Stretch Time:
Continuing to Reach for Financial Capability

Trends from the Financial Capability Innovation Fund II
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Executive Summary

Driven to help households better manage their finances and attain financial stability, a number of nonprofits, financial services providers, and government agencies have turned to the concept of financial capability in the search for effective solutions. Programs and tools designed to build financial capability focus on helping consumers adopt or improve upon good financial behaviors such as saving consistently and making good use of financial products.

The Center for Financial Services Innovation (CFSI) has been a proponent of financial capability since 2009, when we assessed the landscape of promising strategies for affecting consumers’ financial behavior. Inspired by the opportunities for innovation, we launched the Financial Capability Innovation Fund in 2010. Through the Fund, CFSI provided technical assistance, strategic guidance and a total of $1.5 million to five nonprofits whose projects proposed to test new strategies for building financial capability.

In 2012, CFSI launched the Financial Capability Innovation Fund II (FCIF II) to support another round of innovative nonprofit-led efforts to help low-income and underserved consumers build financial capability. With the support of a collaborative of funders led by the Citi Foundation and also including the Capital One Foundation, NYSE Euronext Foundation, Charles Schwab Bank, Charles Schwab Foundation, and Experian, the FCIF II will provide eight projects with a total of $2.5 million in addition to valuable non-monetary support (full descriptions of the projects are provided in the Appendix).

While we were only able to select eight projects for the FCIF II, the application pool contained many high-quality proposals and provided valuable insights into how nonprofits are promoting financial capability. Though opportunities for further growth and innovation remain, many nonprofit organizations appear to be making significant strides toward creating effective solutions for helping consumers take better control of their financial lives.

The purpose of this report is to highlight common features and prevalent trends seen in our analysis of proposals to the FCIF II. Key findings are discussed below:

Alignment with Key CFSI Criteria

CFSI identified the following three strategies to more deeply explore through the FCIF II:

1. Coupling Education and Product

Linking efforts to increase financial knowledge with well-designed financial products can create a powerful combination of support that helps consumers turn good intentions into good decisions. Relative to those received for the 2010 Fund, proposals to the FCIF II exhibited tighter connections with financial products.
2. Leveraging Technology

Technology offers organizations an opportunity to increase their impact and create scalable financial capability programs. FCIF II proposals showed a greater propensity to incorporate technology into their programs relative to proposals received for the 2010 Fund. Their tendency was to use technology as a means of improving engagement with clients; almost 50% of all FCIF II proposals employed this strategy.

3. Leveraging Social Networks

Sharing progress with peers, friends, and family members can create a sense of accountability to motivate consumers throughout the process of changing their financial behavior. In total, 47% of FCIF II applications proposed incorporating some type of social engagement to motivate and support clients.

Additional Trends

- **Targeting**: Many proposed projects could have been improved by identifying key financial challenges among their client base and by ensuring that their program was designed to more directly address them.
- **Incentives**: Many FCIF II applicants proposed offering some sort of incentive to motivate clients during the course of their program. Of the 45% of FCIF II proposals that included client incentives, approximately 40% encouraged positive financial behaviors, as opposed to rewarding discrete tasks.
- **Scalability and Sustainability**: 65% of the proposals articulated a path to scale, most commonly citing replication of their program by other nonprofits or licensing products for use by other organizations.

The shift toward financial capability represents an exciting development taking place at a timely moment. As Americans continue to cope with a still soft economy, tools and supports that promote positive financial behaviors will continue to be of great need. With deeper adoption and further development of the financial capability concept, nonprofits, government, and the financial services industry stand poised to help low-income and underserved households achieve financial stability.
Introduction

For many Americans, managing household finances can be a challenging task made only more difficult in recent years by the effects of the economic downturn. Over 20% of US adults do not have a solid grasp on how much they spend on essentials, such as housing and food, and over 50% do not have a household budget. Moreover, almost 40% have no non-retirement savings, increasing the chances that an unexpected expense or sudden loss of income will throw their financial lives into a state of emergency.¹

Driven to help these households better manage their finances and attain financial stability, a number of nonprofits, financial services providers, and government agencies have turned to the concept of financial capability in the search for effective solutions. Financial capability is the ability, based on knowledge, skill, and access, to manage financial resources effectively. Programs and tools designed to build financial capability focus on helping consumers adopt or improve upon sound financial behaviors such as saving for the future and making good use of financial products. If financial literacy initiatives increase consumers’ financial knowledge, financial capability interventions provide the tools and support that consumers need to turn that knowledge into action by taking practical steps toward improving their financial health.

The Center for Financial Services Innovation (CFSI) has been a proponent of financial capability since 2009 when we assessed the landscape of promising strategies for affecting consumers’ financial behavior.² Inspired by the opportunities for innovation, we launched the Financial Capability Innovation Fund in 2010. Our goal was to identify, support, and evaluate innovative nonprofit-led projects designed to improve the financial capability of low-income and underserved consumers. With the support of a generous collaborative of funders, CFSI ultimately provided technical assistance, strategic guidance, and a total of $1.5 million to five nonprofits whose projects proposed to test new strategies for building financial capability. To learn more about the 2010 Fund and the five grantee projects, visit http://www.cfsinnovation.com/financialcapability.

In 2012, CFSI launched the Financial Capability Innovation Fund II (FCIF II) to build on the momentum of the 2010 Fund and to support another round of innovative nonprofit-led efforts to help low-income and underserved consumers build financial capability. With the support of a collaborative of funders led by the Citi Foundation and also including the Capital One Foundation, NYSE Euronext Foundation, Charles Schwab Bank, Charles Schwab Foundation, and Experian, the FCIF II will provide selected projects a total of $2.5 million in addition to valuable non-monetary support.

