FINANCIAL COUNSELING IN CREDIT UNIONS: A SURVEY OF THE FIELD

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An Issue Brief from the
National Federation of Community Development Credit Unions
and Neighborhood Trust Financial Partners

FINANCIAL COUNSELING IN CREDIT UNIONS

SUMMARY

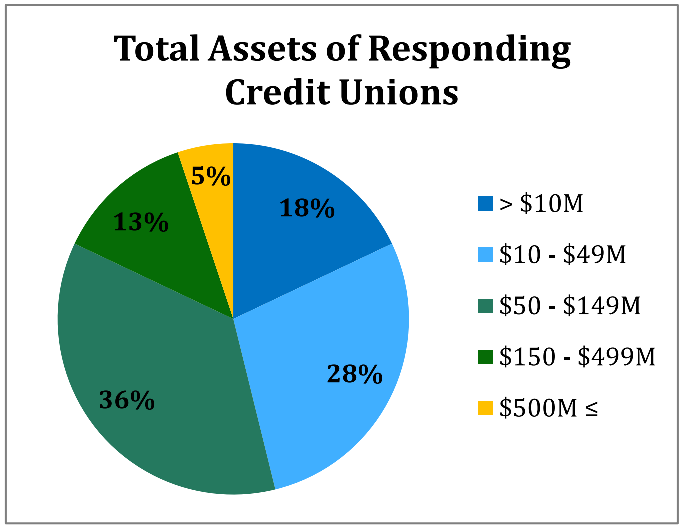
Credit unions' commitment to advancing financial empowerment is clear not only in their delivery of safe and affordable financial services but also in their widespread provision of financial counseling, particularly in low-income communities. More than a third of the roughly 2,000 low-income designated credit unions and 77% of community development credit unions (CDCUs) offer financial counseling.[1] In the fall of 2014, the National Federation of Community Development Credit Unions (Federation) and Neighborhood Trust Financial Partners (NTFP) surveyed these credit unions to gain a deeper understanding of how they approach the provision of financial counseling.

The survey findings affirm that many credit unions have substantial in-house, one-on-one financial counseling programs. Most credit union respondents serve over 100 people each year and nearly half have two or more full-time staff delivering counseling at their credit union. The survey also revealed that credit unions generally do not track the outcomes of the financial counseling they deliver but would like to better understand its impact. Pathways to Financial Empowerment, a new initiative launched by the Federation and NTFP, aims to respond to this challenge. Pathways to Financial Empowerment will provide training and tools to strengthen the delivery of counseling and a platform to measure counseling's impact on individuals' financial health. Equipped with financial counseling outcome data, credit unions will not only be able to better quantify their impact in local communities, but also to provide new insights into the financial position and needs of their members.

BACKGROUND

Every day, new research provides insights into the scope and complex nature of financial insecurity in the US. Fifty-six percent of US households have subprime credit scores, 55% have less than one month's income in savings, and 47% of households' expenses are equal or greater than their income.[2] Over a quarter of households are unbanked or underbanked, relying on costly and often predatory alternative financial providers.[3] These financial pressures are most acute among low-income and historically disenfranchised populations including blacks, Hispanics, and immigrants.[4] The solutions to these societal challenges will require multifaceted efforts from all stakeholders in the financial capability field. Pathways to Financial Empowerment is one such effort, leveraging the network of credit unions as vehicles for financial empowerment for underserved communities.

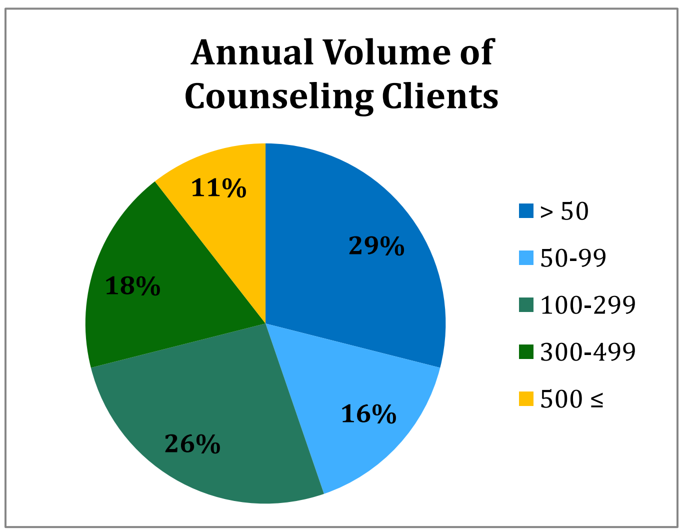
Recent research has underscored the importance of linking financial counseling with financial products to achieve greater financial capability outcomes.[5] As not-for-profit financial cooperatives with affordable products serving underserved communities, low-income and community development credit unions are ideally suited to deliver financial empowerment services. In 2015-2016, Pathways to Financial Empowerment will collaborate with five credit unions to pilot a model for the provision of structured financial counseling within credit unions that links counseling with high-impact financial products and tracks the impact of that counseling through a standard data collection system.



