SILICON VALLEY community foundation℠
SERVING SAN MATEO AND SANTA CLARA COUNTIES

Grantmaking Strategies

Research Paper

Asset Building and Financial Education:

Critical Vehicles for Helping Low-Income Families Achieve Greater Economic Security

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Critical Vehicles for Helping Low-Income Families Achieve Greater Economic Security

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Silicon Valley has not been immune to the home mortgage debacle and economic downturn that have affected the nation since late 2007. As the housing crisis and general economic conditions in our region worsened during 2008, Silicon Valley Community Foundation's staff and board determined that support for asset-building activities would fill a critical need and constitute an effective intervention by the community foundation. Asset-building requires financial education, the availability of affordable financial products and services, protective public policies, and public awareness of the availability and value of these products and services.

In addition to a reliable income, families need to save, invest and preserve their financial assets[1] in order to create a buffer against economic adversity and build greater prosperity. Financial education[2] is the key, particularly for low-income families who are cash-strapped and have little cushion for emergencies such as a health crisis or job loss. Together, asset-building assistance and financial education enable families to have more options in life and to pass on opportunities to future generations.

Problem Statement

During the past decade, the increasingly complex financial landscape (e.g., "exotic" home mortgage loans and proliferating credit card offerings and savings products) has often led to consumer confusion and poor financial decision making. At the same time, reduced regulatory safeguards have allowed increased predatory lending practices by some members of the financial services industry[3]. Together, they have created serious financial trouble for many consumers as evidenced by the bursting of the housing bubble.

The housing crisis has affected entire neighborhoods and communities as well as families. When foreclosures occur, properties are left vacant. Empty properties drive down home values for others on the block and reduce property tax receipts collected by city governments. In addition, low-income families who are not homeowners feel the squeeze from higher rents due to greater competition for rental housing. Most importantly, the foreclosure situation has reverberated throughout the international, national and regional economies, resulting in tighter credit, job layoffs and general economic anxiety. The effects may be felt for generations as the erosion of financial assets in one generation affects the financial well-being of the next.

Meanwhile, even before the onset of the current economic situation, personal financial health indicators were worrisome. For example, the nation's personal savings rate was 0.5 percent in 2007, down from a high of 11 percent in 1984[4]. Total consumer debt stood at $2.52 trillion[5] as of January 2008, and demand for revolving credit—primarily credit card debt—rose at a 7 percent pace as compared to 2.8 percent in December 2007.

Turning to Silicon Valley, we see a region of great economic contrasts. There are wide disparities between those who enjoy financial well-being and those who do not. For example, in 2005 more than 60 percent of San Mateo and Santa Clara County households had incomes of $100,000 or more, while slightly more than 20 percent earned less than $35,000[6]. This division is even starker when we consider that this region has one of the highest costs of living in the nation. During the past six years, the cost of living has continued to outpace stagnant earnings for low-wage workers. For example, in 2007 rents increased more than twice as fast as median household income in Silicon Valley, rising 7 percent from the year before[7]. According to an April 2008 study by the Center on Budget and Policy Priorities and the Economic Policy Institute, the current economic situation is expanding this income divide[8].

Additionally, more than one in five San Mateo and Santa Clara County residents is asset-poor (i.e., they do not have enough cash reserves or equity in their home or business to meet basic needs for three months during a period of joblessness, health emergency, divorce or other unexpected financial hardship[9]). Extrapolating from national statistics that show non-white households as being more than twice as likely as white households to be asset-poor, Silicon Valley's low-skilled communities of color, particularly first- and second-generation immigrants, are likely to be disproportionately represented in this category. Addressing the financial-education and asset-building needs of low-income families in the region can help mitigate the effects of the economic downturn and lay a strong foundation for economic resilience, no matter what the economic climate brings. The foreclosure problem and its consequences are not going away soon. There is both an urgency to address the immediate needs of homeowners and others caught by the ripple effect, and an opportunity to address persistent challenges to families' attempts to get ahead. In the short term, financial counseling and legal services are needed for troubled homeowners. According to NeighborWorks America, the national intermediary organization that supports affordable housing counseling agencies[10], 50 percent of those who end up in foreclosure appear not to have taken any preventive action, which indicates a major fault in the system.

The more persistent economic problems that often affect low-income families must be addressed as well. There is a need to:

- combat predatory lending practices that siphon money away from families;
- increase access to affordable financial services that help families develop credit histories and other key banking relationships; and
- create incentives so that families can more easily save and build wealth.