Through a competitive and rigorous selection process, CFSI, in consultation with a distinguished panel of financial capability experts, ultimately selected the following eight projects as FCIF II grantees (full descriptions are provided in the appendix):

- **Center for Community Self-Help** will test underwriting models and behavioral design features with small-dollar credit products.

- **D2D Fund** will employ “gamification” mechanics on a national scale to encourage positive savings behaviors.

- **Juma Ventures** will develop a Facebook application and mobile alert system to supplement its college savings program for high school youth.

- **Mission Economic Development Agency** will offer secured cards at tax time and use text messages to encourage responsible use.

- **Mission SF Community Financial Center** will leverage technology, the power of peers, and behavioral economics to integrate a scalable savings-focused financial capability model into municipal employment programs for youth and young adults.

- **Moneythink** will develop a mobile application to support savings behavior and supplement its financial mentoring program between college and high school students.

- **National League of Cities** will offer financial coaching and repayment supports for households behind on utility bills.

- **Neighborhood Trust Financial Partners** will partner with employers through their new program, PayGoal, to allocate a portion of employees’ wages toward their financial goals and communicate progress toward these goals as part of every paycheck.

While we were only able to select eight projects for the FCIF II, the application pool contained many high-quality proposals and provided valuable insights into how nonprofits are promoting financial capability among their clients. The purpose of this report is to share those insights by highlighting prevalent trends and common features seen in our analysis of proposals to the FCIF II. Though opportunities for further growth and innovation remain, many nonprofit organizations appear to be making significant strides toward creating effective solutions for helping consumers take better control of their financial lives.
Overview of the FCIF II Applicant Pool

In total, we received 127 proposals to the FCIF II. The number is down from the 246 we received for the 2010 Fund but is on par with some of our previous grant programs (e.g. 133 applications to CFSI’s 2008 Nonprofit Opportunities Fund). The applicant pool was comprised of a diverse and largely new group of organizations; 74% of proposals came from nonprofits that did not apply to the 2010 Fund. An overview of the characteristics of the organizations and applications is provided below. (Additional data can be found in the Appendix).

**Geography**
We received applications from across the country with a good degree of geographic diversity. The most notable area of concentration was California which sourced 19% of the total proposals. Relative to 2010, a greater proportion of proposed projects were to be offered at the state, regional, or national level (32% in 2012 vs. 21% in 2010), representing an increase in geographic reach among the application pool.

**Target Populations**
A greater proportion of FCIF II applications identified their project’s target client base by financial situation or life circumstances. This type of targeting can be useful for identifying key challenges clients are facing and for creating interventions that speak to their specific needs.

**New Projects vs. Significant Enhancements**
51% of FCIF II applications proposed making significant enhancements to an existing program as opposed to creating a new program altogether. This type of iteration and staged development can be essential to the innovation process, allowing organizations to experiment with new strategies and then refine programs based on what worked and what didn’t. Relative to 2010, we saw a higher proportion of applications from organizations taking this approach in the proposals submitted to the FCIF II.
Cost per Client
Applicants planned to serve more clients relative to 2010, but given the larger maximum size of available grants ($350,000 in 2012 vs. $300,000 in 2010), the average amount of funding requested per client served remained relatively flat at around $1,100. The wide variation in cost per client among FCIF II applications speaks to the diversity in the types of programs proposed. For example, on the low end were several proposals for radio or television campaigns consisting of tips for better financial management delivered to an audience of thousands. On the high end, we saw a number of proposals grounded in long-term, in-person financial counseling paired with matched savings incentives.

Requested Funding per Client Served

Partnerships
As in 2010, we saw organizations frequently turning to partnerships to enhance their projects. In particular, many applicants formed relationships with financial services providers to offer products as complements to their programs. The FCIF II proposals were less likely to feature relationships with banks than those received in 2010 (43% in 2012 vs. 56% in 2010), but a higher proportion worked with non-financial institutions, such as prepaid card providers, to create a link to products.
A number of organizations also created partnerships as a means of reaching specific populations at opportune moments. For example, FCIF II grantee National League of Cities Institute is partnering with city governments to offer support to households that have fallen behind on their utility payments. To help such households avoid shut-off of services and to provide financial coaching, participating utilities will refer delinquent accounts to counselors at municipal financial empowerment programs. Together, the utility and counselors will work together to restructure the accountholder’s outstanding debt and provide repayment options and incentives to help them get their account back in good-standing. FCIF II grantee Neighborhood Trust Financial Partners is partnering with employers to turn payday into an opportunity for employees to take steps toward improving their financial health. Building on their existing efforts to provide financial coaching via the workplace, Neighborhood Trust will work with employees to identify relevant financial goals such as building emergency savings or paying down debt. Based on the plan they develop, a portion of the employee’s pay will be committed toward their goals before they receive the balance of their paycheck. By partnering with employers, Neighborhood Trust will be able to provide a solution that helps clients better manage their money before they even receive it.
Alignment with Key CFSI Criteria

In our research and work with stakeholders, CFSI has seen a number of promising strategies for building consumers’ financial capability. CFSI identified the following three strategies to more deeply explore through the FCIF II:

- Coupling new or improved tools for education, guidance or advice with well-designed financial products/services,
- Leveraging technology to improve the customer experience and/or to improve provider efficiency, and
- Leveraging social networks as a means of facilitating positive financial behavior change.