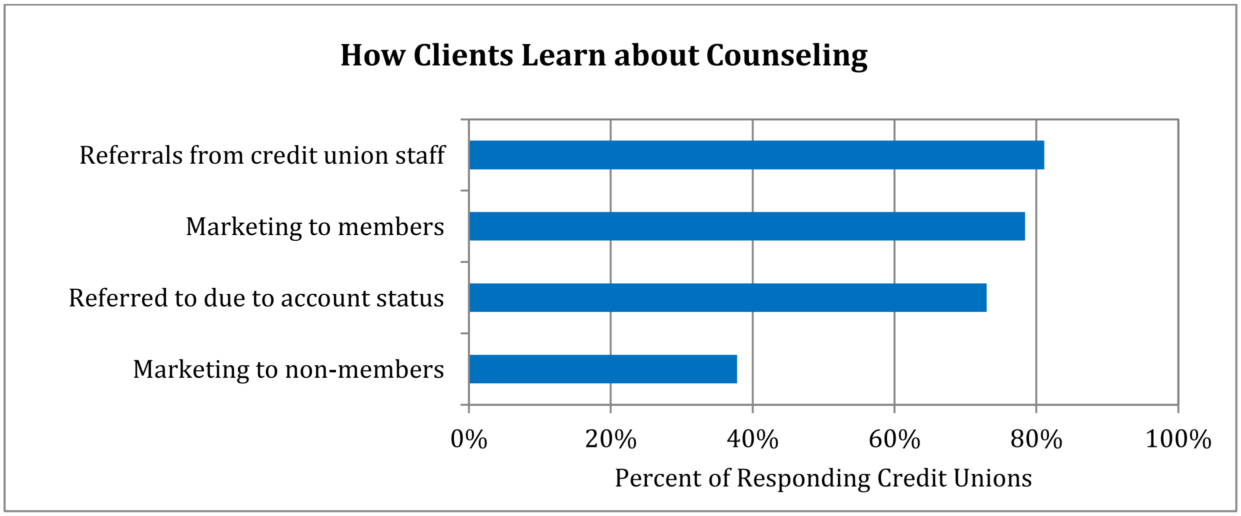
As part of the research and design phase of the Pathways initiative, the Federation and NTFP conducted a field survey of credit unions that offer one-on-one, in-house financial counseling to gain a deeper understanding of credit unions' financial counseling programs size, structure, and financial sustainability. The resulting sample of 39 responses from predominantly low-income and community development credit unions provided the data on which this paper is based. The paper also draws from in-depth, 90-minute interviews conducted with four of the responding credit union as well as the Federation's ongoing Initiatives with CDCUs around the country to enhance their counseling programs.

FINANCIAL COUNSELING PROGRAM DESIGN AND SIZE

The number of individuals served annually by the responding credit unions' counseling varied widely, from just 10 clients a year to 2,300 a reflection of the diversity of credit unions' approach to counseling. Fifty-five percent of responding credit unions served over 100 individuals a year, an indication of significant demand for counseling and a substantial investment of resources, on behalf of the credit unions. Twenty-eight percent of credit unions reported that the demand for counseling exceeded the counseling they were able to supply, though the majority felt that their provision of counseling was in-line with the demand.



