FCAB Initiative
Center for Social Development
Brown School at Washington University in St. Louis
https://csd.wustl.edu

What is Financial Capability and Asset Building FCAB)? [1]

PowerPoint Notes

Slide 1 – What is Financial Capability and Asset Building (FCAB)?

Slide 2 – Module overview

This module provides an overview of financial capability and asset building and includes:

- Person-in-environment
- Ability to act
- Opportunity to act
- The financial capability framework
- What is asset building?
- What we know from research
- Summary

Slide 3 – Person-in-environment

- The concept of financial capability dovetails with social work's person-in-environment perspective. In other words, it takes into account how individual psychology, action and behavior are influenced by social structures.
- Financial capability takes into account individuals' ability to manage their finances with their institutional opportunities, such as access to safe and affordable financial products and services, and beneficial policies that help to ensure financial access and build assets.

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[1] Notes adapted from: *Financial Capability and Asset Building in Vulnerable Households: Theory and Practice* *Introduction and Chapter 1,* by Margaret S. Sherraden, Julie Birkenmaier, and J. Michael Collins, Oxford University Press, 2018*, pp. xiii-13.*

Slide 4 – Ability to act : Financial knowledge and skills

- The ability to act often is measured by an individual's financial literacy.
- *Financial literacy* refers to a person's knowledge, skills, attitude, habits, motivation, confidence, and self-efficacy related to their finances.
- People gain financial ability through socialization, education, guidance, and personal experience:
  - **Socialization** begins early in life through exposure to norms, values, behaviors, and attitudes, especially from parents, other family members, peers, and the media.
  - People also learn though **experience**, or "learning by doing" (Dewey, 1897). John Dewey maintained that people learn best when they can apply what they learn. Experiential learning is a powerful process because it integrates all three learning domains: cognitive, affective, and behavioral (Galligan, 1995). Internships and field education in social work are types of experiential learning.
  - **Financial education** occurs in schools, places of employment, media, and other social institutions.
  - **Financial guidance—**or counseling/coaching**—**is available from many places, including financial planners, professional counselors, and online advice columns. Guidance could be on a particular topic, such as debt management, or more generalized, such as money management.

Slide 5 – Opportunity to act : Financial access and inclusion

- The opportunity to act is embedded in social institutions. A range of financial products, services, policies, and programs make it possible to achieve financial capability.
- The opportunity to act is a matter of financial access and financial inclusion. These terms are often used interchangeably, but we make a distinction:
  - *Financial access* means having access to and being empowered to use safe and affordable products, such as a secure place to deposit money, a place to store savings, a means for generating savings and investments, reasonably priced small-dollar credit, and basic insurance products (Birkenmaier, Despard, Friedline, & Huang, 2019).
  - *Unbanked* and *underbanked* is a short-hand way of describing financial access:
    - The *unbanked* are those who do not have money in an insured account with a financial institution. Generally, a person is unbanked when they do not participate in the banking system and rely on cash for receiving income and paying expenses.
    - The *underbanked* are those who have money in an insured account with a financial institution but also use alternative financial services.
  - *Financial inclusion* is a broader term. It includes financial access but also eligibility for beneficial social policies that promote FCAB, such as income support programs, tax benefits and other asset building plans, and supported

savings. These policies make it possible to make ends meet, cover emergencies, and achieve financial and life goals.

- Without favorable environmental conditions, knowledge and skills alone are not sufficient to advance people's financial capability (Sherraden & Huang, 2019). Everyone needs financial opportunities that are suited to their circumstances and work in their favor.
- Even those who make optimal financial decisions and develop positive financial behaviors may face persistent structural barriers, such as racism and discrimination. In such cases, the focus of change must include institutional (structural) change.

Slide 6 – Putting it all together - Financial capability framework

- When people have both ability and opportunity, they understand, assess, and are able to act in their best financial interest to improve their financial well-being (Johnson & Sherraden, 2007, p. 124; Sherraden, 2017).
- When financial knowledge and skills *(Instructor: Click)* plus *(Click)* access to quality financial products, services, and policies are combined *(Click)*, people can be said to be financially capable, which aims to improve (*click*) financial well-being (Johnson & Sherraden, 2007; Sherraden, 2013; Sherraden and Huang, 2018)

Slide 7 – What is asset building?