While we see these strategies as having great potential, there is more to be learned about how and when they are best utilized. By selecting projects that incorporate these approaches, we aim to better assess their feasibility and learn how they should be employed to generate the best results for consumers. The following discussion highlights the degree to which organizations incorporated these strategies in the design of their proposed projects.

**Coupling Education and Product**

Linking efforts to increase financial knowledge with well-designed financial products can create a powerful combination of support that helps consumers turn good intentions into good decisions. This strategy not only educates consumers on what steps they can take to improve their financial health but also provides the tools needed to actually take them. We believe the close coupling of financial guidance with high-quality financial products is an essential strategy for building financial capability and made it a key point of selection criteria for both the 2010 Fund and FCIF II.

Nonprofits typically link financial guidance with products and services by using one or more of the following methods:

<table>
<thead>
<tr>
<th><strong>PRODUCT LINK</strong></th>
<th><strong>EXAMPLE</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Information and Education: Providing general information about the different types of financial products that might be available to clients without identifying a specific provider.</td>
<td>Nonprofit XYZ dedicates part of a financial education workshop to explaining the potential benefits of opening a checking account.</td>
</tr>
<tr>
<td>Referral: Going beyond providing information to referring clients directly to specific products and providers.</td>
<td>Nonprofit XYZ recommends that clients who are interested in opening a checking account seek out an offering from a local bank.</td>
</tr>
<tr>
<td>Distribution: Becoming a distributing agent of a financial product so that clients open accounts on site instead of having to go to the provider.</td>
<td>Nonprofit XYZ partners with a local bank to enroll clients into a checking account during financial coaching sessions.</td>
</tr>
<tr>
<td>Own and Operate: Directly providing financial products and services by owning and operating a money services business or financial institution.</td>
<td>Nonprofit XYZ is an affiliate of a credit union and provides checking accounts directly to clients.</td>
</tr>
</tbody>
</table>
These methods of product engagement vary in how closely they tie product with financial guidance. Information and Education represents the loosest connection; Own and Operate represents the tightest. A nonprofit’s capacity and scope of programming will often dictate the strength of the product link they offer. For instance, the Own and Operate strategy might not be possible or feasible for organizations without an existing money services business or affiliated financial institution. However, we believe that a closer coupling of product and guidance will increase the likelihood of changing a consumer’s behavior; that is, tightening the link removes the steps which might dissuade a consumer to act upon the guidance they’ve received. In particular, because we see Distribution as a promising method to link products, we recently created the Financial Capability Institute to help nonprofits assess whether they are ready to become a distributing agent.3

We assigned each FCIF II application to one of the four categories presented in the table above based on the nature of its product link and plotted them on a “continuum” of product engagement. We then compared the distribution of proposals across the four categories to that of the 2010 Fund’s application pool. The results are presented below.

Approximately 22% of applications were either unclear about the nature of the product link (6%) or were involved in product development but did not fit one of the categories above (15%).

For more on nonprofit’s incorporation of product into financial capability programs, see the CFSI Financial Capability Institute website at www.financial-capability.org.
Relative to those that we received in 2010, the proposals to the FCIF II were more evenly distributed across the continuum with a greater percentage of applications falling in the Distribution and Own and Operate categories. Of note, 50% of organizations that applied to both Funds submitted proposals for the FCIF II that featured a tighter product link than that seen in their applications to the 2010 Fund. The tighter connection to product seen in these and other proposals represents adoption of a core strategy for building financial capability and a positive development for the field. Below are summaries of several proposals that provide examples of effective applications of this strategy:

- FCIF II grantee Mission Economic Development Agency (MEDA) is offering a particularly timely link to product by distributing secured credit cards through its Volunteer Income Tax Assistance program. By offering the product at a time when a tax refund might give a client the $200-$300 needed to make the deposit for the card, the organization will provide a credit-building opportunity at a time when clients have the funds on hand to take advantage of it. Working with a credit union partner, MEDA will enable clients to apply for the card at its VITA sites and provide financial coaching to encourage responsible use.

- Grameen America proposed a program that would expand its product offerings to its existing client base. Responding to demand from clients in its group-lending programs, Grameen sought to create a prepaid card that clients could use to manage their money and facilitate loan repayments. Grameen planned to create the card in partnership with an existing prepaid card provider and offer users ongoing support in the form of financial education and mobile text alerts.

- Leveraging its capabilities as a credit union, FCIF II grantee Center for Community Self-Help is developing three small-dollar credit products aimed at responsibly meeting the needs of its California customer base. To promote successful repayment of the products, the organization will embed and test the effectiveness of behavioral design features such as default settings for faster pay down on credit lines.

**Leveraging Technology**

Technology offers organizations an opportunity to increase their impact and create scalable financial capability programs. Communicating with clients and offering tools via mobile and online channels allows for ongoing and timely support that can provide consumers with reminders and guidance to influence their day-to-day financial decisions. Nonprofits can also find ways to improve scalability by using technology to supplement or replace in-person interactions or manual, back-end systems.

Like creating a product link, leveraging technology was highlighted as a key point of criteria for both the 2010 Fund and the FCIF II. To date, we have been inspired by the efforts of previous CFSI grantees and the field at large to explore how technology can be utilized to help consumers become better stewards of their financial lives. In FCIF II proposals, we saw a number of organizations successfully finding ways to incorporate technology into their programs. Though what was proposed rarely represented an entirely new solution, the adoption of
existing promising strategies for leveraging technology strengthened many of the projects submitted to the Fund. The table below displays the types of technologies featured in the FCIF II project proposals and the frequency with which we saw them relative to the 2010 Fund.

