microenterprise programs to increase their scale by offering a way to serve an important and growing market segment, and whether programs could deliver this product in a sustainable way. After 18 months of implementation, the pilot had begun to make clear the value of the tool to microentrepreneurs and the characteristics of the markets for which it seems to be the best fit and where scale might be possible. Pilot programs also demonstrated their capacity to match the right clients to the card and gained some insight into the costs involved in delivering this product to the microentrepreneur market. The data summarized below support these findings.

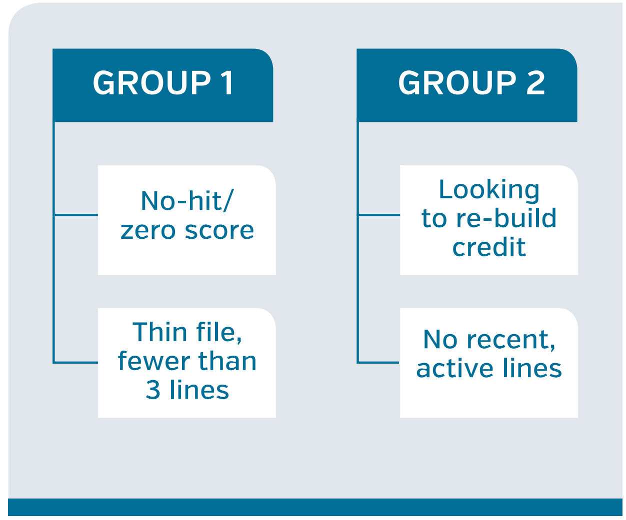
Programs demonstrated that the product connected with microentrepreneurs, particularly those with certain characteristics.

During the pilot period, the five demonstration organizations delivered 148 secured credit cards to their clients. There were differences in performance across the sites, with the strongest take-up of the card among LEDC's and MEDA's target markets, which had more Hispanic immigrant, thin-file customers who often were a good match for the card. Those two organizations processed roughly two-thirds of the cards approved. The rest of the card approvals were split among PACE (with 15 percent of approvals), CVCAC/CVOEO (at 14 percent) and LDCENY (at 9 percent).

Among the entrepreneurs who received cards during the first phase of the demonstration, 59 percent had a FICO score at intake, with a mean score of 606 and a median score of 601. Credit score for these clients ranged from a low of 488 to a high of 808. Conversely, 41 percent of applicants had no FICO scores at application intake. Although lenders vary with respect to the scores they consider strong (some cite 650, others as high as 720), a score in the lower 600s is not considered "prime'" and will not garner the best interest rates from lenders. In addition, some individuals with higher scores may still have difficulty accessing credit as they have relatively few active lines of credit and are, therefore, still considered to be "thin-file" customers.

Card users fell largely into two different segments. The first group included those who had true no-hit or thin-file credit profiles — with fewer than three active lines of credit on their credit reports and relatively little experience managing credit. Included within this group were immigrant clients who were fairly new to the country, new to credit, and were just starting to integrate into the formal financial sector. The second group of clients included those with no recent active lines of credit, and/or who had old collections and were trying to re-establish credit. Some of these clients had very low scores (under 600) or, because of lack of activity for a time, had reverted to no score. Different situations placed individuals in this group — they could have undergone a past foreclosure and/or bankruptcy, suffered job losses or illness resulting in loss of income and subsequent damage to credit, or had a lack of understanding of credit and financial mismanagement.

Included in neither group were individuals with active lines of credit that were currently past due or very recent or pending bankruptcies. Individuals with a bankruptcy within the past two years would not be approved for the card because of Banamex USA's underwriting criteria. Those with active lines of credit that were past due were not good candidates, because opening new lines of credit would have limited (or no) impact on the credit score for individuals with active lines of credit that were past due or late.