Most credit unions counseling programs were focused on serving existing members, but 39% of responding credit unions marketed their counseling program to broader local communities as well. In addition to broad-based marketing, credit union members learned about financial counseling through referrals from within the credit union. The most common events that triggered a referral to financial counseling were denial of a loan, a loan delinquency, or an overdrawn account. Our interviews suggested that these referrals were typically on a case by case basis, rather than a systematic referral triggered by an account status.



Credit unions covered a wide range of topics in their financial counseling sessions, though reviewing credit reports was by far the most common subject, followed by budgeting and recommendations on products that may help the client.

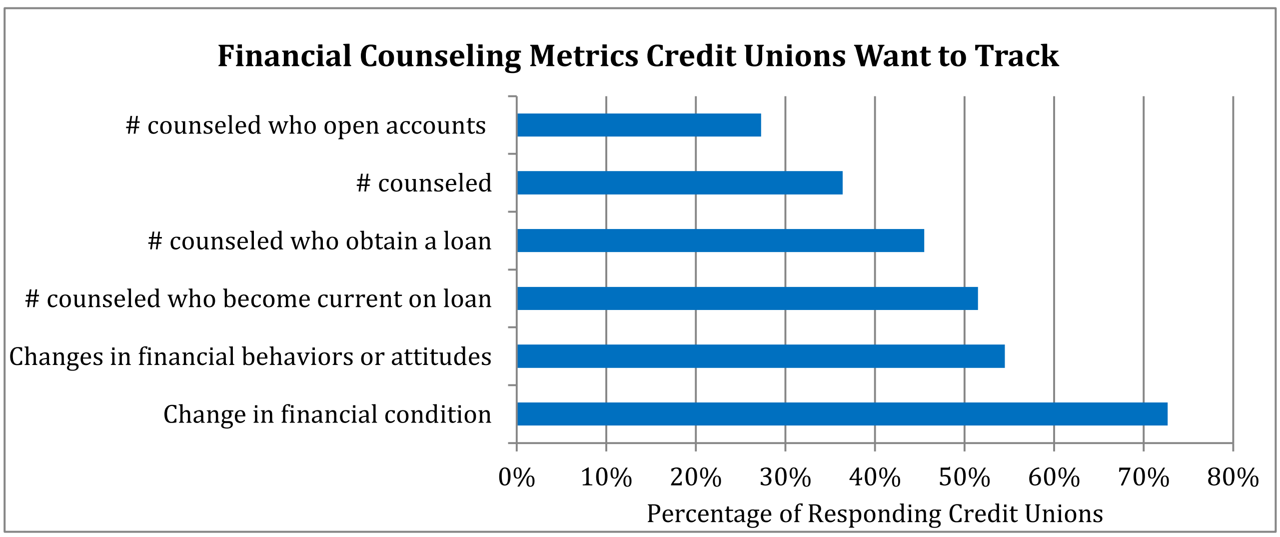
Financial Counseling Topic	Percent of Credit Unions Covering Topic
Credit report review	97%
Budgeting	87%
Product recommendation	72%
Debt counseling	67%
Action Plan	59%
Referrals to other services	56%
Product use assessment	51%

TRACKING & EVALUATION

A core element of Pathways to Financial Empowerment is a standardized system to track financial counseling outcomes. Quantifying impact is essential for credit unions to ensure their efforts are effective; to illustrate the value of their services to their members, prospective members, and community stakeholders; and to identify financial trends within their membership and product opportunities. To gain insight into how credit unions approach evaluation, the survey asked a series of questions on data tracking and measurement. However, tracking was not widespread: 62% of responding credit unions do not track the outcomes of their counseling programs. For credit unions that reported tracking outcomes, the most common system for tracking was an Excel spreadsheet and the most common data point tracked is the number of individuals counseled.

The limited scope of data tracking was affirmed in follow-up interviews with responding credit unions. Some had developed thorough tracking spreadsheets to capture members' financial condition at intake. However, no credit union felt they had a good quantitative understanding of the impact that their counseling had on the people that receive counseling, beyond anecdotal information of members whose lives had been changed thanks to their credit union financial counselors.

In terms of what credit unions would like to track about their financial counseling programs, the vast majority were most interested in measuring change in counseling clients' financial condition, followed by changes in financial behaviors. A smaller but significant number of credit unions were also interested to know how counseling impacts loan production and loan delinquency, an indication that while the financial returns of counseling are important to credit unions, they are most interested in the impact counseling is having on the financial lives of the low-income people they serve.