<table>
<thead>
<tr>
<th>Delivery Channel/Technology</th>
<th>% of Total 2010 Applications</th>
<th>% of Total 2012 Applications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Online Channel</td>
<td>28%</td>
<td>62%</td>
</tr>
<tr>
<td>Mobile Apps</td>
<td>2%</td>
<td>37%</td>
</tr>
<tr>
<td>Text Reminders</td>
<td>8%</td>
<td>31%</td>
</tr>
<tr>
<td>Social Media</td>
<td>13%</td>
<td>21%</td>
</tr>
<tr>
<td>Phone</td>
<td>4%</td>
<td>19%</td>
</tr>
<tr>
<td>Email</td>
<td>4%</td>
<td>17%</td>
</tr>
</tbody>
</table>

Proposals could employ multiple types of technology: “Online Tools and Platforms” include online education, counseling/coaching platforms, tools for financial planning (e.g. tax prep, budgeting, etc.), and games.

The vast majority of FCIF II applicants proposed incorporating technology into their programs. Their tendency was to use technology as a means of improving engagement with clients; almost half of all FCIF II proposals employed this strategy. In particular, utilizing online interfaces or offering education and guidance online were the most common methods of integrating technology.

While it may be a valuable strategy, the use of technology should not be seen as an end in itself. Instead, tools such as online interfaces and mobile apps will likely be most effective when they intervene at critical points: when a consumer most needs support, or where the program’s design is least efficient. Before deciding to utilize or build a new technological tool, organizations should consider how and whether it will directly support program goals and increase the likelihood of achieving desired consumer outcomes.

For example, FCIF II grantee Moneythink is working to develop a relevant and strategically designed mobile app to supplement its financial education/mentoring program for high school students. Working with the design firm IDEO.org, Moneythink will explore the perspectives, habits, and tendencies of their program participants to create an app that engages them outside of the classroom and encourages good saving and spending decisions. By designing the app to appeal to students’ specific preferences and align with their patterns of behavior, Moneythink will create a solution with a high prospect for engagement.

Opportunity Fund’s proposed enhancement to the Start2Save program provides another pertinent example of this type of targeted use of technology. Start2Save offers financial education and monetary incentives to help clients build emergency savings. To further encourage clients to save, Opportunity Fund proposed partnering with Juntos Finanzas, a developer of mobile financial
management tools, to offer Juntos’ Savings Coach platform to Start2Save clients. Savings Coach communicates with users via SMS text, providing reminders to save and prompting users to report their saving activity. Opportunity Fund and Juntos proposed working together to customize the platform according to the terms of the Start2Save program to offer clients a relevant service designed to help them reach their savings goals.

**Leveraging Social Networks**
Exploring how social networks can be leveraged to promote financial capability represents a key criterion for the FCIF II. We have become increasingly interested in how consumers can engage others in the pursuit of financial goals. Sharing progress with peers, friends, and family members can create a sense of accountability to motivate consumers throughout the process of changing their financial behavior. Social networks also have the benefit of being self-sustaining and ongoing sources of support. Finding ways to tap into these networks could represent a replicable method of helping clients improve their financial capability.

In total, 47% of FCIF II applications proposed incorporating some type of social engagement to provide clients with extra motivation and support. The table below highlights the different ways that organizations put this strategy into action.

<table>
<thead>
<tr>
<th>Method of Social Engagement</th>
<th>% of Total 2012 Applications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group-Based Accountability/Support</td>
<td>22%</td>
</tr>
<tr>
<td>Client-to-Client Accountability/Support</td>
<td>8%</td>
</tr>
<tr>
<td>Reporting to Participant’s Peers</td>
<td>3%</td>
</tr>
<tr>
<td>Unclear</td>
<td>17%</td>
</tr>
</tbody>
</table>

The most common form of social engagement involved group-based programming. Clients in education or counseling programs were expected to engage with each other on an ongoing basis – either in-person, online, or via mobile tools – to share their accomplishments, discuss challenges and offer advice. Seventeen percent of applications mentioned some type of social engagement (e.g. creating a Facebook page) but did not clearly define how it enhanced the project. Like the use of technology, the strategy of leveraging social networks will likely be most effective when it is employed to play a specific role in helping clients change their behavior or pursue a goal.

For example, **American Student Assistance** (ASA) proposed developing an online community to supplement a website designed to provide financial education and advice to college students. ASA would moderate and participate in discussions to help users identify and obtain financial products that would speak to the specific challenges voiced by the participants.
Additional Proposal Trends

In addition to looking at alignment with key CFSI criteria, we also noted several interesting trends and common features across the FCIF II application pool. To a degree, these developments speak to both the strengths and established practices of the nonprofit field and reveal opportunities for the field to build stronger financial capability programs.

Targeting

Programs that address a specific financial challenge with a well-designed intervention are best poised to help consumers make changes that improve their particular financial situation. Many FCIF II applicants used this targeted approach to create relevant and compelling projects. However, many proposed projects could have been improved by identifying key financial challenges among their client base and ensuring that their program was designed to more directly address them.

This trend is not a new one to us; we also identified the need for greater targeting in program design in the applications to the 2010 Fund. Research into the effectiveness of financial education programs has pointed to such targeting as being critical to achieving consumer impact. In a 2008 literature review on the impact of financial education on behavior, Ian Hathaway and Sameer Khatiwada found that “highly targeted programs, unlike general programs, tend to be effective in changing people’s financial behavior.” They go on to contend that “programs should be highly targeted toward a specific audience and area of financial activity (e.g. home-ownership or credit card counseling).”4 In line with this and other research, we see effective targeting to be essential to changing behavior and impacting financial capability.