- Assets are the stock of wealth in a household (what it owns).
- *Asset building* refers to long-term strategies that increase *financial and tangible assets.*
  - *Financial assets* are "liquid" assets, such as cash, stocks, and bonds.
  - *Tangible assets* are a type of resource that cannot be easily converted to cash such as a home, car, jewelry, and furniture (Sherraden, 1991; Sherraden, Birkenmaier, & Collins, 2018).
  - For some, the definition is broader. For example, the First Nations Development Institute, a non-profit established in 1980 to strengthen American Indian economies uses a broad typology of assets based on a holistic approach to community and cultural values (Adamson, Salway Black, & Dewees, 2004, p. 8).
- Why? Asset holding creates material conditions, outlooks, and behaviors that promote household development (Sherraden, 1991; 2011).
- It does not matter whether or not people are wealthy; owning assets "changes the way people think about their lives and future possibilities." As Michael Sherraden (1991) wrote, "Assets are hope in concrete form."

Slide 8 – Asset building policies help people build assets…but not for everyone

- Opportunities to build assets are available through asset-building policies, but the policies often do not benefit everyone.

- In many cases, these opportunities do not require much individual behavior to receive the benefit.
- Tax expenditures are one example of asset building policy. In the case of the *mortgage interest tax deduction*, a homeowner only has to enter information into their tax form in order to receive a significant reduction in the taxes they owe. This requires little "behavior" on the part of the taxpayer, but results in a significant subsidy for homeowners. Renters have no such benefit.

Class discussion: Watch the video ***[How Congress is Spending Billions to Make Wealth Inequality Worse](https://www.youtube.com/watch?v=onFv48ju9MQ&feature=youtu.be)***.
https://www.youtube.com/watch?v=onFv48ju9MQ&feature=youtu.be
- What are the implications for client populations?
- Are there other examples of asset policies that benefit only a portion of the population?

Slide 9 – Case example: Introducing Tamika and Abey

- Abey and Tamika are similar. They both are 16 years old, and are good students. They are taking a (required) financial education class.
- Both of their families struggle financially. Tamika is African American and Abey is Native American.
- Their families—like 6.5% of all U.S. households and 38% of low-income households (incomes under $30,000)—are unbanked (FDIC, 2018).
- They—like 22% of all U.S. households and 62% of low income households (incomes under $30,000)—use *alternative financial services* (AFS). AFS providers operate outside of the federally insured system of banking services. AFS include check-cashing outlets, money transmitters for remittances, payday lenders, pawnshops, auto title loan providers, and rent-to-own stores (Sherraden, Birkenmaier, & Collins, 2018).
- Although their situations are similar in many ways, Abey and Tamika's financial capability and life outlook are very different.

Slide 10 –Tamika's story

Instructor: Click to bring up first image on slide
- Tamika is learning how to open a secured checking account in the required financial education class at her high school.
- She has a regular job at a fast food restaurant, so she has money to put in the bank. However, when she tries to open the checking account, she discovers that the minimum amount and required monthly balance are too high.
- Instead, she decides to open a less expensive savings account.

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- Tamika has access to an ATM four blocks from her apartment but has to remember to deposit her paycheck when she is paid.
- She does not have a computer with Internet access at home, so she does not track her account very closely.

- During the school year, Tamika cuts back on the number of hours she works to pay more attention to schoolwork.
- One month, she notices that her balance has been below the monthly minimum. The bank had been charging a small monthly fee that was eating away at her savings.
- Tamika becomes discouraged and decides that her mother was right. It is easier and cheaper to cash her paychecks at the grocery store, where they only charge $3 per check.
- She withdraws her remaining savings and closes the account. She feels as if using a savings account is futile, and that the bank is unfair.

Instructor: Click

- Tamika begins to save her money in a jar at home.
- Unfortunately, it is easier to spend and for others to borrow.
- Later, when she is a little older and has a full-time job, Tamika learns she can get emergency money from a payday lender down the street. They are very nice people, and she is not as intimidated there as she was at the bank. She can even pay her utility bills there.

Instructor: Click

- The payday lender charges high rates of interest—up to $600%!—but Tamika thinks she can handle it by paying the lender back right away.
- She gets sick, has to miss several days of work, and takes out another payday loan instead of paying it back. Eventually, this cycle leads to problem debt.
- What may be worse for increasing her future financial well-being is that this experience leaves Tamika with a negative view of financial institutions and her own financial capability.

Slide 11 –Abey's story

- Abey also is a good student and works at a fast food restaurant. Like Tamika, she is enrolled in the required financial education class at school.

Instructor: Click

- Abey is interested in learning about managing her money and saving for college.