Predatory lending practices of "fringe" lenders (e.g., check cashers and payday lenders) are expensive for consumers. For instance, in 2006 in San José, check-cashing fees at non-bank storefronts totaled $14,354,895[11]. In one scenario in a recent Brookings Institution report, the authors calculate that a full-time worker could potentially increase his or her wealth by $90,000 during the course of a 40-year career simply by using a depository banking institution's no-fee, no-minimum-balance checking account rather than a check-cashing service and depositing the average $25 fee saved per pay check into an EE Treasury Savings Bond.[12]

While the number of residents with checking accounts increased between 2000 and 2004[13], according to the California governor's office, one in two Californians still do not have savings accounts[14]. In San José, the percentage of residents without any formal banking relationship is estimated to be between 12 and 26 percent.[15] The percentage in San Mateo County is estimated to be approximately 15 percent[16].

Low-income families, especially immigrants with limited English language capability, can benefit greatly from asset-building and financial education that address these problems. They may not have had positive experiences with formal banking institutions in their home countries nor be fully integrated into the U.S. social and economic mainstream due to their immigration status. These families have a particular set of needs that can be met through well-structured and executed financial education and asset-building activities that, at a minimum, are culturally and language appropriate, accessible in terms of scheduling and location, and include tangible incentives to encourage people to participate and practice budgeting, saving and other new behaviors.

Youth can also benefit from learning about the complexities of the American financial system in order to start off their economic lives on the right foot. In addition, their involvement with banks and financial products and services can provide an opening for their parents to follow suit.

Context

In 2007, more than 400,000 American families lost their homes, a 50 percent increase over 2006. Another 2.2 million are in similar jeopardy during the next few years as the crisis deepens[17]. In California, the number could reach 500,000. Santa Clara and San Mateo County residents received 7,300 and 2,000 notices of default respectively as of the end of 2007,[18] and these numbers are expected to continue to rise. According to the Consumer Federation of America, a disproportionate number of subprime loans are held by African-American and Latino home buyers. In the San José-Sunnyvale-Santa Clara area, for example, Latinos were four times more likely than white borrowers to receive subprime loans: 17.8 percent compared to 4.4 percent[19]. What makes this even more shocking is that this disparity appears not to be based on credit risk, but rather on profiling[20].

The national mortgage crisis has greatly heightened awareness of the dangers of predatory lending practices and the importance of increased financial literacy. It also has shone a spotlight on the proper role of government oversight and regulation. Low-income immigrant households in our two-county region and nationally are one of the most financially vulnerable segments of the population. As a result, it is an opportune time to launch a grantmaking program that provides immigrant and other low-income families with information, services, skill-building opportunities and financial incentives to increase their integration into the financial mainstream and achieve greater economic security.

The Case

While financial literacy materials and resources exist in many forms nationally and in California, to date they have not been collected or disseminated in a systematic manner. Nor has financial education been an area of focus or coordination. Efforts to change this can be seen at the federal level and among a small number of national nonprofits, but most on-the-ground work in this region is nascent and fragmented. There are now, however, emerging coalitions of asset-building groups, some well-established organizations ready to scale proven financial education and savings programs, and a state government initiative, Bank on California,[21] that could catalyze and promote activities to address these needs. Policy advocacy groups are also well-positioned and geared up. And while newly re-introduced legislation to situate a financial education clearinghouse within the California State Treasurer's Office does not seem likely for passage in this spring session of the state Assembly, momentum may be growing.

Support for financial education and asset-building efforts fits squarely within the community foundation's vision and mission to inspire civic participation, strengthen the common good, improve the quality of life and address the most challenging problems in San Mateo and Santa Clara counties. A focus on immigrant families and narrowing the income and wealth gap reflects our commitment to inclusiveness—one of our core institutional values. It also positively affects the ability of families to pass on wealth to future generations.

This focus is not wholly new for the community foundation, but rather builds on the successful Assets for All Alliance work spearheaded by the Peninsula Community Foundation's Center for Venture Philanthropy and its nonprofit partner Lenders for Community Development, now known as Opportunity Fund. A recent community foundation study[22] of graduates of this asset-building initiative found that people placed a high value on the financial education they received as well as the funds to match their savings. The study is being showcased in several asset-building conferences around the country. In addition, the community foundation has been a major investor in the effort to bring a credit union to East Palo Alto. According to East Palo Alto City Councilman Ruben Abrica, "A credit union enables a broader financial reach to people in the community. In its most basic sense, the credit union is a highly important step in rebuilding the local economy." [23] The community foundation embraced that need and joined other major funders to help capitalize the East Palo Alto Community Trust credit union.

