

ChangeMatters

The Financial Clinic's Customer Insights



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A comprehensive research series leveraging Change Machine's data from more than 40,000 customers across 42 states.

VOLUME 2: ASSETS

Introduction

This is the second brief in a new series from The Financial Clinic. Change Matters leverages the data gathered through our revolutionary financial coaching platform, Change Machine, alongside the voices, wisdom, and lived experiences of Change Machine customers. We hope that our action-oriented analysis will lead to positive social change. We believe we have a responsibility to ask the right questions, to use our data for good, and to inspire products, practice, and policy innovations that centralize the needs of the working-poor in building economic mobility. You can find forthcoming insights in this series on our website: thefinancialclinic.org/changematters.

“Focus on power instead of people.”

—Ibram X. Kendi

This Clinic's longstanding commitment to equity has been the engine of our impact: Our deep seeded belief, supported by research, is that our customer's personal finance expertise is a powerful driver of their financial security. This is due to the fact that their daily struggle to make ends meet results in hard-won knowledge and skills. Moreover, there is nothing more motivating during the coaching process than a definition of success born of our customers' lived experiences.

While our communities embody meaningful solutions and cope with hardship on a daily basis, they are, of course, not to blame for their financial difficulties. From “welfare queens” to the personal finance industrial complex's just-skip-the-Starbucks cliché, our society has an *ugly habit of blaming the victim*.

This victim-blaming approach to poverty gives way to egregious “pull yourself up by your bootstraps” proposals with only a passing glance toward the larger systemic landscape created by the policy choices we make. How can we ask our customers to have the courage to leverage their strengths and aim for a financial goal when their environment is so inequitable to begin with? In recent history, one needs to only take note of the Great Recession's effect on African American women: their **evaporation of wealth during the recession** was so devastating that it will not be recovered in a lifetime.

And yet everyday, the working poor are surviving and thriving in spite of these challenges. The Clinic's examination of Change Machine data shows that those with the least can accomplish the most. Customers earning a range of income and work supports like public assistance, SNAP benefits, Supplemental Security Income/Social Security Disability, or Medicare and Medicaid were 12 percent more likely to both increase their savings and reduce their debt. The customers served by the Change Machine community are accomplishing more with less because we honor their lived experiences and promote their definition of success.



A small amount of money in savings is one of the best lines of defense against financial insecurity, and yet so many Americans struggle to put money aside. Recent surveys have shown that around 78 percent of American workers report living paycheck to paycheck,¹ and that four in ten individuals would be unable to come up with \$400 in an emergency without needing to borrow or sell something.² As the Consumer Financial Protection Bureau has outlined,³ the capacity to absorb a financial shock or an unexpected expense is key to financial well-being.⁴ Liquid or quasi-liquid savings—cash-value assets and savings—are therefore an essential component to long-term financial security.

In this Change Matters research brief, we take a deep dive into Change Machine's data to understand customers' assets and savings behavior. In addition to exploring the asset profile of the low-to-moderate income ("LMI") customers on Change Machine, we also:

- Highlight the unexpected expertise Change Machine customers display when pursuing financial security;
- Address the racial wealth gap evident in Change Machine data; and
- Lay out key policy priorities that aim to reduce barriers to saving and asset building for LMI Americans across the country.

Change Machine Demographics

The 72,751 customers (as of September 2019) have the following assets and demographic characteristics:

- **Average Income** of \$21,600
- **Average Debt** of \$6,077
- **Ethnic & Racial breakdown** is 45% Non-Hispanic Black, 41% Hispanic, 10% Non-Hispanic White, 1% Asian, 2% Multi-racial.
- **Gender** 67% Female, 33% Male, <1% Prefer Not to answer and Transgender.
- **Median Assets** of \$1
- **Average Credit Score** of 600
- **Highest Education attained** 38% High School, 18% Some College/Associate's Degree/Vocational School, 21% Less than High School, 10% Bachelor's Degree, 3% Master Degree.

What Is the Asset Profile of Customers on Change Machine?

Increasing savings deposits is one of the six financial security outcomes that The Financial Clinic ("Clinic") measures its financial coaching services.⁵ Through its online coaching platform, Change Machine, the Clinic tracks savings through monitoring key liquid assets amounts and progress toward specific goals. Liquid assets can include money held in savings accounts and checking accounts, as well as quasi-liquid assets such as retirement accounts.⁶ The insights that follow provide a window into the asset profile of Change Machine customers.