Instructor: Click

- When she was a freshman in high school, she joined a college savings program sponsored by a local non-profit organization. They helped her open a 529 college savings plan, made an initial $300 deposit, and promised to make a milestone contribution of $500 when she graduates from high school (Clancy, Sherraden & Beverly, November 2019).
- Her employer offers direct deposit of her paychecks.
- Abey's local credit union offers a special low-fee, secured checking account with a no-fee youth savings option. She opens both accounts and arranges to transfer $50 per month automatically from her checking account to her savings account. She plans to transfer these savings to her college savings account.

Instructor: Click

- When she finishes high school and starts community college, Abey plans to get a better paying job to add to her savings and obtain grants and loans to help pay for college.
- Abey is a young person actively engaged in her financial life, learning and doing at the same time. Traditional financial products and services work for her. Although she comes from a low–income family, she has an opportunity that Tamika does not to build college savings through the special college 529 plan.
- This interaction between financial literacy (i.e., knowledge and skills) and financial inclusion (i.e., access) is central to the idea of *financial capability.*

Instructor: Click

- Abey is exposed to a good savings opportunity and has an early and positive relationship with a mainstream financial institution. She gains a sense of mastery about money management and feels secure because her money is safe, giving her hope for the future.

Slide 12 – Different levels of financial capability

- Unlike Tamika, Abey is able to avoid the many exploitative alternative financial institutions in her community. She also feels more in control of her financial life, which may help her to build personal resilience.

Instructor: Click

- Both Tamika and Abey are "financially literate" (i.e., they both received good grades in their financial education class), but Abey has access to beneficial and quality financial services.

Instructor: Click

- Abey is financially capable, while Tamika is not. This outcome is the result of different opportunities rather than a lack of effort or talent, or family support.

Instructor: Click

- As these examples illustrate, the price of not having financial capability can be very high.

Slide 13 – Discussion: Encouraging financial capability and asset building

Instructor: Questions can be answered in small groups or by the entire class.

- What are the possible institutional (or structural) factors that may have contributed to Tamika's financial vulnerability?
- How can we help Tamika and other young (and older) people build financial capability and assets?
- Are there FCAB programs and services aimed at youth in your community? For adults? Older adults?

Slide 14 – Financial capability is a developmental process that occurs at every life stage

- Financial capability is a developmental process that occurs at every life stage.

- This table describes various strategies for different age populations to facilitate development of financial capability (Sherraden, Birkenmaier, & Collins, 2018; adapted from Table 20.1, page 323).
- Class discussion: What other financial instruments or policies are used during different life stages? What other financial skills and knowledge do people develop during these life stages?

Slide 15 – FCAB and social work practice: Improving people's ability and opportunity to act

Below are some examples of how social workers practice financial capability in the field, ranging from micro practice (direct with clients and communities) to macro practice (working on programs and policies that will benefit clients and communities).

"Micro" practice:

- Teach financial management (Lusardi, Clark, Fox, Grable, & Taylor, 2010)
- Conduct assessment of client financial condition (Scanlon & Sanders 2017; Parker et al., 2016; Consumer Financial Protection Bureau [CFPB], 2018)
- Help clients:
    - Set and meet life goals
    - Create spending plans
    - Resolve financial problems and conflicts (Klontz, Britt, & Archuleta, 2015; Nelson Smith, Shelton, & Richards, 2015)
    - Generate income and enable asset accumulation

"Macro" practice:

- Income support (Lein, Romich, & Sherraden, 2016)
- Financial services (Friedline, Despard, & West, 2017)
- Asset building (Sherraden et al., 2018)
- Employment/business development (Sherraden & Sanders, 2010)
- Financial education and counseling programs (Zhan, Anderson, & Scott, 2006)

Slide 16 – Research on the building blocks of financial capability

In this section, we provide research on elements of the financial capability model:

- Ability to act
    - Financial education
    - Financial guidance
- Opportunity to act
    - Financial products and services
    - Financial policies
    - Asset building policies
- Ability and opportunity to act
    - Combining financial education and financial services