What is new is the emphasis on financial education that ties together a broad array of strategies to help families build and preserve assets. These strategies include helping families 1) hold on to their homes; 2) repair or manage their credit; 3) access affordable, non-predatory financial services; and 4) take advantage of financial incentives to save.

The community foundation is fortunate to have significant staff expertise in this area. Pat Krackov, the program officer who authored this research paper, is the former director of the Nonprofit Finance Fund's Bay Area office and program advisor at the U.S. Treasury Department's Community Development Financial Institutions Fund. She was recruited in July 2007 to join the grantmaking team. In addition, Margot Rawlins, initiative officer for the Assets for All Alliance, continues to bring her knowledge of asset-building and financial education to the community foundation's work.

Potential future work in this area might include helping families build assets through microenterprise ownership or access living wages through employment in robust small businesses. Support for investment and income-generating activities such as these is also necessary for creating family economic security and it can be achieved through use of creative financing approaches.

Grantmaking Strategies
Two key strategies comprise this concept area. Through a Request for Proposal, or RFP, process, grants will be provided to:

1. Increase the Availability of Financial Education, Counseling and Legal Services as well as Asset Building Products by Scaling Effective Programs and Services or Designing and Piloting New Ones;

And,

2. Promote Policy Advocacy that Supports an Asset-Building Agenda Focused on Anti-Predatory Lending Measures to Effect Change at the Municipal and State Levels and to Generate Public Awareness about the Topic

1. Increase the Availability of Financial Education, Counseling and Legal Services as well as Asset Building Products by Scaling Effective Programs and Services or Designing and Piloting New Ones

Response to immediate needs
Foreclosure-prevention counseling and legal-services agencies are struggling to respond to the high demand for their services because they tend to be thinly staffed and resourced. Grants will be made available to supplement monies being provided by Congress and the California Homeownership Preservation Initiative[24] to hire staff and underwrite counseling services and/or expand training and technical assistance opportunities for counseling agencies.

Agencies will have an opportunity to apply for funding in order to design and implement a plan to increase their capacity to respond to the foreclosure crisis. Components of the plan might include training and contracting with additional financial and legal-service counselors, partnering with financial institutions to reach troubled homeowners and/or conducting outreach to the latter. Funds will be available to cover a portion of overhead costs associated with the ramp up as well as specific project expenses. Proposals will be evaluated on the demand for services, organizational need and recent counseling track record. We know that the timely contracting and training of staff, especially legal-aid counselors, has been difficult, so request respondents will be asked to describe their plan for doing so.

We will tap financial institutions with a strong presence in our region to explore their interest in serving as collaborative partners or colleague funders. Partnerships with those institutions will increase the potential benefits of our asset-building and financial education support to the communities we serve in common. We have experience with such collaborative efforts through the Assets for All Alliance and other activities that are currently ongoing.

Response to ongoing, persistent needs
The intent of this approach is to fund effective programs that can be expanded to assist larger numbers of families or innovative pilot interventions or products that could be replicated. Grants will be considered for support of:

- Pilot programs located at nontraditional venues (e.g., employer sites, public health clinics and religious venues) that enable nonprofit or public sector providers to reach hard-to-serve populations. Support for activities in nontraditional venues may also provide synergistic opportunities among and within the various new grantmaking programs, (e.g., “bridging the cultural gap” related to immigrant integration activities).
- One or more types of learning approaches (e.g., experiential, on-line and peer coaching) to inform financial education and counseling best practices concerning how to facilitate attitudinal and behavioral change. Proposals would be evaluated with a particular eye to the potential for behavior change given how challenging it is to achieve.

- Services targeted to a specific audience (e.g., youth, Earned Income Tax Credit, or EITC, filers, the "unbanked"[25], Individual Development Account, or IDA, savers and those with damaged credit). For example, providers who target EITC filers—those with incomes of $42,000 or less—could offer financial education and/or counseling as a second step to tax preparation services. Other providers might target in- or out-of-school youth through delivery of financial education curricula via classroom programs, credit union initiatives and/or math-based youth development programs that provide financial education with "real world" relevance.

We know that best practices in financial education and counseling require tangible incentives for participation (i.e., matched savings or, lacking that, a captive audience). Grant proposals that discuss these and other best practices are likely to be competitive.