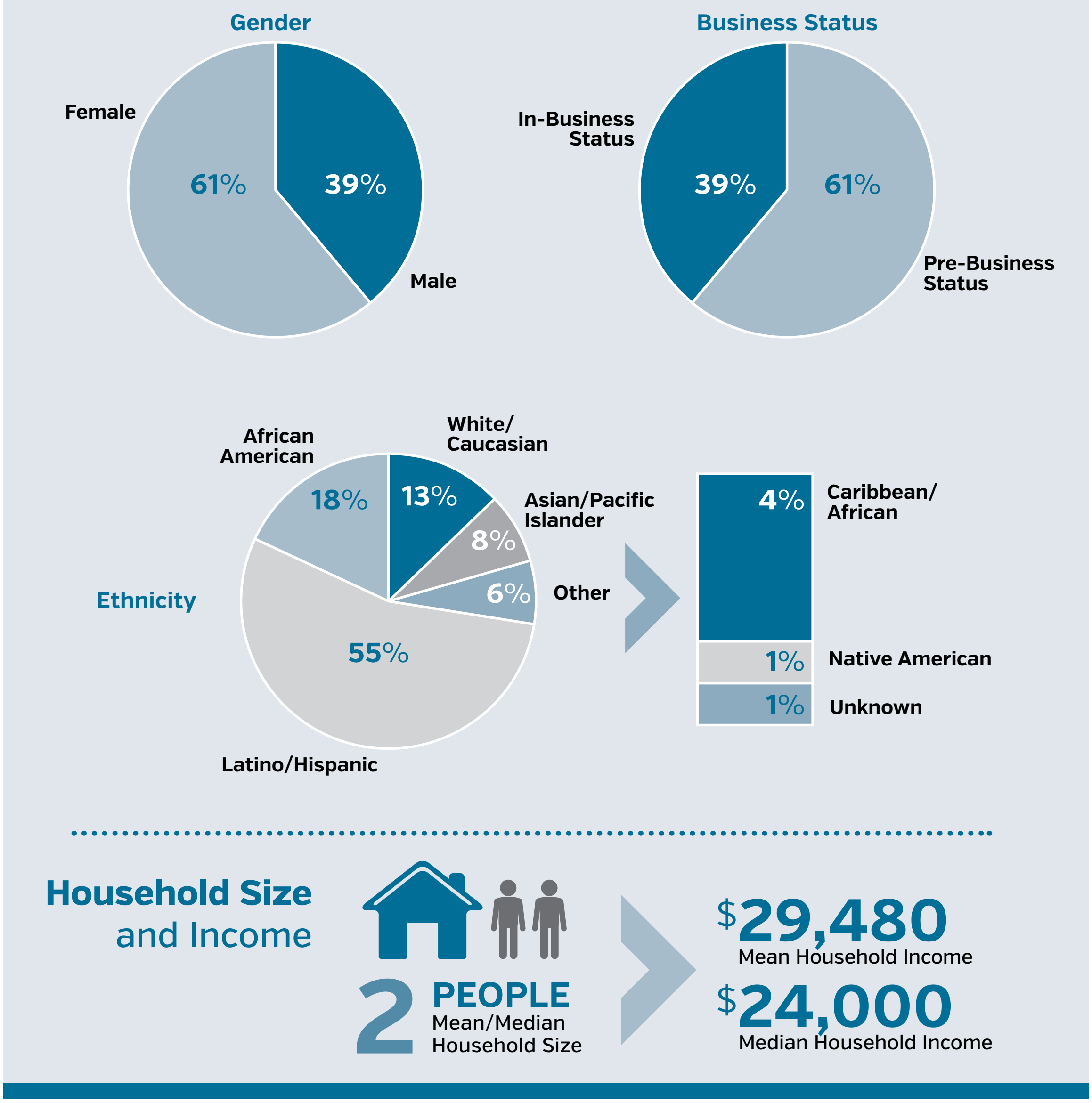


The graphics on the following page provide a snapshot of approved secured card applicants taken by the six microenterprise organizations under this pilot, with respect to ethnicity/race, gender and business status. Information on the mean and median household size and gross annual income is also presented. The data suggest that the card had the strongest uptake among individuals in the pre-business stage, presumably because these individuals knew that they would be seeking financing in order to start their businesses and, therefore, were strongly motivated to build their credit. This finding may also reflect the fact that most of the pilot sites were largely focused on providing business-development services (training and technical assistance) rather than financing; programs with a training and counseling focus typically have higher percentages of clients in the pre-business stage. LEDC also found that most of its loan clients had credit profiles that did not match well with the "ideal" client profile, as many of them had thick files with active lines of credit.

Income data taken at intake by the six microenterprise organizations[2] indicate that applicants were typically low-income, with an average household size of two and a median household income of $24,000. The range of incomes also provides important insights. The minimum household income was $6,500. Although this figure is low, it is important to note that applicants had to have some income in order to pass the "ability to pay" test that all credit card companies must use in evaluating applicants since the passage of the CARD Act of 2009. The maximum household income of applicants was more than $180,000, indicating that some families with high incomes may still face credit challenges.

[2] The participating microenterprise organizations provided demographic and income data to FIELD. The data were collected at the time that clients first entered their microenterprise programs. The data were provided directly to FIELD without any personal client identifiers (e.g., no names were provided). The data were not provided to the financial institution partner.

Client Demographics at Intake

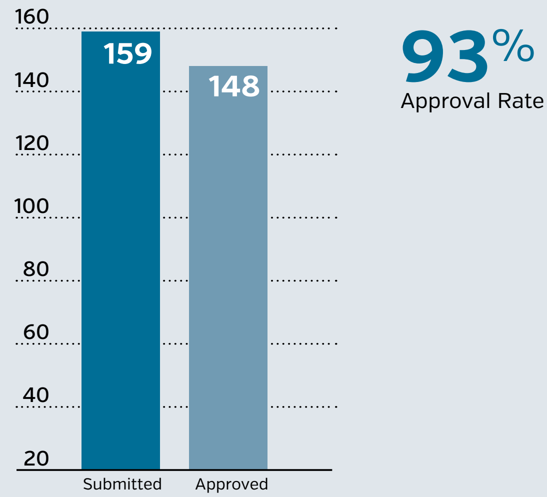


Programs were able to achieve high approval rates because of their knowledge of underwriting requirements, the structure of the program, and the support of Justine PETERSEN.

As illustrated on the next page, during the first year of the pilot, the five programs achieved an approval rate of 93 percent. This high approval rate was a result of two characteristics in the pilot design. First, Justine PETERSEN's role as the portal manager and trainer allowed for fairly frequent interactions with the microenterprise programs to ensure quality control.

As a result, programs were able to get questions answered quickly, and applications that were potentially problematic — such as those without sufficient income to support additional debt — could be flagged before they were formally submitted. Second, the training at the launch of the program presented very clear criteria for approval, which set expectations for counselors and impacted the messaging developed to market the card.

Application Volume during Pilot
(November 2011 to December 2012)



Cardholders self-reported increased understanding of the process of credit building, and early results indicate that substantial percentages were able to increase in their scores.

Not surprisingly, some cardholders struggled as they faced challenges to following credit-building guidance, but the majority seemed capable of using the card as intended. Findings from the six-month follow up by the six microenterprise organizations on the first set of clients to obtain the cards were strongly positive. Seventy-nine percent of clients who had no score at intake had a score at the six-month follow-up, with a mean score of 678 and a median score of 696. The remaining 21 percent still did not have a score at six months. Seventy-two percent of clients who had a credit score at intake had increased their score at the time of the six-month follow-up by a mean of 44 points and a median of 31 points. The early positive experience of clients such as these encouraged others to apply.

FICO Score Changes at Month 6 (data as of 4/22/13)

	Mean	Median	N	%
Score Change (No Score at Intake)	678	696	22	79
Score Change (With Score at Intake)	44	31	33	72

In addition to the early quantitative findings noted above, the evaluation process included site visits to each of the pilot sites, during which FIELD staff conducted interviews and focus groups with cardholders independently from the financial institution partner. The boxes below illustrate the key findings from these conversations with entrepreneurs who obtained the secured card.

What Clients Said **About the Card**

What Credit Building Means ...

During interviews with card users, FIELD asked a broad question as to what credit building means to clients. Many shared aspirational insights into their future, as well as practical realities of building a stronger credit profile. Nonprofits and financial institutions would be wise to build these sorts of messages into the marketing of financial products geared toward building credit. Below are some examples:

- Responsibility.
- That I'm a trusted person; that I now have a score and perhaps a future loan for my business.
- That I exist in the formal financial system and will have access to capital.
- That I'm entering into the financial world.