Slide 17 – What we know from research: Financial education

- Most of the research on financial education tests effects on financial literacy and behaviors.
    - Experiential and participatory learning methods are particularly effective (CFPB, 2013, Kolb & Kolb, 2009; Batty, Collins, O'Rourke, & Odders-White, 2016).
    - Factors that appear to matter for achieving positive outcomes in youth financial education are content and teacher preparation (CFPB, 2019; Urban, 2018; Lusardi & Morrison, 2019; Urban et al., 2015).
    - The timing of financial education may also be important. Financial education should begin early, in primary and secondary school and college (CFPB, 2019; Kasman, Heuberger, & Hammond, 2018; Lusardi & Mitchell, 2014).
    - Financial education that takes advantage of "teachable moments" (or "just in time" education) may be especially effective. Examples of "just in time" education include teaching about (1) buying a home when a family is considering buying a home, (2) health insurance when individuals obtain a job and must choose a health insurance plan, and (3) retirement saving when individuals get their first job (Kaiser & Menkhoff, 2017; Fernbach & Sussman, 2018)
    - Meta-analyses indicate that financial education can be effective to improve knowledge and behaviors with adequate teacher preparation.
- True experiments and more consistent and standardized measures are needed to better assess outcomes and impacts of financial education (Fernandes, Lynch, & Netemeyer, 2014; Kaiser & Menkhoff, 2017; Miller, Reichelstein, Salas, & Zia, 2014).

Slide 18 – What we know from research: Financial education in schools

- Lower income students likely will not receive formal financial education at home or elsewhere unless there is a mandate to include it in public education.
- The number of states with financial education requirements in kindergarten to 12th grade is increasing. As of 2020, 21 states require high school students to take a course in personal finance and 25 states require a high school course in economics (Council for Economic Education, 2020).
- Some high school financial education studies show outcomes associated with improved credit management, higher credit scores, and lower use of payday loans (Harvey, 2019; Urban, 2018).
- Variations in the ways that states implement high school personal finance education policies can affect learning outcomes (Urban, 2018).

Slide 19 – What we know from research: Financial guidance

- People may need financial guidance and mentoring, especially if family members and friends do not model financial capability (Collins & O-Rourke, 2009).
- An experiment with two financial coaching programs indicate most clients initially sought guidance for credit problems. Both sites found positive outcomes

in money management, paying down debt, saving, and perceptions of financial well-being (Theodos et al., 2015).

- Credit counseling can help people lower debt. Results from NFCC's "Sharpen Your Financial Focus" national credit counseling demonstration program show reduction of $1,763 consumer debt 18 months after counseling (Roll & Moulton, 2019).
- Cities for Financial Empowerment Fund is organizing and providing seed funding to municipalities to integrate financial counseling and coaching into city human services. In one year, financial empowerment services in 5 cities reduced $5.5 million debt and $750,000 household savings for 8,000 people (Mintz, 2014). As of November 2019, their public Financial Empowerment Centers report they have worked with over 99,000 clients to reduce over $137 million in debt and increase savings by $19 million (Cities for Financial Empowerment Fund, 2019).
- Financial guidelines, educational text messages, and deposit reminders are cost-effective methods to improve financial outcomes. Research shows reduction in credit card debt (CFPB, 2017) and reduction in savings withdrawals (Rodriguez & Saavedra, 2019).

Slide 20 – What we know from research: Financial products and services

- People who cannot meet all of their financial needs in mainstream financial services may turn to *alternate financial services* (AFS), such as payday loans, rent-to-own, money orders, and check cashing outlets. They often are costly and some are harmful (Furman, 2016; Office of the Inspector General United States Postal Service, 2014). (Research now shows what we have known all along, that many people use both mainstream and alternative financial products and services.)
- Households with average income below $25,500 spent $2,412 annually on AFS interest and fees, which averaged 9.5% of their income in 2014 (Office of the Inspector General United States Postal Service, 2014).
- Appropriate financial products and services enable people to safely store their money, manage household resources, save for emergencies, borrow on reasonable terms, send money to a relative, and accumulate long-term savings (Barr & Blank, 2009).
- Promising innovations:
  - "Bank On" (https://joinbankon.org/)is a collaboration of financial institutions, governments, and non-profits working together to provide affordable financial products. According to a January 2019 press release, 28 financial institutions with over 21,300 branches offer accounts that meet national account standards to support safe and appropriate financial products and services for unbanked and underbanked persons (Cities for Financial Empowerment Fund, 2019).
  - Some banks and credit unions are offering lower cost alternatives to alternative financial service providers such as small dollar loan products (e.g.

RedDough) and platforms for persons to lend to each other (Erwitt, Plat, Bradley, Diner, & Covington, 2018; FDIC, 2009; Tescher, 2019).
    - Most promising, perhaps, *FinTech* (or financial technology) is evolving rapidly in the financial services sector (PwC, 2016). Digital and mobile-based technologies, such as mobile wallets and access through the telecom industry that are bank-independent, can provide more affordable access, but data privacy and security and internet access are still a concern (Reilly, 2019, July 24).