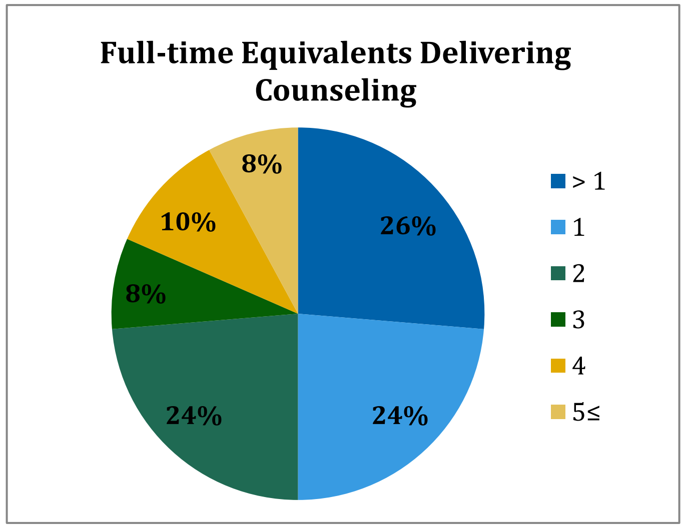


RESOURCES & RETURN ON INVESTMENT

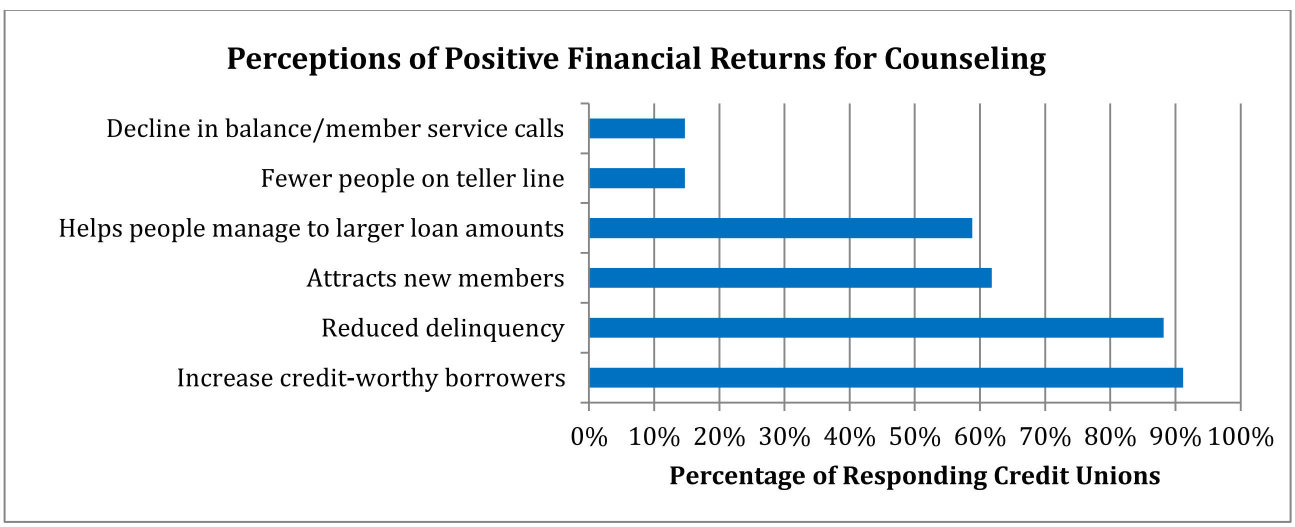
The provision of one-on-one counseling is resource-intensive, but many credit unions serving low-income communities have consistently dedicated the time and funding necessary because they see that counseling helps their members achieve their financial goals.

FINANCIAL COUNSELING IN CREDIT UNIONS

Only twenty credit unions provided an estimate of the annual costs of financial counseling; the estimated annual costs ranged widely from $200 up to $200,000, with an average annual cost of $56,000.[6] Not surprisingly, for most credit unions the greatest expense in their financial counseling program was staff time, followed by staff training and printed materials. The predominant training that credit union counseling staff have received is CUNA's Financial Counseling Certification Program (FiCEP) either through online modules or trainings in partnership with the National Credit Union Foundation and/or their state credit union league.