Behavior Change Takes Time

Not all clients adhered perfectly to the three golden rules of credit building over the course of the one-year pilot. Challenges or emergencies arose, especially for those clients who were lower-income and had few assets to fall back on. Some other clients consistently maxed out the card (although usually paid it off in full each month) and, thus, did not take full advantage of the card's ability to build their scores.

Other clients to whom FIELD spoke, especially those who had never had credit in the past or clients who were in a more stable financial position, followed the three rules diligently and clearly showed the beginnings of strong behavior change around credit card use. Check-in meetings served as reinforcement of the messages and allowed counselors to develop troubleshooting measures with clients undergoing difficulties.

Misperceptions around How to Build a Score

Client interviews revealed how little knowledge there is surrounding ways to maximize credit scores. Much of the client counseling surrounding credit involved breaking down myths around credit.

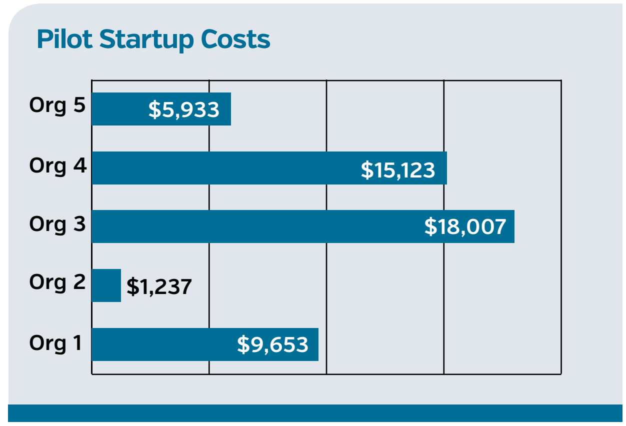
Especially for those clients who were looking to rebuild credit, it was a revelation to learn that establishing new lines of well-paid credit will begin the process of rebuilding a score faster than focusing solely on old collections. The key principles of credit building — maintaining a low balance (generally, less than 30 percent of their credit limit), paying on time, and using these new lines as a tool to rebuild rather than for consumption — were messages that were beginning to stay with cardholders. In the words of one client who had previously gone to credit repair services, "[Those credit building tips] blew my mind. ..."

Barriers to Business Development

Several participants who had established businesses and credit but went through difficulties during the recession emerged with battered credit profiles.

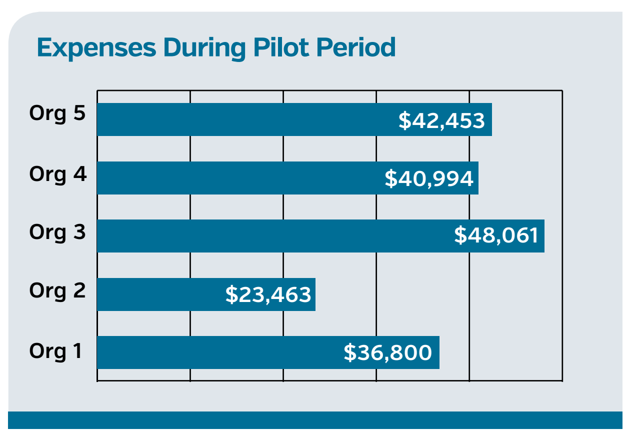
Two businesses in Los Angeles are emblematic of these issues. A realtor and small-scale construction company were rebuilding their businesses as the housing market slowly recovered in California, and both wanted to address their credit issues, because they posed barriers to further growth. For example, the owner of the construction company was not able to apply for a contractor's card from Home Depot or Lowe's for large purchases he needed to make for larger jobs. As a result, he looked seriously at trying to reestablish his credit in order to grow his business to the next level.

Offering this product entailed a set of start-up and ongoing costs, and programs that generated volume were able to demonstrate efficiencies in service that reduced the cost per approved card over time.



Start-up costs included staffing for project launch, marketing and client recruitment, staff development, process and systems set-up, and the initial delivery of cards as the organizations tested product implementation in their markets. Ongoing expenses largely focused on staffing for continued marketing, training and coaching, application processing, and client monitoring. Although still in an early phase of program development and refinement, programs that began to generate volume were able to demonstrate efficiencies in service that moved the cost per approved application down over time.

Pilot programs tracked both their start-up costs in the five months prior to launch of the program, as well as the ongoing monthly expenses associated with card delivery. Start-up costs varied significantly, from a low of $1,237 to a high of $18,000. Programs with lower start-up expenses had existing staff in place and spent fewer resources preparing for program launch. On the other hand, one program with high expenses hired a new staff member to play a key role in staffing the pilot and had limited options for redeploying that individual to other tasks when implementation was delayed for a few months due to the longer-than-anticipated process of activating the Web portal and executing legal agreements. During the start-up phase, there were also significant differences among the sites with respect to marketing and outreach costs, as some sites invested more heavily than others in marketing to partners and other external audiences.



The chart on the right details the financial costs to the pilot organizations over the 12-month implementation period that began after the initial start-up phase. Total costs during this period ranged between $23,463 and $48,061. The total number of hours spent on the project varied among pilot organizations, ranging from 521 to 1,486 hours over the 12-month period (it is important to note that lower amount spent likely impacted the production level at one organization).

On average, each client received 5.3 hours of credit building or/or financial education training at application intake and fewer hours at the three-month (n=68) and six-month (n=16) check-ins.

Although three organizations charged nominal fees for group financial education or credit-building classes, only one program reported that it generated revenues from

cardholders. The organization charged minimal fees that primarily offset the cost of pulling credit reports, both at intake during an initial coaching session and at check-in sessions with the client. As the pilot organizations consider continuing or expanding the offering of the secured card product, charging some fees to offset what is the most costly portion of delivering the product may be necessary.

Customers receiving a secured card noted that the one-on-one credit coaching was a very useful aspect of the management of the secured card, not only for the client-specific content delivered, but also for the accountability involved with consistent client contact. Although all applicants in the pilot spent one-on-one time with counselors doing some level of credit coaching, several organizations experimented with classroom sessions addressing basic credit concepts to bring down the overall financial education costs. Across the pilot sites, 59 percent of all clients received classroom training on credit building and other credit-related topics. LEDC, MEDA and PACE, for example, have instituted basic credit workshops and credit clinics to serve a higher volume of clientele and also help clients get comfortable with key credit-building concepts and credit reports prior to meeting with individual coaches.