Slide 21 – What we know from research: Financial capability policies and programs

- Federal matched savings program for low-income households increased savings, reduced use of check-cashing services, reduced material hardship, and improved perception of financial security (Mills et al., 2016).
- Regulations and consumer protection against identity theft, scammers, and predatory lenders can make a difference.
    - The Credit Card Accountability Responsibility and Disclosure (CARD) Act of 2009 was designed to protect consumers from abusive lending practices, including limiting fees, improved disclosure about costs and penalties, and additional protections for those under age 21. Since its implementation, CFPB (2015) reports that credit card costs have declined overall and information about costs is more transparent.
    - The Dodd-Frank Wall Street Reform and Consumer Protection Act 2010 strengthens consumer protection and heightens regulation of financial markets by tracking unfair, deceptive, or abusive practices and enforcing compliance. For example, CFPB settled with Equifax and TransUnion to pay $17.6 million to harmed consumers (CFPB, 2017).
    - CFPB's Supervisory Highlights is a CFPB publication that summarizes recent enforcement actions, available at https://www.consumerfinance.gov/policy-compliance/guidance/supervisory-highlights/
- The Internal Revenue Service's (IRS) Volunteer Income Tax Assistance (VITA) Program offers free tax preparation for people who earn $54,000 (as of 2019) or less and need assistance. IRS-certified volunteers provide free basic income tax return preparation with electronic filing and inform taxpayers about special tax credits for which they may qualify (e.g., EITC, CTC, and Credit for the Elderly or the Disabled).

Slide 22 – What we know from research: Asset-building policies and programs

- Asset building policies show a range of positive results:
    - A savings account in the child's name is associated with college access and completion (Elliott & Beverly, 2011).
    - Child Development Accounts (CDAs), which are savings or investment accounts that begin as early as birth with design features such as automatic account opening, automatic initial deposits, and investment earnings, can

    facilitate financial participation and reduce asset inequality (Clancy, Sherraden, & Beverly, November 2019).
    - CDAs positively impact mother's mental health, educational expectations of child, and child development, especially for families participating in TANF or Head Start (Huang, Beverly, Kim, Clancy, & Sherraden, 2019).
    - As of 2019, there are 7 statewide CDA policies (Clancy, Sherraden, & Beverly, November 2019).

Slide 23 – What we know from research: Combining financial education and financial services

- There is growing evidence that combining financial education *with* financial access and inclusion contribute to building assets and financial well-being.
- In-school banking programs that combine financial education and access to financial services for youth, has encouraged account opening, depositing, and saving in the U.S. and other countries (Lee et al., 2017; Sherraden, Johnson, & Guo, 2009; Weidrich, Collins, Rosen, & Rademacher, 2014).
- Findings from research in Native American communities show that offering financial education along with financial products and services are more effective in raising credit scores and increasing savings than offering them independently (Langholz, 2014).
- Some intimate partner violence (IPV) programs teach clients about financial matters while helping them access affordable and safe financial products and services. One national model is Redevelopment Opportunities for Women's Economic Action Program (REAP) in St. Louis, which has several components—financial education, credit counseling, Individual Development Accounts (IDAs), and financial advocacy and guidance (Sanders & Schnabel, 2006; Sanders, 2014).
- Up to 10 hours of financial education increased savings account opening and improved saving performance in a national study of matched savings programs (Schreiner & Sherraden, 2007).
- Financial knowledge is positively related to parents' decisions to open participant-owned accounts in a child development account (CDA) experiment (Huang, Nam, & Sherraden, 2013). Savings amounts were higher for those with higher levels of financial education (Huang, Sherraden, Kim, & Clancy, 2014).

Slide 24 – Summary of what we learned

- The idea of financial capability builds on social work's approach of "person-in-environment."
- People who have financial capability have both financial knowledge and skills (ability) and access to financial products, services, and policies (opportunity) to "act in their best financial interest." This is not just a matter of individual behavior, but is also a matter of "what is possible" and how financial capability is protected and facilitated.
- Further, building assets—the accumulation of financial and tangible assets—is essential for financial security and future development.

- Research is beginning to show that together, *ability* and *opportunity* contribute to a person's financial functioning in ways that are more likely to lead to improved financial well-being and life chances.