Applicants will also have an opportunity to apply for funding to design and pilot new financial products or services that might substitute for predatory-lending establishments and high-cost financial services. For those products and services to be successful, we know they must offer participants convenience, a level of comfort with the language and cultural framework and an opportunity for participants to set their own goals (e.g., purpose and amount of money to be saved and amount of credit card debt reduction). Ideally, they should be sustainable either through continuing financial support, legislative backing or integration into an established course of instruction if counseling is also involved.

2. Policy Advocacy to Combat Predatory Lending Practices

This strategy seeks to effect change at the municipal and state levels in order to improve the economic well-being of Silicon Valley residents and families. The community foundation anticipates providing support to curb predatory-lending practices of payday lenders. We know that the "interest rate cap" is the most effective regulatory policy lever for reducing these abuses and that California's legislature has yet to pass legislation regarding a cap. Respected public policy advocates, locally and across the country, have pressed states to adopt a 36 percent cap on interest rates that can be charged for payday loans. While seemingly high, that interest rate is much below the 459 percent interest rate that many payday borrowers pay due to successive loan roll-overs (seven in a year, on average) with compounding interest[26].

Moratoriums on licensing payday lending establishments have been a means of curbing this practice in San Francisco and other localities, although moratoriums serve only to prevent new payday lenders from setting up shop and do not address establishments already in place. City government zoning and other ordinances restricting payday lending have also been used in Oakland, Los Angeles, San Diego and other cities

The community foundation will support activities that help municipal and state legislative staff and officials learn about the various ways to regulate predatory lending as noted above. Toward this end, an RFP will be disseminated to local advocacy groups as well as state-wide groups located in the Bay Area interested in tackling these issues in Silicon Valley. The RFP will ask applicants to provide a rationale for the selected policy lever and describe how they expect to engage local community groups and individuals in their work and what public-policy outcomes are expected over a pre-determined time frame. It will also encourage applicants to explore partnerships with law firms and public relations firms. Dissemination of public information by the community foundation about predatory lending practices is expected to be another component of this strategy.

Other Community Impact Strategies

Convening

There are a number of ways to use the community foundation "tool kit" (e.g., convening, research, policy advocacy and donor engagement activities) creatively to support the grantmaking strategies. Related to the foreclosure situation, an early May convening brought together local foundations, corporate and public agency funders to begin a dialogue about needs and possible responses. The community foundation was a co-convener of this event, and our grantmaking strategy in this area has been informed by our participation. Attendees expressed interest in deepening their knowledge about the issue, increasing investments focused on foreclosure prevention strategies and exploring ways to work collaboratively to address the foreclosure problem.

The community foundation anticipates convening experts to discuss financial education curriculum development, best practices in financial education and counseling that result in changed attitudes and behavior and other related topics. We will invite nonprofit and public sector agencies to discuss their experiences and challenges and plan strategies for next steps.

Anticipated Results

1. Financial Education, Counseling and Legal Service Delivery and Asset-Building Products

- Increased number of well-trained financial counselors and legal advisors available to help homeowners avoid foreclosure by timely provision of expert assistance.
- Increased number of people at high risk of foreclosure who are able to maintain homeownership as a result of counseling services provided.
- Increased ability of municipal governments to reduce the incidence of blighted neighborhoods from foreclosed properties and loss of tax receipts.
- Increased convenient access to a range of financial education programs delivered through various methods at times that suit the needs of a wide range of residents.
- Increased knowledge of financial management that leads to attitudinal and behavioral changes that help families achieve greater economic security. (These changes might take the form of debt reduction, increased savings and/or linkages with financial institutions that support wealth building.)
- Increased accessible, affordable financial products for low- to moderate-income families.
- Increased amount of savings generated by families as a result of participation in IDA programs.
- Over time, an increase in new types of financial institutions that are "good neighbors" and are less predatory than check-cashing or payday lending establishments.

2. Policy Advocacy

- Increased awareness among local, state and federal legislators and their staffs of the damage and inequitable effects of asset-draining policies in hopes of accelerating a change in the political climate to one supportive of asset-development and preservation policies.
- New predatory lending establishments are prevented from setting up shop, raising property values of neighboring real estate and decreasing predatory practices.
- Increased public awareness of the importance of financial literacy, saving money and building relationships with mainstream financial institutions.
- Increased community cohesion and civic pride from a shared sense of civic purpose.

