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Innovative Nonprofit Programs Help Low-Income People Build Their Savings



SARAH PEET PHOTOGRAPHY

Mission Asset Fund is formalizing “lending circles,” long used by immigrants, to help participants take control of their finances and build a credit history.

By Nicole Wallace

ASHANA WARD has made a lot of changes lately. The Head Start teacher has crafted a budget, cut back on spending, and is looking for a better paying job. The changes are all in service to a big goal: to buy her own home.

She’s enlisted her two children, ages 10 and 13, to help make her dream come true. She and the kids are depositing their spare change in an empty water-cooler jug to save toward the down payment.

“They’re contributing to it,” Ms. Ward says. “I’m contributing to it. It’s a family thing that we’re doing. The new motto is: We’re trying to buy a house.”

She began making changes since joining a program run by a Boston nonprofit called Compass Working Capital, which promotes financial security and savings for people who live in public housing.

The idea that helping low-income people take control of their finances is key to combating poverty is rapidly gaining currency in the wake of the Great Recession.

Across the country, nonprofit groups have devised creative ways to help low- and moderate-income people learn more about personal finance, reduce debt, save for the future, and open bank accounts so they can avoid high-cost alternatives like check-cashing stores. The approach has won the support of major grant mak-

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Nonprofits Add Financial Counseling to Other Social-Service Programs

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makers, including the Citi Foundation, the Ford Foundation, the W.K. Kellogg Foundation, and others.

'The Holy Grail'

Nonprofits take many approaches to helping people of modest means build assets, such as using prizes to make saving money more fun, offering pre-paid debit cards and other customized financial products, and formalizing the "lending circles" that immigrants have long created in lieu of traditional credit.

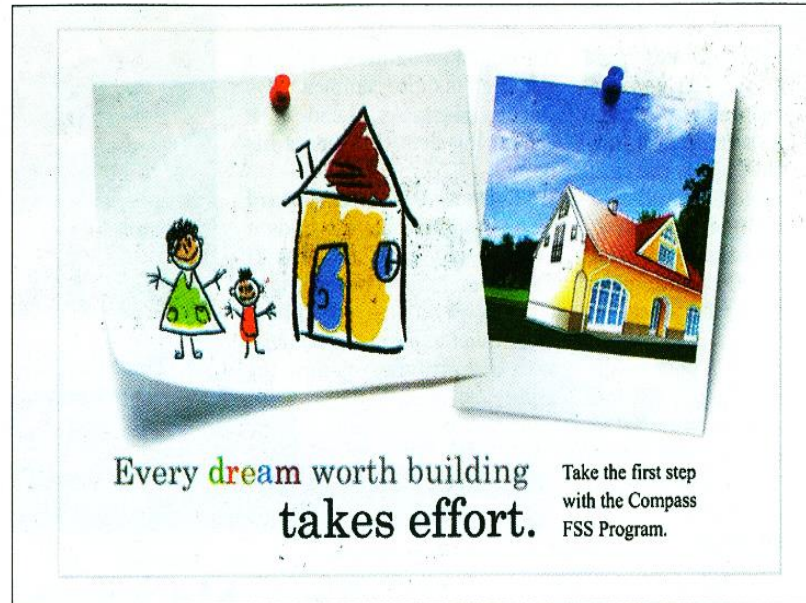
Many of the efforts have been successful, but most are small. Now organizations are tackling the problem of how to drive down the cost of providing services so they can benefit many more people.

"Scale is always the holy grail," says Andrea Levere, president of the Corporation for Enterprise Development, a nonprofit in Washington. "What we want to do is move from being this boutique program on the side to something that is really part of everyone's life."

A 'Supervitamin Effect'

Nonprofits that help low-income people build their assets have found that one of the best ways to expand their reach is to team up with local governments.

Financial instability is a contributing factor—if not the cause—of many of the social problems cities combat, says Jonathan Mintz, commissioner of the New York City Department of Consumer Affairs. Over the last two years, the



Compass Working Capital promotes its Family Self-Sufficiency program with postcards that appeal to people's aspirations for a better life.

city has started to incorporate financial counseling into the social-service programs it provides, often through charities, that help domestic-violence victims, prisoners who are re-entering society, and others struggling with difficult circumstances.