There appear to be opportunities to generate greater efficiency in card delivery.

Although start-up and first-year operational expenses appear high, two indicators suggest that lower costs are achievable, especially as volume increases. The two programs that produced the highest volume of cards — even though they reported the highest program costs — had the lowest cost per approved application, at $911 and $1,001, respectively. In addition, an analysis comparing quarterly program costs and quarterly production shows that cost per approved application can decrease even more as efficiencies and experience are gained and volume increases. For example, one pilot site was able to decrease its cost per approved application in the third quarter of the pilot to a low of $637.

To the extent to which programs can implement efficiencies in financial education without compromising the effectiveness of the individualized coaching, and can implement client fees to support these services, the closer they will move to a more cost-efficient, sustainable service. Efforts focused on integrating or mainstreaming the product into the organization's overall service delivery model, rather than implementing it as a discrete service, could also reduce costs. Ultimately, programs need to consider the value of outcomes achieved — improved credit scores, increased savings and decreased debt — and determine whether some ongoing subsidy is acceptable and, if so, how that might best be acquired. Two of the pilot sites are continuing with a second year of the demonstration.[3] This second phase of the pilot will focus on continuing efforts to generate volume and on developing an ongoing business and service delivery model that can be efficient and sustainable over time.

[3] There are varying reasons why the other three organizations are not continuing with the pilot. In one case, the organization is developing a relationship with a credit union that offers a secured card it believes is a better fit for its target market. A second site dropped out due to low volume, and a third due to management changes within the organization that have led it to focus on its core programming.

Lessons for Coaches

Although all organizations within the pilot had some expertise working with clients on credit issues, each had to learn how to integrate a credit-building approach centered on three key messages to successfully support clients using the secured card. Justine PETERSEN developed this coaching strategy and trained pilot programs in its use. In addition, pilot program coaches had to have a strong understanding of credit reports and learn a set of practices to market the card effectively and help clients navigate the process from application through use. The lessons regarding the work of coaches are summarized below.

Coaches must be able to pull and analyze credit reports.

One of the coaches' essential functions in delivering the secured card is identifying clients for whom the card can be an effective tool for building their credit. This requires that coaches have the capacity to pull credit reports and to analyze them with an eye to the actions that can be most effective in helping each client to build his or her credit. Coaches also pulled credit reports after clients obtained the card as a means to monitor the client's use of the card. To do so, coaches needed to be able to access a FICO credit score from a credit bureau. Several of the organizations in the pilot are members of Credit Builders Alliance; others that are microenterprise lenders used other systems to pull reports. Coaches were encouraged to obtain permission from the clients to pull subsequent credit reports at the time they submitted their original applications, so that clients did not have to sign a new release every time subsequent credit reports were pulled.

Emphasize credit building, not credit repair, and a set of simple-to-understand messages.

To maximize a secured card client's credit score, Justine PETERSEN emphasized, and the coaches in the pilot programs implemented, a strategy that guides clients to focus first on establishing new, active lines of credit. This guideline, advocated by the Credit Builders Alliance in its five critical steps to credit building,[4] is based on evidence that on-time payment on active lines of credit, reported monthly to credit bureaus, is the fastest way to increase a credit score. This approach contrasts with a credit repair focus, which focuses first on examining all the debt a person has acquired and then devising a plan to reduce or eliminate the debt. Although it is important to ultimately address debt, this step will not produce the most rapid growth in a client's credit score, and so it not the starting point for credit building.

X **Credit Repair** Help individuals remove information on the credit report they know to be false

? **Credit Counseling** Created to offer "debt management plans" as bankruptcy alternative

! **Credit Education** General educational information around credit through websites, workshops, etc.

! **Credit Building** Asset building products and services to help people create or improve their credit

Source: Credit Builders Alliance

Once a new line of credit is established, coaches need to stress several behaviors related to the use of the card that will maximize the likelihood that a score will be increased. These practices are based on the factors that influence a score. The FICO credit score

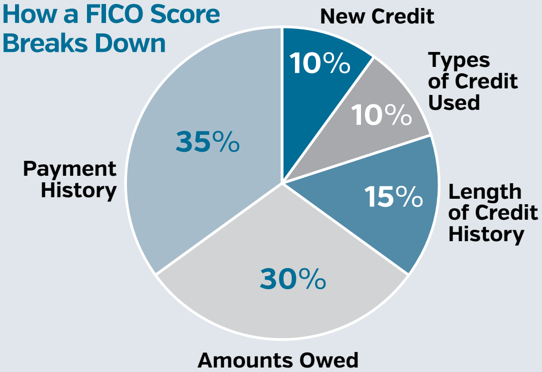
[4] http://www.creditbuildersalliance.org/toolkit-credit-builder-5-step/credit-builder-5-step/

pie chart below illustrates that payment history (pay on time) and amounts owed (keep balances low) comprise 65 percent of a score. This messaging is essential, as clients who charge more than 30 percent of their credit limit, or do not pay on time, may see their scores grow slowly, or decline (particularly in the case of late payments).

3 Key Credit-Building Behaviors

- Always make your payment on time
- Keep your balance low (under 30%)
- Don't use the card to consume (use it only as a credit-building tool)

How a FICO Score Breaks Down



In addition to those two messages, coaches must reposition the purpose of the credit card. Although credit cards are generally seen as tools for consumption, it is essential that secured card users view and use them only as tools for building credit. This means using the card to pay for an existing monthly expense that fits the size guideline (less than 30 percent of available credit, generally $90 against a deposit of $300) and for nothing else.

This was not always an easy recommendation for pilot program clients to follow when they had an immediate or urgent need to use the card. For example, several business clients charged more on the card than the recommended 30 percent threshold because of an immediate business need (i.e., to purchase inventory) or personal circumstances (i.e., family member needed money). Other clients exceeded the 30 percent because they failed to understand that even if they paid the card off in full every month, they would not maximize their score if they exceeded the threshold. Counselors need to find creative and repetitive ways of underscoring the message of non-consumption with clients.

Financial coaching is the core of the process.

