Savings and Credit: Cornerstones of Financial Security

HEALTHY MARRIAGE & RESPONSIBLE FATHERHOOD

> **In *Within Reach: Strategies for Improving Family Economic Stability*, Healthy Marriage and Responsible Fatherhood grantees were introduced to six asset building strategies that are fundamental to financial self sufficiency. That toolkit provides resources and programming ideas for each strategy. *To view the toolkit, visit https://hmrf.acf.hhs.gov/toolkits and trainings/within reach strategies for improving family economic stability/.***

Introduction

One important aspect of healthy family functioning is money management. Healthy marriage and responsible fatherhood grantees can support families through financial empowerment. Financial empowerment is not about telling people how much they should spend on groceries or cable television. Rather, it is building their ability to manage money in more informed ways and use financial services products that work for them (Consumer Financial Protection Bureau, 2014). This fact sheet provides ideas and tools for beginning a conversation with participants about two specific financial empowerment topics: starting an emergency savings account and building credit.

Starting a Savings Account

Savings are the bedrock of self-sufficiency. Having access to cash to pay for unexpected expenses, such as car repairs or emergency health care, means not having to borrow from others, add to credit card debt, or take out expensive, short-term loans. Yet more than 80% of low-income households report that they have less than $500 in emergency savings (Brobeck, 2008). Below are some common reasons (Caskey, 1997) why low- and moderate-income families may not save and how Healthy Marriage and Responsible Fatherhood programs can address them:

"We don't have enough money to start a savings account." This is a legitimate expression of frustration for many families living on limited wages. An expense tracking activity is one approach to help families see where their money is going. By identifying purchases and other expenses, such as check cashing fees, that might be eliminated, they might find ways to reduce spending and begin to save. It is tedious to track spending and can be painful to cut out purchases, but it can be very helpful in ensuring that families are maximizing income. *For tools and activities for tracking expenses and budgeting, see Module 6 "Managing cash flow" of the Consumer Financial Protection Bureau's* Your Money, Your Goals *toolkit: http://www.consumerfinance.gov/your-money-your-goals*.

"If I save too much, I'll lose my food stamps." Many federal and state public benefits programs have asset limits, or caps, on how much money participating families can have in the bank. Generally though, asset limits are $1,000 or above (CFED, 2015), so a savings goal of $500 is still considered safe. *For information on asset limits in public benefit programs in each state, see CFED's Assets & Opportunity Scorecard page on the topic* *at: http://scorecard.assetsandopportunity.org/latest/measure/asset-limits-in-public-benefit-programs.*

"Even if we do save some, it is never enough." The purpose of an emergency savings account is to be able to cover unexpected expenses, without having to borrow money. Whenever someone borrows money, they have to pay it back with interest, which can be expensive. For example, a payday loan finance charge of $15 per $100 borrowed equates to an annual percentage rate (APR) of almost 400% (Consumer Financial Protection Bureau, 2013). So even having a small amount set aside will allow participants to reduce the amount they have to borrow if an emergency strikes. *For information on types of financial products (accounts) that are best for emergency savings, see the America Saves website: http://americasaves.org/for-savers/set-a-goal-what-to-save-for/save-for-emergencies/where-to-keep-emergency-savings.*

Partnering with Financial Institutions

Financial institution partners can offer program participants a range of services, from assistance with budgeting to guidance on opening an account and setting up direct deposit. When incorporated into program activities, a guest speaker from a financial institution can de-mystify the banking experience and allow participants to ask questions they might not otherwise feel comfortable asking (e.g., "Will you take money from my savings account to pay back taxes I owe?"). Insured financial institutions of all sizes can be safe banking partners, but two types of mission-driven, financial institutions put people before profit:

- **Community Development Financial Institutions (CDFIs)** are certified by the U.S. Department of the Treasury to work in areas underserved by traditional financial institutions. *To find a CDFI in your area, visit http://ofn.org/cdfi-locator.*
- **Credit unions** are not-for-profits owned by their members (accountholders) and insured by the National Credit Union Administration. *To find a credit union in your area, visit http://www.mycreditunion.gov/Pages/mcu-map.aspx.*

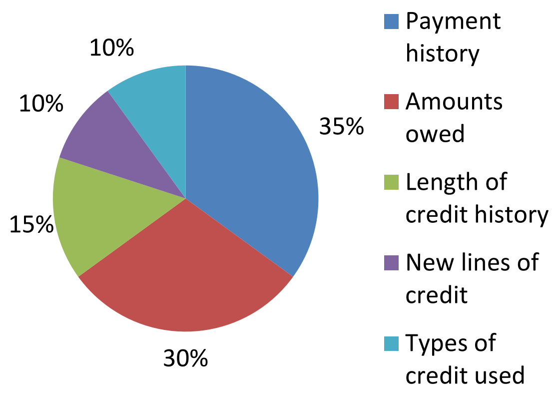
Building and Repairing Credit Safely

Credit is an important tool for any household to manage expenses. It can be used to even out emergency expenses (e.g., a car repair you pay for over two or three credit card billing cycles) or to finance major investments (e.g., a 25-year student loan). But overuse of credit can threaten a household's financial security by lowering members' credit scores, which can raise the rates companies charge for insurance, credit cards, cell phones, and utilities (Consumer Financial Protection Bureau, 2014). The expense tracking activity recommended in the *Savings* section of this fact sheet (see above) may uncover outrageous rates participants are paying for basic services, so improving their credit is part of reducing expenses and finding additional money to save for an emergency! Here are some concerns participants might have about addressing credit issues (Rice, 2011) and ways to help overcome them:

"My credit is really bad." It may be - or it may not. Participants may have misconceptions about what influences a credit score, so they may not have an accurate gauge of their actual credit score. Only pulling a credit report can resolve this uncertainty. The good news is everyone is entitled to a free copy of their credit report every 12 months from each of the three credit reporting companies (i.e., Experian, Equifax, TransUnion). *To pull free credit reports, visit: https://www.annualcreditreport.com.*

"Will pulling my credit report hurt my credit score?" Short answer, it does not. The things that influence an individual's credit score are payment history, amounts owed, length of credit history, new lines of credit, and types of credit used (Consumer Financial Protection Bureau, 2014) (see Figure 1). In addition, frequently applying for new loans (new lines of credit) can negatively impact someone's score, but pulling your credit score yourself or with an advisor does not. *For more information on what factors influence a credit score, see Module 12 "Understanding credit reports and scores" of the Consumer Financial Protection Bureau's* Your Money, Your Goals *toolkit: http://www.consumerfinance.gov/your-money-your-goals.*

Figure 1. Composition of a Credit Score



"Fixing my credit will be hard and expensive." No-cost actions to keep an individual's credit score healthy include challenging any incorrect items on their credit report and paying their bills on time, even if it is just the minimum payment amount. If program participants struggle to pay their bills on time, help them create a calendar of when their bills and rent are due. As participants' financial situations improve and they can begin to focus more resources on debt reduction, encourage them to pay off debt with the highest interest rates first, as this is where they are paying the most in financing charges. *To help participants dispute errors in their credit report, access the creditor dispute template letter posted by the Federal Trade Commission: http://www.consumer.ftc.gov/articles/0485-sample-letter-disputing-errors-your-credit-report-information-providers.*

Finding a Credit Counselor

While many online sources provide basic, sound advice for improving a credit score, some people may need additional assistance or feel better working on their credit with a professional counselor. The following sources may operate not-for-profit credit counseling programs or be able to recommend a reputable credit counseling organization (Federal Trade Commission, 2012):

- **Housing counseling agencies** sponsored by the U.S. Department of Housing and Urban Development may offer credit counseling, especially as it relates to housing and homeownership. *To learn about the Housing Counseling Program and locate a counseling agency, visit http://portal.hud.gov/hudportal/HUD?src=/i_want_to/talk_to_a_housing_counselor.*
- **Cooperative Extension Service Offices** may offer financial management, housing, and consumer education programs. *To find the Cooperative Extension Service Office nearest you, visit http://www.csrees.usda.gov/Extension/.*
- **Military bases** can offer no-cost counseling on financial issues, including debt consolidation and debt management, to active duty, guard, and reserve members and families located in the continental United States. *To learn more about financial counseling through Military OneSource, visit http://www.militaryonesource.mil/counseling?content_id=267031.*
- **Credit unions and Community Development Financial Institutions** (see *Partnering with Financial Institutions* above).

Additional Resources

Below are some resources that you can use to build participants' financial empowerment:

- **Your Money, Your Goals: A Financial Empowerment Toolkit for Social Services Programs:** This toolkit from the Consumer Financial Protection Bureau can help social service staff improve participant outcomes by financially empowering them. Modules on topics such as "Starting the Conversation;" "Saving for the Unexpected, Emergencies, and Goals;" and "Dealing with Debt" contain background information for staff, sample dialogues with participants about financial matters, and easy-to-use tools. The site also includes an implementation guide and train-the-trainer videos (see http://www.consumerfinance.gov/your-money-your-goals/).
- **Financial Management:** This one-hour online learning module, hosted by the National Resource Center for Healthy Marriage and Relationships, addresses financial

management issues from the perspective of couples and families. It builds knowledge of financial management principles and skills and provides activities that can help couples and families track spending, create a monthly spending plan, and instill good money habits in children (see https://www.healthymarriageandfamilies.org/virtual-training-center/).

- **On-Demand Financial and Economic Literacy Education:** These interactive, self-paced financial literacy modules allow participants to explore basic and more advanced topics including spending plans, bankruptcy, credit reports, debt-to-income ratio, buying or leasing a car, and identity theft. Each module is about 15 minutes long and has a self-quiz at the end (see http://www.faircredit.org/virtual_classroom.asp).
- **Within Reach: Strategies for Improving Family Economic Stability:** This toolkit from the Office of Family Assistance includes additional information and resources about implementing the six fundamental asset building strategies in Module 3 "Capacity Building" (see https://hmrf.acf.hhs.gov/toolkits-and-trainings/within-reach-strategies-for-improving-family-economic-stability/module-3-capacity-building/).

References

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