Overall, we believe that this multi-pronged strategy will benefit the residents and communities of Silicon Valley by helping people learn how to manage their money and avoid predatory practices through acquiring new knowledge, attitudes and behaviors. By helping people develop economic security, we can improve the well-being of families in our region for generations to come.

Footnotes

[1] Financial assets include a home, land, cash, securities and other items of economic value that can be converted to cash.
[2] Financial education includes a wide range of topics such as personal finance and budgeting, credit repair, pre-purchase homebuyer education, foreclosure prevention, savings strategies and retirement planning.
[3] These members include mortgage lenders and brokers, investment banks and rating agencies.
[4] Corporation for Enterprise Development press release, "National Personal Savings Rate Remains Low, Government Must Target Savings Incentives to Low-Income Americans, January 31, 2008
[5] Mercury News article Consumers borrow more, March 8, 2008
[6] Index of Silicon Valley, 2007. Joint Venture: Silicon Valley Network
[7] Index of Silicon Valley, 2008. Joint Venture: Silicon Valley Network and Silicon Valley Community Foundation
[8] San Francisco Chronicle, Rich getting richer, poor getting poorer, April 9, 2008
[9] Index of Silicon Valley, 2008. Joint Venture: Silicon Valley Network and Silicon Valley Community Foundation
[10] Comment by Tracey Rutnik, Senior Advisor to the CEO of NeighborWorks America
[11] Brookings Institution, Banking on Wealth: America's New Retail Banking Infrastructure and Its Wealth Building Potential, January 2008
[12] Ibid.
[13] Bank on California Fact Sheet, with original sources from Brookings Institution and Scarborough Research
[14] Conversation with Michael Frias, Bank of California director, on March 21, 2008
[15] Based on national statistics of unbanked population, Rich Opportunity in the Unbanked Segment Getting Past to Myths to Tap Potential, Romina Abal, Edgar, Dun & Company, December 2007
[17] The Chronicle of Philanthropy News Updates, Foundations and Charities Struggle to Deal with Housing-Foreclosure Crisis, Brennen Johnson, February 28, 2008
[18] Per phone interview with CA Reinvestment Coalition President Alan Fisher on March 20, 2008
[19] Mercury News, Risk of foreclosure in 2008 jumps in state, Peter Carey and Sue McAllister, January 21, 2008
[20] Center for Responsible Lending's Unfair Lending report, which states that even after controlling for credit risk, for many types of subprime loans, African American and Latino borrowers were more than 30 percent more likely to receive a higher-rate loan than white borrowers with the same qualifications.
[21] Announced January 24, 2008. http://gov.ca.gov/fact-sheet/8599/.
[22] Families Saving and Building Hope: 2007 Report on Graduates of the Assets for All Alliance. Silicon Valley Community Foundation
[23] One: innovation through philanthropy. Silicon Valley Community Foundation, Fall 2007, p.13.
[24] This Initiative was conceived by California Reinvestment Coalition and is being funded by a consortium of banks operating in the state.
[25] Those individuals who do not have a checking or savings account with a financial institution
[26] Per conversation with Center for Responsible Lending Executive Director Paul Leonard

ABOUT SILICON VALLEY COMMUNITY FOUNDATION

The vision of Silicon Valley Community Foundation is to be a comprehensive center for philanthropy that inspires greater civic participation throughout San Mateo and Santa Clara counties.

The mission of Silicon Valley Community Foundation is to strengthen the common good, improve quality of life and address the most challenging problems. We do this through visionary community leadership, world-class donor services and effective grantmaking.

We value:

Collaboration	Integrity
Diversity	Public Accountability
Inclusiveness	Respect
Innovation	Responsiveness

MORE INFORMATION

For a schedule of information sessions, supporting research papers, issue briefs and other information, go to www.siliconvalleycf.org

Requests for proposals will be issued beginning in September 2008 and continuing through 2009.

At a Glance

Silicon Valley Community Foundation is a catalyst and leader for innovative solutions to our region's most challenging problems. Serving all of San Mateo and Santa Clara counties, the community foundation has more than $1.9 billion in assets under management and 1,500 philanthropic funds. The community foundation provides grants through donor advised and corporate funds in addition to its own Community Endowment Fund. In addition, the community foundation serves as a regional center for philanthropy, providing donors simple and effective ways to give locally and around the world. Silicon Valley Community Foundation launched in January 2007 following the landmark merger of Community Foundation Silicon Valley and Peninsula Community Foundation and is now one of the largest community foundations in the nation.
Find out more at www.siliconvalleycf.org.

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