Although program service delivery models varied, all pilot programs recognized that the core of the process had to be individualized coaching. Given the sensitivity of client information that needs to be analyzed and discussed, coaching offers the best format for tailoring guidance and support. Coaching sessions should review a client's credit report; discuss how a secured card can help to increase a credit score; and create a credit action plan outlining specific steps that are simple, timely and relevant to build credit. These could include establishing a new line of well-managed credit (such as a secured credit card), disputing old or inaccurate credit information, working to pay off any remaining collections to reduce debt, and creating and/or following a budget. The credit action plan should be customized to each client's individual situation.

Training may be a useful addition to coaching, especially for introducing basic information on credit building and on the card as a helpful tool for that purpose. Four of the five programs offered training of this type, using group sessions to provide basic information on how credit scores affect personal and business finance and introducing tools, including the secured card, which can help people take control of this important asset. These sessions were part of general business workshops or basic credit workshops designed to prepare clients for one-on-one financial coaching (including such topics as the basics of reading a credit report, what a FICO score means, and how to manage credit effectively).

An initial investment of time helps set a strong base for credit building.

Data collected from the sites illustrate that programs spent, on average, 5.3 hours preparing and coaching a client prior to his or her receiving a card. This initial coaching phase was the most time intensive during the pilot, with subsequent check-in calls or meetings requiring fewer hours from coaching staff. Pilot sites saw this investment as critical preparation toward using the card effectively and as helping to set the stage for ongoing monitoring and, ultimately, behavioral changes around the effective use of credit.

Coaches need to help clients start out on the right track.

Counselors should be especially aware that unbanked or underbanked clients may need assistance in activating the card and in setting up a consistent payment mechanism (i.e., online banking or check) that works for the client's cash flow. To that end, pilot program coaches scheduled calls or office visits immediately after the client received the card. Ensuring the payment process went smoothly from the beginning was critical not only to establishing good payment habits, but also to not squandering potential credit score points.

Regular monitoring in the early months is essential.

Counselors found that consistent and regular monitoring, especially in the first months with the secured card, paid off in terms of instilling good card usage or addressing any mismanagement issues. Check-ins can be by phone or email, or via an in-person visit if the client wants one. However, they are scheduled, it seems useful for coaches to check in monthly for the first few months of use and then every other month. These check-ins foster accountability on the part of the clients toward progress on their credit action plans and, consequently, toward building their credit scores. They allow for the review of monthly card usage and the credit score. To that end, the ability to pull credit reports or obtain a duplicate statement is an important tool in monitoring card use. This data is important feedback to both clients and counselors regarding individual progress and overall program effectiveness.

It is important for clients to understand that check-ins after the secured card is received are an essential part of the program. Several grantees instituted a "program introduction letter," which confirmed their clients' participation in the monitoring system at the outset of working with a client to ensure client buy-in to the process. By doing so, these programs emphasized to clients the need to work in partnership with their counselors over the course of the year to troubleshoot problems early.

Standardized coaching tools can improve the efficiency and effectiveness of the coaching process.

Given the specificity and intensity of the individualized coaching that is required to deliver the cards, coaches need a set of standardized tools to support their work with clients. These tools can be a means of structuring the interactions with clients, providing and reinforcing critical information and key messages, and increasing the efficiency of the counseling process. The box below provides illustrations of tools developed by the pilot sites to support the counseling process.

Useful Coaching & Management Tools Developed During the Pilot

- **Frequently Asked Questions (for both clients and counselors offering/processing the card) and Easy-to-Use Checklists.** With any financial product, anticipating questions that may arise and adding to that list is a helpful way of incorporating the learning in the offering of a financial product.
- **Sample Credit Action Plans.** Establishing accountability with the client through a credit-building process is critical to the monitoring process. All the pilot programs implemented some variation of a credit action plan.
- **Budgeting Worksheets.** The coaching process involves interactivity with the client. These samples illustrate different personal budgeting exercises that financial coaches use during the initial and ongoing coaching processes.
- **Program Introduction Letters.** These letters, used by several organizations, helped to establish buy-in from the client and clearly outline the ongoing monitoring process.

Providing a bridge to graduation and an unsecured card.

As clients begin to see improvements to their credit scores — typically, within six months to a year — many begin receiving solicitations for unsecured cards. Focused counseling to clients who are nearing the 12-month period with the secured card, as well as guidance around how to find a card with competitive pricing and terms, can help to reinforce good credit usage behavior beyond the use of the secured credit card.

Lessons for Organizational Leaders

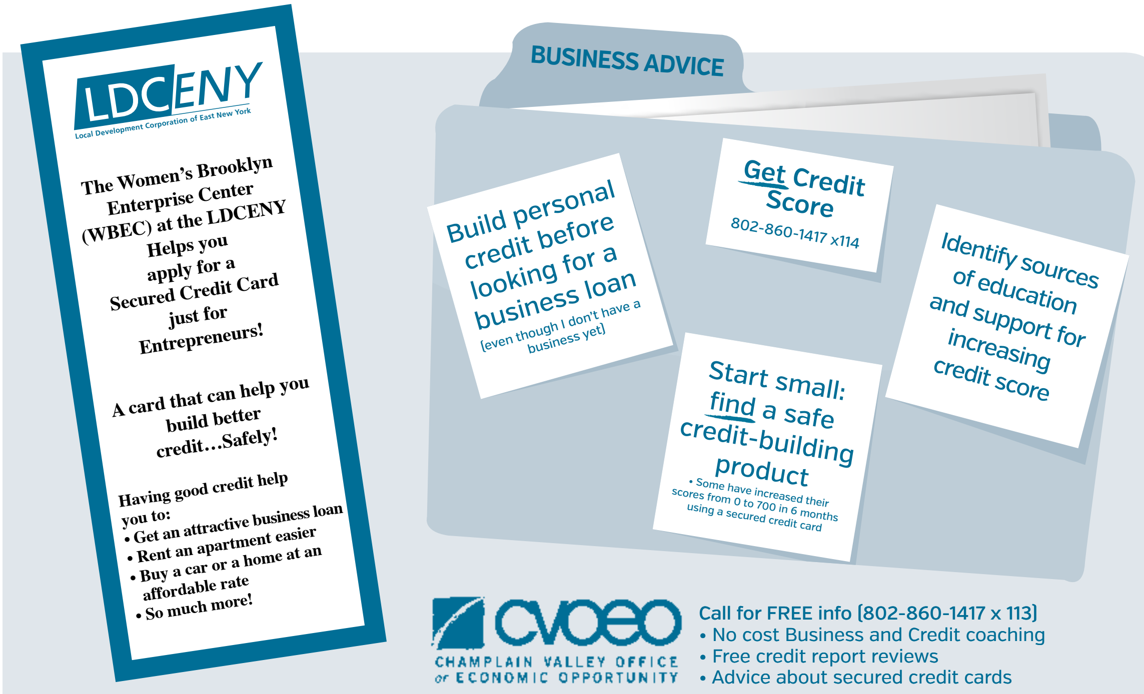
The experience of the ABC pilot demonstrates that support from organizational leaders — at the executive and program manager levels — is critical to successful delivery of a secured card. Most importantly, leaders must articulate and signal that building credit is critically related to the organization's mission and must then follow through with support (in terms of resources and recognition) and incentives (measures for tracking and rewarding delivery) for coaches working to deliver the card on the front lines.