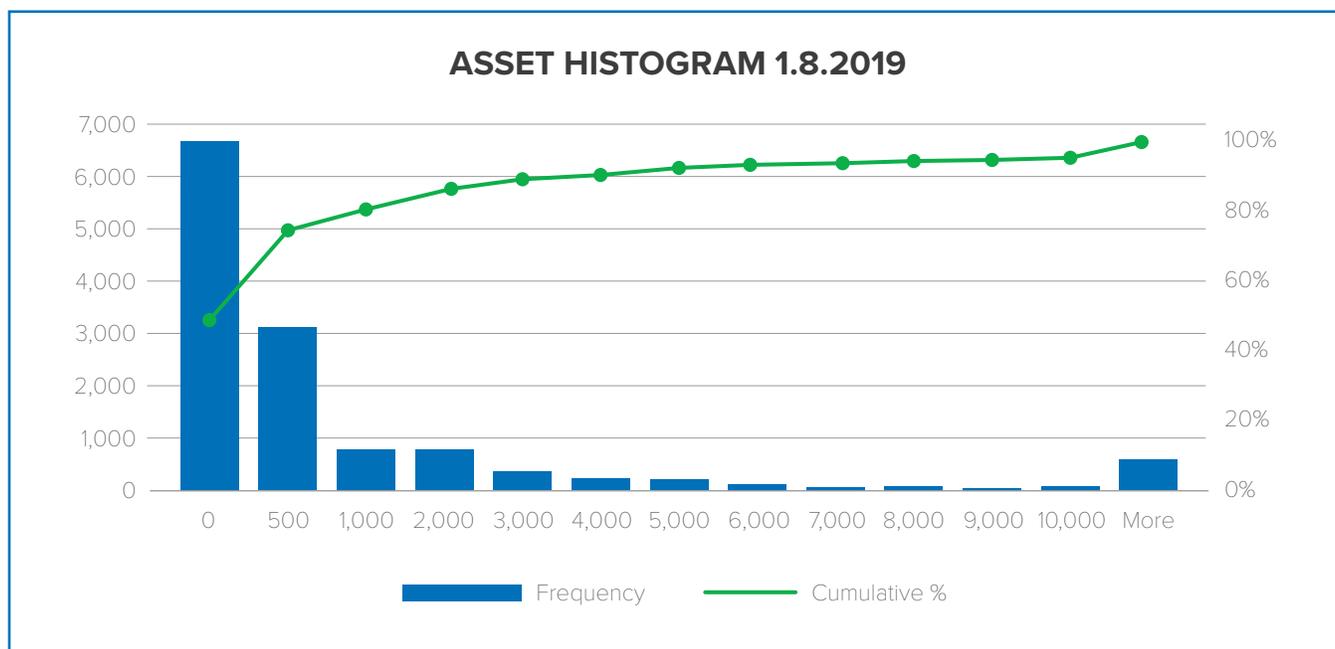


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The majority of Change Machine customers are living in a state of severe liquid asset poverty. Individuals who fall within this state lack enough savings “to make ends meet at the poverty level for three months if their income was interrupted due to job loss, a medical emergency, or other financial crisis that involves a loss of stable income.”⁷ Fifty percent of Change Machine customers report having no liquid assets at all, while 75 percent report having total assets of less than \$500. For comparison, according to the Federal Reserve’s Survey of Consumer Finances, the median total account balance for U.S. households in the bottom 20 percent of the income distribution is around \$600, and close to 40% percent of U.S. households are liquid asset poor according to data from the Prosperity Now scorecard project.⁸

Fifty percent of Change Machine customers report having no liquid assets at all, while 75 percent report having total assets of less than \$500.



Even among the staggering asset poverty across the country, Change Machine customers are particularly vulnerable to day-to-day financial challenges. While many customers depend on informal networks such as friends and families to absorb current financial shocks, their lack of assets profoundly impacts their ability to meet future demands and the challenges of older age, such as retirement and rising health care costs. In addition, it provides little room for creating education savings so younger household members can attend college in the future.

Income volatility exacerbates asset poverty. Many Change Machine customers experience regular income volatility in addition to asset poverty, which creates a cycle of insecurity that can be impossible to manage.

Change Machine data collected from customers who have met with a financial coach at least 10 times—a much longer coaching relationship than the average customer—show that an individual’s monthly income fluctuated by an average of \$150 between meetings and, over the course of the relationship, can vary by as much as a \$1,000.