To assess how targeted projects were in their design, we ranked each proposal along two points of criteria:

- Well-Targeted Population or Behavior: Defining clients according to their specific challenges (e.g. poor credit) can position an organization to create effective programs that fulfill clients’ specific needs. On this point of criteria, we ranked proposals “Low” if they defined their target client base along demographic lines or exclusively by income and ranked proposals “High” if they defined their client base by specific financial challenges.

- Well-Targeted Intervention: After identifying clients’ financial challenges, organizations must also create an intervention that is directly designed to help clients overcome them. On this point of criteria, we ranked proposals “Low” when they offered no clear rationale for why the intervention would work well to meet client needs. Proposals ranked “High” clearly aligned the intervention with client challenges.

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Stretch Time: Continuing to Reach for Financial Capability: Trends from the Financial Capability Innovation Fund II

The grid presented below plots the proposal rankings.

<table>
<thead>
<tr>
<th>Well-Targeted Population or Behavior?</th>
<th>Low (General Demographics)</th>
<th>Medium (Some Targeting)</th>
<th>High (Clear Targeting)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low (No Clear Rational)</td>
<td>33%</td>
<td>6%</td>
<td>4%</td>
</tr>
<tr>
<td>Medium (Some Rational)</td>
<td>10%</td>
<td>15%</td>
<td>9%</td>
</tr>
<tr>
<td>High (Clear Rational)</td>
<td>2%</td>
<td>9%</td>
<td>10%</td>
</tr>
</tbody>
</table>

The picture painted by the grid demonstrates the applicants’ room for improvement. A full third of the applications we received ranked “Low/Low” – many of these programs offered broad financial education curriculum to households defined solely by having low income. While these types of projects may help clients increase their general financial literacy, a more targeted approach might help them take the step of applying this newfound knowledge to resolve their specific problems.

On the opposite end of the spectrum (“High/High”) were the 10% of programs that clearly defined the financial challenges of their target client base and created relevant and logical interventions to address them. Mission Asset Fund (MAF) created one such program that provides an excellent example. MAF recognized that youth transitioning out of foster care often find it difficult to secure housing without money saved for a security deposit or an established credit score. To address this need, MAF proposed offering credit builder loans to transitioning foster youth, providing the upfront funds they need to make a security deposit for a place to live. Throughout the course of the loan, MAF would also educate participants on how to establish and maintain a good credit profile. Overall, the program would offer transitioning foster youth a means to solve their most pressing problems, helping them to obtain housing, build credit, and establish savings once the security deposit was returned.

While offering targeted solutions can be essential to creating an effective program, not all organizations have the capacity, resources, or expertise to do so. In particular, we found that the 83% of FCIF II applicants with an organizational focus on financial capability or economic development tended to propose better targeted programs than the 17% of applicants that primarily offered a different or broader array of services (e.g. affordable housing, health care services). For groups in the latter category, we saw stronger programs emerge when applicants partnered with nonprofits focused on financial capability and leveraged their competencies to help supplement the project.
**Fair Food Network** (FFN), for example, primarily works to make locally-grown and sustainable produce available to low-income households that would otherwise lack access to it. Recognizing an overlap between its target client base and the underbanked community, the organization proposed creating a dual-purse prepaid card that would carry both the cardholders’ general funds as well as credits that could be redeemed to purchase eligible foods at participating grocery stores. The card would not only serve as an efficient means of delivering food credits to clients, but would also provide a useful transaction tool for managing budgets for both food and general spending. As its strength lay in increasing access to healthy food, FFN planned to work with partner organizations that excel in building financial capability and could offer education and guidance to clients on how to make best use of the prepaid card. By forming such partnerships, FFN would combine its strengths with those of its partners to create a targeted program with great potential.

**Incentives**

Many FCIF II applicants proposed offering some sort of incentive to motivate clients during the course of their program. Using these types of incentives can be a double-edged sword. When structured to reward positive behavior change or motivate clients to stay on track toward their financial goals, incentives can be a useful tool for promoting financial capability. However, expensive and non-sustainable incentives can hinder a program’s ability to grow, as nonprofits must find additional funds to offer the incentive to a greater number of clients.

Forty-five percent of FCIF II proposals included client incentives, a jump relative to the 33% of 2010 Fund applications that did the same. Approximately 45% of the proposed incentives were designed to encourage positive financial behaviors such as making a savings deposit. This is an encouraging trend as this approach would likely generate a higher impact compared to incentives which solely reward a task related to one program activity, such as attending a financial education class. Nearly half of the proposed incentives were structured in the form of cash or equivalents, with the other half composed of program-related benefits such as interest rate reductions to reward on-time payments, or mobile phones to allow clients to access personal financial management apps.

Of particular interest, we saw several projects exploring “gamification,” providing non-cash incentives offered in a game-like environment that encourages behavior change. For instance, clients might earn badges that can be displayed on Facebook for reaching a savings goals or earn points that can later be redeemed for prizes when they make an on-time payment. The concept of “gamification” encompasses a number of such strategies and has been adopted by utilities, health coaching programs, and other organizations to influence consumer behavior.⁵ Exploring the effectiveness of the approach might lead to a model for creating more scalable incentive programs.

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Two FCIF II grantees, Doorways to Dreams Fund and Juma Ventures, are exploring gamification strategies and their potential for promoting savings.

**Doorways to Dreams Fund** is working with Plastyc, a prepaid card provider, to introduce game mechanics that motivate customers to build emergency savings using the “Rainy Day Reserve” account available on Plastyc’s cards. Cardholders will receive points, badges, and opportunities to win prizes by taking positive actions such as making savings deposits and playing “financial entertainment” video games that reinforce relevant financial capability concepts. Though it went unselected, D2D also submitted a proposal for using gamification to facilitate a citywide savings effort in Birmingham, AL. Working with community partners and financial institutions, D2D would offer a mobile app to citizens who could use it to track their savings habits and compete in team-based savings competitions to win recognition and prizes.