The majority of credit union financial counseling was provided on a part-time basis by staff that had other duties in addition to counseling. But 38% of responding credit unions had dedicated financial counselors for whom counseling is their primary responsibility. Though the range of number of staff involved in providing financial counseling was from 1 to 44, the range of full-time equivalents dedicated to counseling ranged from .2 to a maximum of eight, with a median of two. Notably, neither the program size nor the number of financial counseling staff appeared to be correlated with the size of the credit union.



Financial sustainability is core to being able to provide financial counseling consistently to the underserved communities that credit unions serve. Though several of the responding credit unions lamented the ongoing cost of providing counseling to their members, all believed that financial counseling had a positive effect on the bottom line of the credit union. The primary ways that credit unions saw financial counseling producing positive financial returns was through loan production and reducing delinquency in their loan portfolio. Financial counseling was also seen as a driver for membership growth. Decreasing the credit union's operating expenses by reducing the number of calls and teller visits was seen by very few credit unions as a way for counseling to improve financial performance.

CONCLUSIONS

Credit unions have invested and continue to invest substantial resources to provide in-house financial counseling to their members as part of their commitment to advancing financial empowerment. They also see financial counseling as a positive contributor to their financial performance. However, credit unions currently have little quantitative data to evaluate or report out on the impact of their financial counseling activities to their membership or their local communities. Through Pathways to Financial Empowerment, the Federation and Neighborhood Trust are introducing a robust financial counseling model and outcome tracking platform that aims to strengthen the credit union field's capacity as a dynamic force for change in low-income communities.

METHODOLOGY

All credit unions with financial counseling programs were encouraged to reply to the Financial Counseling in Credit Unions survey, though low-income and community development credit unions were heavily recruited to participate. Fifty-five individuals responded to the survey. After accounting for multiple staff responses from the same credit union and incomplete surveys, the resulting sample of 39 unique credit union responses provide the data on which this paper is based. Thirty-seven of the responding credit unions are low-income designated and 27 are CDFI-certified. The paper also draws from in-depth, 90-minute interviews conducted with four of the responding credit union as well as the Federation's ongoing Initiatives with CDCUs around the country to enhance their counseling programs.

AUTHOR & CONTRIBUTORS

This paper was authored by Ann Solomon, Federation Strategic Initiatives Manager. Several members of the Federation team contributed to this research including Jason Chang, Cathie Mahon, and Clarissa Ritter. Neighborhood Trust staff members Kryn Anderson, Sarah Sable, and Justine Zinkin also contributed to the research design.

FOR MORE INFORMATION

For more information on the survey and the Pathways to Financial Empowerment initiative, please visit http://www.cdcu.coop/initiatives/responsible-products-and-services/financial-capability/pathways-to-financial-empowerment/.

ACKNOWLEDGMENTS

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MetLife Foundation

ENDNOTES

[1] NCUA Credit Union Profile data as of 12/31/2013.

[2] Jennifer Brooks, Kasey Wiedrich, Lebaron Sims, Jr. and Solana Rice. *Excluded from the Financial Mainstream: How the Economic Recovery is Bypassing Millions of Americans*. Washington, DC: CFED, 2015. *The Precarious State of Family Balance Sheets.* The Pew Charitable Trusts. January 2015.

[3]*2013 FDIC National Survey of Unbanked and Underbanked Households*, Washington, DC: Federal Deposit Insurance Corporation, 2014.

[4] *Ibid*. *Financial Capability in the United States: Report of Findings from the 2012 National Financial Capability Study,* FINRA Investor Education Foundation, 2013.

[5] See Baker, Christi and Doug Dylla. *Analyzing the Relationship between Account Ownership and Financial Education*, New America Foundation, September 2007; Wiedrich, Kasey, Nathalie Gons, J. Michael Collins, Anita Drever. *Financial Counseling and Access for the Financially Vulnerable*, Corporation for Enterprise Development under contract for US Department of Treasury, April 2014.

[6] The survey asked credit unions to estimate the annual cost of their financial counseling programs. Given the data range, it seems that there was variation in what expenses credit unions included in their estimate. Likely the lower estimates did not include the cost of staff time, and instead focused on other than personnel expenses.