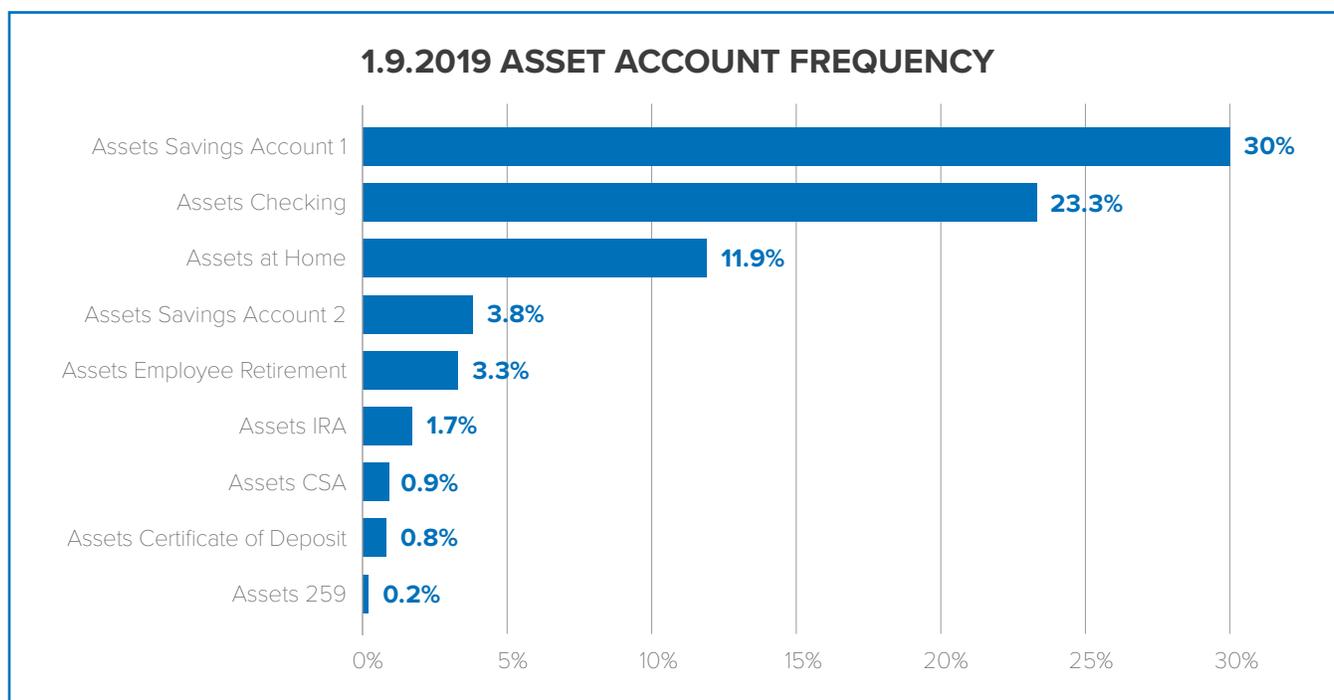
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The consequences of income volatility are a significant barrier to stabilizing a customer's finances. Customers who only infrequently or unpredictably see their income exceed expenses will find it harder to consistently save, and may have to spend down whatever assets they have (e.g., savings accounts) to make up for these periods of lower income or unexpected financial emergencies.

Income volatility can also make it much more challenging to adopt or stick to new positive financial behaviors. Needing to spend down savings in lean months might be internalized as "a failure" that can rob a customer of their confidence. In actuality, having a savings cushion to tap into when income is unpredictable is a real achievement that should be celebrated.

Change Machine customers are not fully engaged in mainstream financial and banking systems. In addition to liquid asset poverty, Change Machine customers also lag significantly behind the overall U.S. population in terms of account ownership. According to the FDIC 2017 National Survey on Unbanked and Underbanked, 6.5 percent of households are unbanked (no one in the household has a checking or savings account) and 18.7 percent are underbanked (the household uses a mixture of formal banking services and products and services outside of the banking system).⁹