**Juma Ventures** is building a Facebook application to supplement its CollegeSet program. The program provides matched savings incentives to high school youth saving money for college; it is currently being offered in partnership with other nonprofits across the country. The application will create a game-like environment that rewards savings milestones with badges and markers that can be featured on Facebook, encouraging interaction and peer-to-peer motivation among participating students.

**Scalability and Sustainability**
CFSI has emphasized creating scalable and sustainable interventions for financial capability since we first engaged on the topic. As the field uncovers effective ways to help consumers better manage their finances, it is important that such tools and strategies have the ability to scale to reach the large number of households who could benefit from them.

As a whole, FCIF applicants largely understood the need for scalability and sustainability. Though the median number of clients served was only 750 per proposal, many created tangible plans for growing their projects should they prove to be effective during the “pilot” stage of the grant term. Approximately 65% of the proposals articulated a path to scale, most commonly citing replication of their program by other nonprofits or licensing products for use by other organizations. Likewise, 65% of the proposals presented a plan for sustaining the growth of their program on an ongoing basis. Most of these suggested finding other sources of external funding or in-kind support. Such programs may have strong prospects for future funding, particularly if they are proven to work. However, their lack of self-sufficiency puts them in a less stable position than those projects that planned to generate revenue by charging for their services or seeking referral fees when connecting clients with high-quality and appropriate financial products.

Approximately 65% of the proposals articulated a path to scale, most commonly citing replication of their program by other nonprofits or licensing products for use by other organizations.
EARN, an established leader in the matched savings field, focused on scalability in its proposal to build an online savings account with smart design features and an array of accompanying support tools. Offering the account online would bolster EARN’s efforts to provide underserved households across the country with an effective savings solution. EARN planned to work with nonprofit partners to introduce the account, representing an efficient and scalable method of distributing the account and support services.

FCIF II grantee Mission SF is turning to technology to explore ways to scale its successful youth savings program, MY Path. The program works with youth employment centers in San Francisco to help high school youth commit part of their earnings toward savings goals. By experimenting with video, text, and online communications as a way of replicating in-person education efforts, Mission SF hopes to uncover ways to efficiently scale the MY Path program to reach a greater number of Bay Area youth.

Filene Research Institute’s Senior Sentry proposal provides another notable example of a project with multiple practical plans for sustainable growth. The organization planned to analyze checking account transaction data to identify patterns of activity that might signal fraud or misuse of an elderly customer’s account. Should the approach prove to be successful, Filene proposed three potential ways to scale. First, Filene could sell their fraud detection algorithms, enabling financial institutions to incorporate them into their banking platforms. Second, Filene could develop and license banking software that could be easily integrated into financial institutions’ current systems. Finally, the organization could explore creating a direct-to-consumer product that individuals could purchase to monitor their or their family member’s account activity. By considering its options for self-sufficient future growth, Filene stood to create a solution with the potential to reach and serve the many households that might benefit from it.
Conclusion

Through the FCIF II selection process, we saw strong proposals that demonstrated the adoption of promising strategies for building financial capability. Many of the proposed projects did not represent entirely new ideas but incorporated existing practices to design programs with a high potential for behavior change. Organizations demonstrated alignment with key strategies CFSI has championed since the launch of the 2010 Fund, such as coupling guidance with high-quality financial products and leveraging technology to more closely engage with clients. The ability of applicants to develop thoughtful plans for future growth and sustainability also represents a positive sign for the field’s development. Overall, FCIF II applicants seemed committed to creating programs that employed promising strategies to build financial capability.

However, the FCIF II proposals also showed that there is still room for the field to grow and develop. More targeted interventions aimed at addressing specific challenges can help clients take direct action toward behavior change. In a similar vein, using technology and leveraging social networks in ways that create relevant and timely forms of support will help organizations maximize their efficiency and impact. Finally, further exploration and evaluation of promising approaches by CFSI and others will help to provide guidance to nonprofits by directing them toward those approaches that are proven to be most effective.

The shift toward financial capability represents an exciting development taking place at a timely moment. As Americans continue to cope with a still-soft economy, tools and supports that promote positive financial behaviors will continue to be of great need. With deeper adoption and further development of the financial capability concept, nonprofits, government, and the financial services industry stand poised to help low-income and underserved households achieve financial stability.
Appendix

Financial Capability Innovation Fund II
Grantee Project Descriptions

Center for Community Self-Help (Oakland, CA) - The Center for Community Self-Help (Self-Help), will design a suite of small-dollar credit products to be launched across its California branch network. Self-Help will offer a conventional overdraft line of credit linked to a checking account, an unsecured term loan, and an overdraft line of credit with automatic repayment. Self-Help will also use three distinct underwriting models to test their relative cost-effectiveness for facilitating the credit approval process. The conventional overdraft line of credit will feature default settings that encourage borrowers to pay down their balance at an accelerated rate. Borrowers of the other two products will be auto-enrolled in an offset savings account; interest will only be charged on the loan’s outstanding principal net of any accumulated savings. Innovations for Poverty Action has joined Self-Help to do a randomized controlled trial evaluation of the products to gauge whether and how the behavioral design features promote successful use of credit among the underserved.