Adding financial services has a "supervitamin effect," says Mr. Mintz: "If you start to insert them into the delivery of other social services, then you will actually boost the outcomes of those social services."

New York also has set up nearly 30 financial-empowerment centers, run by local nonprofits, where city residents

can get one-on-one financial counseling. Philanthropic dollars paid for the first centers, but after the city was able to prove the centers' worth, it took on the cost of paying for them.

Bloomberg Philanthropies, the foundation started by New York Mayor Michael Bloomberg, and Living Cities last year announced a \$16.2-million grant program for cities to copy New York's efforts to help residents improve their financial well-being. Nearly 50 cities applied, despite significant matching requirements.

The tough economy won't keep other cities from starting similar efforts, says

Mr. Mintz. If anything, he says, economic pressure will make municipalities more open to new approaches.

"Achieving better and more longer-lasting outcomes sooner, you spend less money," he says. "These innovations aren't just add-ons, they are smarter approaches to public investments."

Expanding Online

To reach more people on their own, nonprofits are reinventing the savings-match programs that have been a cornerstone of the asset-building movement.

Programs that match the money low- and moderate-income participants save with a combination of federal and private funds have helped thousands of people start a business, buy a house, or seek higher education. While those efforts proved that people with limited means can and will save, the high cost of administering matched-savings programs and providing the match means that the number of accounts offered remains small.

EARN, a charity in San Francisco, wants to change the equation. In the last 10 years, the organization has provided almost 5,000 accounts that match each dollar participants save with \$2. It has set a goal of serving a million people in the next decade.

To do that, EARN plans to move the program to an online platform participants can access from their mobile phones, replace in-person financial education with online videos, and experiment to find the right combination

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Many Working Poor Don't Need One-on-One Help

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of match money, bonuses, and prizes to encourage savings in a way that's cost-effective.

Making the changes upends the ingrained assumption many antipoverty groups have that working with poor people requires a lot of one-on-one interaction, says Ben Mangan, EARN's chief executive. He says it's mythology that needs to be challenged.

"There are tens of millions of working-poor Americans who are strivers," he says. "They need a case worker like they need a hole in the head."

Starting Small

Rather than helping people who already have a modest financial cushion save for big-ticket purchases, Opportunity Fund, a charity in San Jose, Calif., is helping people with shaky finances set aside money for emergencies.

So far more than 100 people have signed up for its Start2Save program, which matches each dollar participants save, up to \$500, with \$2. Participants make monthly deposits of \$20 to \$40. The group, says its leader, Eric Weaver, is gathering data on the effort to help other charities learn the possibilities of emergency-savings programs.

Since Marites Prado joined the program in July, she's weathered some ups and downs. She was laid off from her job at a shipping company and had to scramble to find work.

Yet despite the challenges, Ms. Prado says that setting up automatic deposit has made saving relatively painless. For-

ty dollars is a lot of money, she says, but "I don't notice that I'm already saving that much."

Creating Incentives

Compass Working Capital, the group that has helped Ms. Ward, has found an alternative incentive to help people save in Family Self-Sufficiency, a little-known federal program run by the Department of Housing and Urban Development that encourages public-housing residents to improve their financial footing.

Public-housing residents pay rent that is set at 30 percent of their monthly income; when they earn more money, their rent increases, making saving difficult. However, the program tries to create an incentive by putting the extra money participants pay in rent into an escrow account. Participants get the money once they're employed, have been off of welfare for a year, and have met the goals they set for themselves.

Compass combines the incentive offered by the Family Self-Sufficiency program with the charity's financial education and coaching to help participants turn their financial lives around. The results are promising. In the program's first year, 63 percent of participants saw their incomes rise, and 64 percent saw their credit scores go up.

"People who know me will say I'm obsessed with the Family Self-Sufficiency model," says Sherry Riva, founder of Compass Working Capital. "But the more we got into it, we thought, 'Why aren't more asset-building nonprofits taking this up?'"