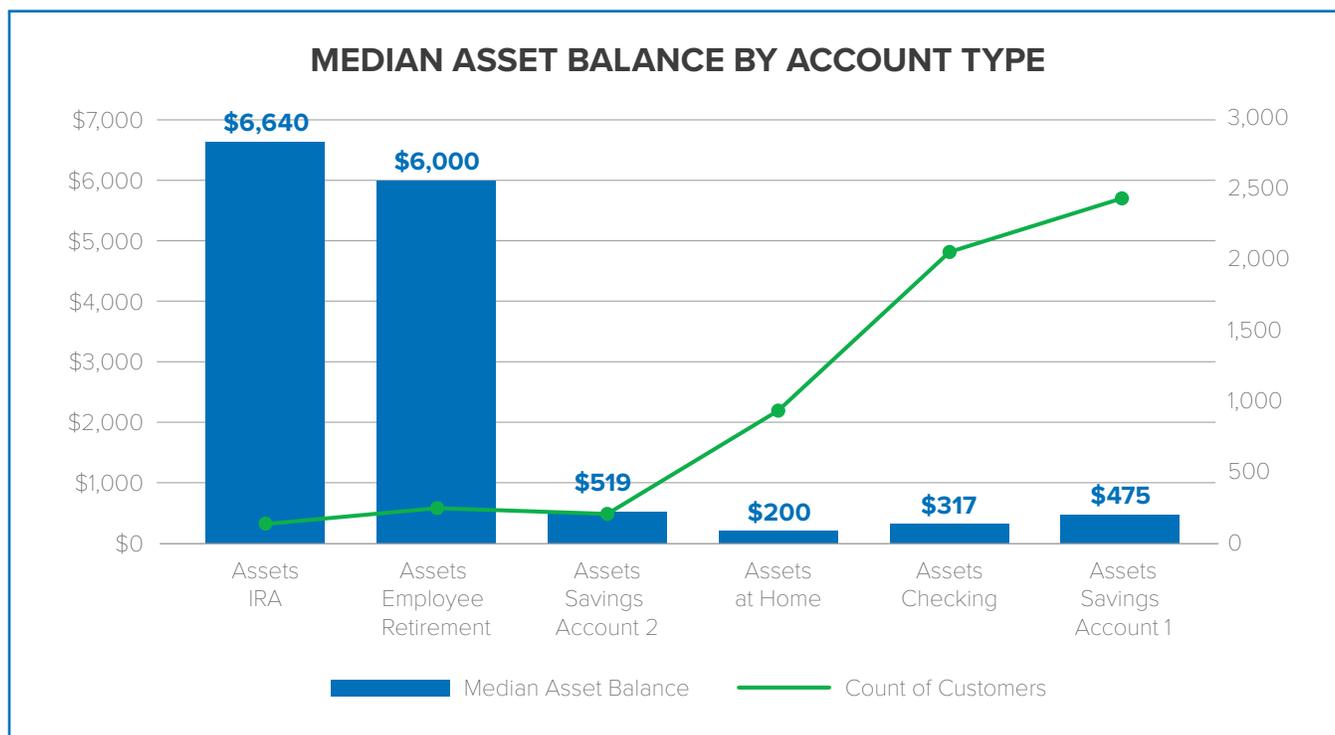
The graph above shows that only about 30 percent of customers who provided the Clinic with information on their assets report owning a savings account, while just 23 percent say they have a checking account. For comparison with the general population, the 2017 FDIC survey reports that 54 percent of respondents in the lowest income quintile say they use a savings account.¹⁰ Remaining on the margins of the formal financial system can leave customers vulnerable to a number of predatory financial actors. Fringe borrowing such as payday or auto-title lending—an industry that has grown dramatically since the 1980s—is most common among those with low or volatile incomes.¹¹ Although payday loans are advertised as being helpful for unexpected or emergency expenses, 7 in 10 borrowers use them for regular, recurring expenses such as rent and utilities.¹²



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There are a number of reasons why Change Machine customers are underbanked or unbanked altogether, including not living close to a regular bank branch, not being able to open an account as a result of immigration status, or simply not feeling comfortable with, or trusting of, financial institutions. For whatever reason, many lower- and middle-income individuals cannot realistically rely on mainstream banks to meet their needs which puts them at a greater risk.¹³ Furthermore, Change Machine customers are disproportionately less likely than the overall population to own assets that build wealth. These quasi-liquid assets include retirement accounts, child savings accounts, and 529 college savings plans.



Fewer than 5 percent of Change Machine customers report owning any of these types of wealth-building assets, which not only serve as additional financial cushions but also support long-term financial stability and planning.

Change Machine customers may prefer liquid assets; in order to cover unexpected expenses, many LMI people keep cash on hand. Financial and/or legal fears in combination with deterrents to mainstream banking such as bounced check fees, overdraft fees, and late payment penalties—not to mention unwelcoming environments—has resulted in a LMI population that is severely underbanked.

Notably, many Change Machine customers report keeping money at home. Holding cash at home is the third most frequently reported type of asset, with a median reported amount of \$200.

Cash value assets are vulnerable to theft and material destruction, which only compounds the risk and sense of financial insecurity these customers experience during precarious circumstances. There may be a number of reasons why customers frequently resort to keeping cash at home—such as banking fees, legal status, or the need to cover financial emergencies—but, to the extent that it indicates their exclusion from the mainstream financial system, it serves as an indicator of financial vulnerability.