D2D Fund (Boston, MA) - Doorways to Dream Fund, or D2D, will design and launch SavingsQuest, a platform that will use a variety of gaming mechanics to increase consumer savings. D2D will overlay Savings Quest on the “Rainy Day Reserve” savings account featured on Plastyc’s UPside prepaid card. Participating cardholders will be rewarded for demonstrating various saving behaviors (e.g. making regular deposits) through a points-based system offered via an engaging and game-like interface. D2D and the Take Charge America Institute will test how the platform’s game mechanics affect cardholder savings behavior, providing insight to the underbanked financial services sector on how best to employ “gamification” strategies.

Juma Ventures (San Francisco, CA) - Juma will develop a Facebook application and mobile alert system to enhance its existing CollegeSet program. Offered nationally via partnerships with nonprofits, CollegeSet provides financial education and matched savings opportunities to help low-income high school students save money for college. Juma will build an application to reward savings milestones with badges and markers featured on Facebook to increase accountability for student savers and build community among CollegeSet participants. Harder+Company Community Research will evaluate whether the application helps to increase engagement in the program and yield improved savings outcomes.
Mission Economic Development Agency (San Francisco, CA) - Mission Economic Development Agency (MEDA) is leveraging its Volunteer Income Tax Assistance (VITA) program to provide credit-building opportunities for low-income Latino immigrant families. Working with its product partners, Community Financial Resources and Cooperative Center Federal Credit Union, MEDA will offer a secured credit card to its VITA clients. By using the VITA program as a distribution channel, MEDA expects clients to be able to use tax refund proceeds to make the required deposit for the secured card. Enrolled clients will be paired with a financial coach and receive text notifications when they reach 20%, 25%, and 30% of the card's credit utilization rate with timely reminders about the responsible use of credit. The National Association for Latino Community Asset Builders will serve as an evaluator to test the viability of the tax time distribution strategy and the impact of the text reminders on clients' use of the card.

Mission SF Community Financial Center (San Francisco, CA) - After its successful launch of Make Your Path (MY PATH), a youth financial coaching and savings program, Mission SF is expanding the initiative to develop and test a more scalable low-touch version. MY Path II will enroll high school youth through publicly-funded San Francisco youth employment sites. Participating sites will be randomly assigned to one of four treatment groups: High-Touch, Low-Touch, No-Touch, and a Control group. Youth at the High-Touch sites will receive savings accounts, peer-led financial education, and incentives for consistent savings. Low-Touch groups will receive all of these services but will receive financial education content in a “low touch” delivery model that may include videos, email and text, online curricula, and/or social media engagement. The No-Touch group will only receive access to savings accounts and the Control group will not enlist in the program. Research partners include Vernon Loke (Assistant Professor at Eastern Washington University, and Faculty Associate at the Center for Social Development at Washington University in St. Louis); Michael Sherraden (Youngdahl Professor of Social Development and Director of Center for Social Development at Washington University in St. Louis); and Margaret Sherraden (Professor, University of Missouri-St. Louis).

Moneythink (Chicago, IL) - Moneythink is developing a technology platform and mobile application to supplement its high school financial skills mentoring program. The organization's current program pairs college student volunteers with high school classrooms to provide education and coaching on sound financial management and entrepreneurship. Moneythink will be working with IDEO.org to design the platform in a way that aligns with the preferences and patterns of behavior demonstrated by students in the program. The pilot will enroll low-income high school juniors and seniors from Chicago schools as participants.
National League of Cities Institute (Washington, D.C.) - Local Interventions for Financial Empowerment through Utility Payments (LIFT-UP) is a joint venture between the National League of Cities Institute and five cities across the country. In each of the five cities, publicly-owned utility companies will refer past due account holders to local financial empowerment agencies to receive financial counseling and establish repayment plans. Each city will develop a unique structure for the repayment plans, experimenting with a variety of incentives including partial debt forgiveness or savings account deposits to motivate clients to bring their accounts back to good-standing. NCLI will pilot the program in Newark, NJ; Houston, TX; Savannah, GA; St. Petersburg, FL; and Washington, D.C. The Center for Financial Security at the University of Wisconsin-Madison will serve as the initiative’s evaluator.

Neighborhood Trust Financial Partners (New York City, NY) - Neighborhood Trust Financial Partners is piloting PayGoal, a program designed for low-wage workers employed by small-to medium-sized firms. The project will build on Neighborhood Trust’s existing Employer Solution service, which provides financial coaching services via the workplace. With PayGoal, Neighborhood Trust will work with employees to identify financial goals such as building savings or paying down debt. On payday, a portion of the employee’s paycheck will be automatically allocated to separate accounts that align with the pre-identified goals; the balance of the paycheck will go to the employee. Paystubs will be designed to communicate the progress the client has made toward reaching their financial goals. The Center for Community Change at the University of North Carolina-Chapel Hill will evaluate PayGoal’s impact on clients’ financial health.
### Applicant’s Organizational Focus

<table>
<thead>
<tr>
<th>Financial Capability or Economic Development</th>
<th>Other Primary Focus (e.g. Health Care, Housing)</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of 2010 Applications</td>
<td>% of 2012 Applications</td>
</tr>
<tr>
<td>70%</td>
<td>69%</td>
</tr>
<tr>
<td>30%</td>
<td>17%</td>
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### Products Offered Via Proposed Project