The highest-performing sites in the ABC pilot — those that delivered the largest number of cards in the initial pilot phase — were organizations that had made a clear and explicit commitment to build the credit of their clients. Prior to becoming engaged in the pilot, both MEDA and LEDC had reorganized or modified their microenterprise programming to include an explicit focus on building credit. Toward that end, all clients had their credit reports pulled and reviewed with a business counselor or lender shortly after they began working with the program. Staff from both organizations had also been trained in financial coaching through the Neighborworks Financial Capability Demonstration Project. For both organizations, participation in the ABC pilot provided a concrete product and resources that aligned with their commitment to help their clients build credit and financial capability. In both organizations, the executive director or CEO of the organization also maintained direct engagement and communication with the teams implementing the pilot as a means to both signal their interest in and support for the program and to monitor and evaluate the effectiveness with which it was being implemented.

In addition to assessing the extent to which credit building and delivery of a secured card fit with their organizations' missions, organizational leaders considering whether to offer this product as part of their suites of microenterprise products and services should consider the following lessons from the ABC sites' experiences:

Marketing the card is not a simple task.

During the course of the pilot year, pilot sites experimented with different messaging referring to the secured card and financial coaching services. Some led first with marketing access to the secured card, seeking to differentiate themselves from other local nonprofits that offered only financial education/literacy classes. Others sites did not lead with the card; rather, they led with the value of building credit and tied the credit coaching to the clients' personal goals — typically, their desire to access credit for their businesses. Other programs tapped into the high costs associated with poor (or no) credit, using concrete examples of difficulties renting an apartment, qualifying for certain jobs or loans (car, home, business), and the higher price of insurance or utility deposits, and crafted messages that highlighted the potential savings that come from building one's credit.



LDCENY's flier emphasizes the benefits of good credit and the cost of poor credit, while CVOEO's flier highlights its business advice and credit coaching.

Experience from the pilot indicates that marketing messages that focus on the value of building credit — whether as a tool to advance the entrepreneur's business goals or to reduce costs — were the most effective. Many individuals are not familiar with a secured credit card. Others who may be familiar with secured cards do not necessarily recognize that effective use of a credit card, which provides a revolving line of credit, is the best means to build one's credit score. As a result, leading with the card is either ineffective in attracting clients (because they do not understand its value in advancing their goals) or attracts clients who want access to a credit card as a tool to support consumption, and therefore, are not the right target market for the card.

Build systems to track referral sources, the client pipeline and production.

Successful delivery of a product, especially if an organization is interested in reaching some level of scale, requires good information systems that counselors and managers can use to track where clients heard about the product, how many are progressing through the coaching and assessment process, and how many eventually apply for and receive the card. Tracking is important to be able to identify which marketing sources and strategies are most effective and the characteristics of clients and coaches that result in or relate to eventual "sales." Setting and monitoring clear production goals are also keys to achieving higher levels of production.

Create internal marketing and referral mechanisms.

Initial findings suggest that the entrepreneurs who are most likely to take and perform well on the card are those who come to and work with the program for a broader set of services related to their businesses. In other words, the best clients are those who are interested in building their businesses and see the card as a useful tool in that process, rather than those who are seeking a credit card or are seeking solely to address their credit issues. This is the case for two reasons. First, the costs of marketing the card to entrepreneurs who do not have another relationship with the organization do appear to be less cost-effective in generating cardholders. Second, there are some early indications that entrepreneurs who have an ongoing relationship with the organization outside of the secured card appear to be more likely to adhere to the key messages for use of the card and, therefore, show stronger credit outcomes.

Establish mechanisms for accumulating the card deposit.

The central components of the pilot project were building positive payment behaviors and growing credit scores by using the secured card financial product. However, many potential secured card applicants did not have the deposit ready to open a secured card account. The lack of a ready deposit made for a longer and potentially more difficult coaching process, especially if there was no pre-established method or vehicle for clients to save toward or otherwise acquire the deposit. As a result, several programs reported difficulties in maintaining a strong client pipeline, as clients saved slowly or became discouraged and dropped out of the process.

As a strong microlender, Justine PETERSEN often lends its clients the funds for the card deposit, typically wrapping the deposit amount into a credit builder or microbusiness loan. Only two of the five pilot sites were microlenders, and neither of these had products that could be used to support the card deposit. However, two of the sites had access to other products that assisted clients to accumulate the funds needed for the deposit. MEDA, for example, tapped into an innovative peer lending circle model (called Cestas in Spanish) available in the Bay Area through the Mission Asset Fund (MAF). MEDA has had good success with referring clients who did not have the deposit for the secured card to the Cestas. Clients who used these loans also realized the secondary benefit of acquiring a second line of credit — an installment loan — that could help them to build their credit even more rapidly. Most importantly, referring to an established mechanism for acquiring the deposit helped to keep clients connected to the referring counselor and motivated to improve their credit.

What are Lending Circles?

The Mission Asset Fund's Cestas Populares program formalizes the savings activity that happens in traditional peer lending circles. The program organizes low-income community members into lending circles that provide zero-fee, zero-interest credit-building social loans. Participants sign promissory notes in which they agree to make payment toward their peer installment loan and MAF reports the payment activity to the credit bureaus. MAF also integrates coaching around good savings and credit behavior in the process. As of October 2013, 50 percent of MEDA's BUSA cardholders had also participated in the Cestas program.

Similarly, CVOEO identified the Tracker Loan offered by the local Opportunities Credit Union as a tool that helped clients save for a secured card and build credit while doing so. A client makes 12 monthly payments into an account. Because the client makes an up-front pledge to make these payments, they are reported as an installment loan to the credit bureaus. At the end of the 12 months, the client receives the full amount deposited. One disadvantage of the approach is that the process of savings over a 12-month period delays the client's ability to apply for the card. However, much like the Cestas program, the advantage is that the Tracker Loan provides another line of credit for the customer to begin the credit building process and to stay engaged in the process.

The other pilot sites were able only to encourage clients to save via a traditional savings account instrument or in cash. As a result, those programs had to make a concerted effort to keep potential clients interested in both the ongoing financial coaching, to try to monitor their progress in saving for the deposit, and to maintain their interest in the future prospects of building credit with a financial product. This experience suggests that building mechanisms that clients can use to access or accumulate the deposit are important for both building volume and improving the credit outcomes of clients.

Effective coaches receive professional development.

Several of the participating organizations tapped additional training resources, above what was offered in the pilot, which helped strengthen the delivery of the card. For some, this included intensive training with NeighborWorks, which offered training specifically designed to strengthen financial coaching programs. Others had undergone training by the Credit Builders Alliance (CBA). All of the grantees benefited from the ongoing training and support provided by Justine PETERSEN. For institutions new to credit building, this type of investment in staff development is critical, because effective coaching demands a sound grasp on the specifics of building rather than repairing credit, which for many coaches is new material.

Effective coaches also had a strong belief in the product and a strong sales orientation.

The coaches who generated the most cards seemed to have two central characteristics. First, they believed strongly in credit building and saw the card as a tool for generating strong client outcomes. For some coaches, belief in the value of the card came more slowly, but most embraced it as they saw the increases in scores achieved by clients of their organization. In addition to believing in the card, the highest "selling" coaches were those who had a strong sales orientation — i.e., creative in working with clients to secure their deposits and motivated by achieving high sales volume.

Consider more than the terms of the card when selecting a financial institution partner.

It is natural to look first at the basic terms of a secured card — size of the deposit, interest rate and fees — when evaluating a potential partnership with a financial institution or credit card provider. Experience with the ABC pilot suggests there are other factors critical for the long-term sustainability and success of any partnership. These include:

- Financial support for credit and financial coaching. The most expensive part of the secured card program is the coaching that is an essential wrap-around to the secured card product. Although the next phase of the evaluation of the ABC pilot is looking into the revenue and business models that can support long-term delivery of a secured card, grant funding will likely be required.

- Transparency about underwriting criteria. For many microenterprise organizations, the value of a secured card product lies, in part, in the extent to which it can be a tool for creating a relationship with a client who does not qualify for its other financial products. Approval rates in the BUSA pilot were high — at more than 93 percent — because the partners understood BUSA's general underwriting criteria. Minimizing rejected applications may be very important when working with unbanked or underbanked customers whose reluctance to approach financial institutions may stem from past negative experiences with rejected applications.
- Features of the card, as they relate to overall value proposition to the client. Fees are part of this, but managers also should consider whether they can know the underwriting criteria and whether there are other valuable features. It is important to weigh the value of short-term incentives or features versus prospects for a long-term relationship with overall support from the card issuer. Because the length of time that clients have a revolving line of credit is also a factor in their credit score, it is important to look for a card that clients can hold for the long term and allows for graduation to an unsecured card — ideally with the same number as the secured account. In addition, be aware of the card issuers' practices regarding customer service and collections, as these may be important features for your clients.

Lessons for Financial Institution Partners

The pilot also offered a set of lessons for financial institutions wishing to work in partnership with a nonprofit institution for financial product distribution, especially relevant during a pilot period.

Understand the long-term prospects of the product offered.

Given many relationships start with a pilot period/project, it could be beneficial to offer access to an ongoing bank product rather than to develop a specialized product that a company may not be able to offer over the long term. Citibank chose to offer a card from its Banamex USA subsidiary, because it held features that were particularly attractive to some underbanked/unbanked populations. The card could be processed without the requirement of a social security number (as long as the client has other forms of acceptable identifications under the U.S. Patriot Act), had a relatively low deposit threshold and a generous APY on the savings deposit to client providing a Social Security number or an ITIN (Individual Taxpayer Identification Number), and provided fully bilingual materials (Spanish/English), and a competitive interest rate and annual fee. To establish whether the BUSA card was indeed attractive to this target market, Citibank also conducted an analysis prior to launch to assess the other cards serving this particular underbanked/unbanked client segment. Overall, this strategy allowed the pilot to get up and running relatively quickly and collect intelligence around what was attractive to its clients, and gave the bank the opportunity to assess whether to offer the card more widely and over the longer term.

Provide clarity around underwriting standards.

Approval rates during the first year of the pilot were very high because of the initial clarity around underwriting requirements for the card. Moreover, peer learning opportunities around “what makes for a strong application” allowed conversations among the participating nonprofits to troubleshoot and provide examples of strong potential applicants. A Frequently Asked Questions tool for counselors was developed and updated to hone in on questions that arose during the application process, all of which facilitated a more efficient process and helped manage the expectations of card applicants.

Understand the costs involved in product delivery.

Nonprofits often make natural partners for financial institutions, because nonprofits are able to tap harder-to-reach lower-income market segments and have capacity in areas that are critical to good management of a financial product. These two areas — financial coaching and client acquisition — are also the most costly aspects of the product delivery process. On average, programs spent 9.5 hours per cardholder on financial education content and coaching up to the sixth-month mark. Although some of the pilot sites had existing funding to cover portions of their financial education services, the individual coaching related to the secured card was an added cost. In addition, while there were indeed synergies with the client base the nonprofits were already touching, all the grantees also engaged in marketing efforts that sought to bring new clients to the organization who were appropriate for the card. Assisting the nonprofit partner in the support of these areas or ensuring that these portions of the product delivery are already adequately covered financially (given the nonprofits existing service model) is an important piece to sustainability.

Identify additional products that can support the credit-building process.