<table>
<thead>
<tr>
<th>Product</th>
<th>% of 2012 Applications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings account</td>
<td>43%</td>
</tr>
<tr>
<td>Loan / for underbanked / insecure</td>
<td>26%</td>
</tr>
<tr>
<td>Percent Unclear/No details</td>
<td>28%</td>
</tr>
<tr>
<td>Checking account</td>
<td>17%</td>
</tr>
<tr>
<td>Credit Card</td>
<td>11%</td>
</tr>
<tr>
<td>Prepaid Card</td>
<td>10%</td>
</tr>
<tr>
<td>DHIP / credit-building loan</td>
<td>10%</td>
</tr>
<tr>
<td>Credit Report</td>
<td>8%</td>
</tr>
<tr>
<td>CFS</td>
<td>4%</td>
</tr>
<tr>
<td>Debit Card</td>
<td>3%</td>
</tr>
<tr>
<td>Loan / debt restructuring</td>
<td>2%</td>
</tr>
</tbody>
</table>

*Proposals could feature multiple products*

### Targeted Population and Life Circumstances

<table>
<thead>
<tr>
<th>Population and Circumstances</th>
<th>% of 2010 Applications</th>
<th>% of 2012 Applications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Children / Youth</td>
<td>21%</td>
<td>19%</td>
</tr>
<tr>
<td>Immigrants</td>
<td>3%</td>
<td>14%</td>
</tr>
<tr>
<td>Poor/No Credit</td>
<td>3%</td>
<td>11%</td>
</tr>
<tr>
<td>Entrepreneurs</td>
<td>2%</td>
<td>7%</td>
</tr>
<tr>
<td>Un/Underemployed</td>
<td>5%</td>
<td>6%</td>
</tr>
<tr>
<td>Homeless</td>
<td>3%</td>
<td>4%</td>
</tr>
<tr>
<td>Refugees</td>
<td>2%</td>
<td>4%</td>
</tr>
<tr>
<td>Seniors</td>
<td>2%</td>
<td>4%</td>
</tr>
<tr>
<td>Single Parents</td>
<td>3%</td>
<td>1%</td>
</tr>
</tbody>
</table>

### Partnerships

<table>
<thead>
<tr>
<th>Partners</th>
<th>% of 2010</th>
<th>% of 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other Nonprofits</td>
<td>70%</td>
<td>70%</td>
</tr>
<tr>
<td>Bank</td>
<td>16%</td>
<td>16%</td>
</tr>
<tr>
<td>Other Financial Service Providers</td>
<td>36%</td>
<td>39%</td>
</tr>
<tr>
<td>Schools/Academics</td>
<td>40%</td>
<td>39%</td>
</tr>
<tr>
<td>Government</td>
<td>24%</td>
<td>20%</td>
</tr>
</tbody>
</table>

### Requested Funding per Client Served

<table>
<thead>
<tr>
<th>Funding Amount</th>
<th>% of 2010</th>
<th>% of 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0-200</td>
<td>35%</td>
<td>32%</td>
</tr>
<tr>
<td>$201-400</td>
<td>12%</td>
<td>15%</td>
</tr>
<tr>
<td>$401-600</td>
<td>15%</td>
<td>13%</td>
</tr>
<tr>
<td>$601-800</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>$801-1000</td>
<td>9%</td>
<td>13%</td>
</tr>
<tr>
<td>&gt;$1000</td>
<td>20%</td>
<td>20%</td>
</tr>
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About the Fund

The Financial Capability Innovation Fund II (FCIF II), a competitive grant program managed by the Center for Financial Services Innovation, provides a powerful combination of financial and technical assistance to promising nonprofit-led projects designed to promote the financial capability of low-income and underserved consumers.

By nurturing innovative solutions and closely monitoring effects on consumer behavior, FCIF II helps the developing financial capability field build on its potential. The long-term goal of FCIF II is to foster the development of resources and practices that can improve financial outcomes for low-income Americans when implemented on a larger scale.

CFSI selected the grantees from a broad pool of proposals that included more than 125 applications from 38 states and Washington DC. From these, CFSI selected eight cutting-edge projects to receive $2.5 million in total grant support.

CFSI provides grantees with a number of opportunities and resources, in addition to financial support, to help strengthen capacity, increase efficiency, and eventually achieve scale. Through a long-term relationship with CFSI, grantees will receive strategic guidance, heightened visibility, and access to an unparalleled network in the financial services industry.

As part of CFSI’s commitment to program assessment and success, nationally renowned researchers will evaluate each grantee to determine what works to promote financial capability. The research partners include Innovations for Poverty Action, the Take Charge America Institute, Harder + Company Community Research, National Association for Latino Community Asset Builders, the Center for Financial Security at the University of Wisconsin-Madison, the Center for Community Capital at University of North Carolina, and the team of Michael Sherraden, Margaret Sherraden, and Vernon Loke.
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Joshua Sledge is Manager, Nonprofit Investments, at the Center for Financial Services Innovation. In this position, Mr. Sledge manages competitive request-for-proposals processes to identify promising solutions that promote consumer financial capability. He provides strategic advice and technical assistance to help grantees and other innovators succeed in their mission to help consumers adopt better financial behaviors that improve in their financial lives. Mr. Sledge also develops and maintains knowledge of the current financial capability landscape including trends and innovations and shares learnings from innovators’ experiences to inform the broader financial services industry’s efforts to better serve underserved consumers.

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About CFSI

The Center for Financial Services Innovation (CFSI) is the nation’s leading authority on financial services for underserved consumers. Through insights gained by producing original research; promoting cross-sector collaboration; advising organizations and companies by offering specialized consulting services; shaping public policy; and investing in nonprofit organizations and start-ups, CFSI delivers a deeply interconnected suite of services benefiting underserved consumers. Since 2004, CFSI has worked with leaders and innovators in the business, government and nonprofit sectors to transform the financial services landscape. For more on CFSI, visit our web site and join the conversation on Twitter @CFSInnovation.

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