Financial institutions already offer a number of financial products in both the savings and credit realm. As an institution embarks on offering a product for credit-building purposes, understanding which other products could complement the process could help ramp up the product delivery process. For instance, as noted previously, a significant portion of potentially eligible applicants to the program needed to save or otherwise access funds for the initial secured card deposit. Several of the pilot programs did not have a direct link to a savings or credit product that provided a path to accumulating funds for the deposit. Access to a specific product (or set of products) could help potentially good credit builders stay engaged in the application process. Further, bundling multiple products that are reported to the credit bureaus could strengthen the overall value proposition by enabling the cardholders to build their credit scores even more rapidly.

Integrate the time required to execute legal agreements into the timeline for planning and implementation.

Product delivery relationships require legal agreements. Full-scale launch of the pilot was delayed by a couple of months as agreements were developed, reviewed and approved by several areas within the financial institution and then sent to the nonprofit for review by their counsel and approval. So as not to hinder the implementation of a pilot, these legal process considerations should be integrated into the timeline for launch early in the process.

Research the availability and competitive status of the markets the institution is seeking to serve.

Many financial institutions will be looking to achieve some level of scale in developing a partnership with a nonprofit organization (or set of organizations). Several factors affected the volume of cards that the pilot sites were able to achieve. One of these was the competitive position of the BUSA card in the local marketplace. For example, Vermont's financial services market is characterized by many locally owned banks and credit unions, and relatively few national banks. Large, national institutions are viewed less favorably by locally owned ones, and credit unions typically offer card terms that are more attractive than those of the BUSA card (although it is important to note that many credit unions do not actively market secured cards, but use them solely as a turn-down product). In Vermont, one of the factors that affected slow uptake of the card was the perception among some of the coaches that the terms were not as favorable as they would like. In Los Angeles, the market factors were somewhat different. L.A. has many national banks and it is currently a test site for many new financial products. As a result, even underbanked customers in the L.A. region sometimes have access to products that those in other markets may not. For example, a PACE client who was in the Chex system due to debts to one national bank was able to secure both an unsecured credit card and a savings account with another national institution. Thus, financial institutions with a national footprint that are looking to achieve some scale in product delivery should investigate local market conditions for its product as part of the process of selecting partner organizations and sites.

Look to leverage mobile technologies.

The mechanics of financial coaching include reinforcing messaging around good payment behavior. Many financial institutions have already begun using mobile technologies for sending payment reminders and other client communications. Working with a nonprofit partner to leverage existing bank infrastructure in this area could help to reinforce messaging around credit building as a means to "nudge" clients toward good payment behavior in a consistent, routine and low-cost manner.

Seek ways to facilitate and improve the efficiency of the coaching process.

One way to reduce costs and increase efficiency in the coaching process is to create a mechanism for the coaches to access duplicate monthly statements (with the cardholder's consent). One program monitored its client's card usage by accessing a soft pull credit report on a monthly basis to see how the client was using the card, especially in the first three months. However, this added to the program's overall costs, especially as its volume of clients grew. Having a process whereby coaches can easily access duplicate statements or providing a delinquency list that would quickly indicate when cardholders are past due or late will allow coaches to intervene early, so that behaviors that hinder the credit building process can be rectified earlier on.

Structure the relationship with the nonprofit for scale.

Building widespread distribution of a financial product can take several iterations, from working individually with one nonprofit partner to working with a group of nonprofits (which was the case in this pilot). If there are more than one nonprofit in the distribution plan, financial institutions should consider using one nonprofit as a hub that can serve as an intermediary in the network to help increase the efficiency of the process.

Justine PETERSEN played this role between BUSA and the five other pilot sites. Common questions regarding changes to the application process and clarifications or problems with the processing of the card were handled between JP and BUSA and then relayed to the grantees, thus creating a smoother and quicker line of communication. Moreover, JP in this role also helped create a FAQ for counselors and made themselves accessible to troubleshoot or answer questions that arose throughout the year. Even in the absence of a larger network of nonprofits participating in the distribution of a financial product, establishing a central nonprofit contact that can facilitate feedback and communication around the product distribution back to the financial institution (with the financial institution also being responsive to the questions or issues that arise) could help accelerate the potential success of the project.

Conclusion

The Asset Building through Credit Pilot Program is an ambitious attempt to test key components of the new concept of financial capability, namely, the notions that tangible improvements in financial behavior are most likely when financial education is combined with access to financial products, and that individuals are most open to changing behavior when they are in the midst of teachable moments. The pilot is also working to test whether partnerships between nonprofit organizations that are deeply engaged in low-income communities can partner with financial institutions to deliver products that can meet the needs of unbanked or underbanked individuals. And, finally, it is assessing whether the ability to offer an additional financial product can be a means for microenterprise programs to achieve greater scale.

The initial findings of the pilot show promise on several fronts. Business owners and entrepreneurs are accessing cards. Approval rates are high. Both coaches and clients seem to be mastering the key practices and behaviors needed to deliver and use cards successfully. Although the final assessment regarding the extent to which access to a secured card can be an effective credit-building tool for entrepreneurs will depend on the results of the outcomes data collection process, preliminary data indicate that credit scores are improving, particularly for those clients who enter without a score.

Moving forward, the primary challenge will be whether the key institutional partners in the pilot — the nonprofit microenterprise programs and the financial institutions — can develop systems and models for service delivery that meet their internal goals and requirements. For the nonprofit partners, this means creating a business model for delivering the card that is efficient and can generate the revenues necessary for covering their costs for providing the card-related coaching and support that is a necessary component of the product. For the financial institutions, success will depend on the extent to which the nonprofits are able to generate a sufficient volume of cards to justify their investments in the system required to support the partnership. Although the approval rates that the partners have generated are very strong compared to those for other customer-acquisition mechanisms and the pilot is bringing in underbanked customers that the institution is seeking to serve, BUSA and Citi Microfinance are hoping to see volume in the hundreds — rather than the tens — of cards on an annual basis. As noted above, Phase II of the ABC pilot is focusing explicitly on these issues, demonstrating more definitively the value to clients in terms of credit-building outcomes, identifying sustainable business models for the nonprofit partners, and increasing card volume. Results on these critical issues will be available in 2014.

Note: BUSA credit card product details are included for informational purposes; this is not a solicitation for credit.

For More Information

For more information on the Asset Building through Credit Pilot Program and other credit-building resources visit:

http://fieldus.org/Projects/SecureCard.html

http://fieldus.org/Projects/FinancialEd.html

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