Unconventional Experts: Uncovering Resourcefulness

While Change Machine data demonstrates the fragility of customers' financial lives, it provides an incomplete picture that obscures their resiliency and resourcefulness. By combining other unexpected Change Machine data points and our experience as a financial coaching organization, we are able to observe from the data and hear from customers themselves how they are overcoming challenges and assumptions about their capacity. Despite the challenges, they are creating better and higher ladders to scale them. There is evidence that they are creatively solving their financial difficulties.

- Customers who set a passionately held, forward thinking, strengths-based financial goal save more consistently than customers without goals.
- Even customers who are receiving critical public benefits can reduce debt AND save money.

CHALLENGING CONVENTIONAL WISDOM TO CREATE A NEW NORMAL

The conventional wisdom about saving from popular financial commentators generally prioritizes paying off debts before setting money aside for savings. For example, Suze Orman, a leading financial advisor and author, argues that “from a purely financial standpoint, it makes plenty of sense to use [low-earning savings] to pay off [high cost] credit card debt.” She even suggests to readers as part of her credit card debt management plan that, “If you are still coming up short, I want you to consider dipping into your emergency fund each month to make up the difference.”¹⁴

The conventional wisdom on saving and debt reduction from self-help or financial gurus is overly simplistic for LMI populations. Financial advice from popular authors or columnists often portrays life in or near poverty simply as the result of poor choices. As a result, they offer simplistic, one-size-fits-all advice that rarely comes from a place of lived experience. Debt reduction is a common first step and is often emphasized over savings. LMI populations may be discouraged from using extra money to build up savings while managing a high interest credit card balance or car loan. This advice frames the conversation in moral terms: responsible people pay their debts, and until that is achieved, everything else is less important. It fails to recognize that some savings are often the smoothing technique to offset the next unanticipated financial emergency.

Many mainstream financial commentators encourage people to forgo saving money in lieu of debt reduction. The problem with this advice is that it leaves people more vulnerable to unanticipated financial shocks, and without savings to fall back on, can eventually force them further into debt. Choosing between putting money in a savings account and paying off debt should not be an either/or dilemma, and framing the issue in this way disempowers customers rather than help them build financial security in line with their life circumstances. The St. Louis Federal Reserve Bank's Center for Household Financial Stability has demonstrated that keeping a cash reserve significantly reduces the risk that a family will fall behind on rent or mortgage payments or be forced to forgo necessary expenses like medical care.¹⁵

Rather than discard conventional wisdom reducing their complicated lives into oversimplified strategies, LMI populations are able to carve their own paths in ways that coaching organizations can leverage:

Customers want to save, no matter where they start or the challenges in front of them. The temptation with designing savings programs is to segment LMI populations into those who can save—for those on fixed income or receiving public benefits—and those who cannot. While no program will say they cannot save, many social service programs tend to frame savings as opportunistic, such as when customers receive a tax refund or a new paycheck.



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Change Machine data suggests that increased income will correspondingly increase the probability of savings, but it is not the whole story. Employed customers, for example, were more likely to both reduce debt and increase savings, and customers that reported higher incomes and lower debt balances at their initial meeting were also more likely to achieve both.

Even customers who rely on public assistance have no new income want are able to save. Change Machine Another key insight is that customers that reported receiving public assistance like Temporary Assistance for Needy Families (TANF), SNAP, Medicare/Medicaid, or SSI/SSDI were about 12 percent more likely to both increase their savings and reduce their debt.

But the data also points to the critical and stabilizing role that public assistance plays in the financial lives of LMI households. These benefits help build a foundation for financial security, supporting both asset building and debt reduction. Change Machine customers that reported receiving public assistance like Temporary Assistance for Needy Families (TANF), SNAP, Medicare/Medicaid, or SSI/SSDI were about **12 percent more likely** to increase their savings and reduce their debt. This finding also suggests that when customers are given additional financial cushion, money is more likely to be channeled towards both building assets and paying off debt.

This is just one of many data points that counter popular notions that suggest LMI households in particular lack the rectitude to make sound financial decisions.

Customer Story

Leia first came for coaching at an organization that serves survivors of Domestic Violence (DV). She was originally interested in tax preparation but, after discussing her financial goals, she decided to set up a long-term savings plan that she stringently adhered to with an automatic monthly deposit of \$25 supplemented by periodic, in-person deposits. When Leia first met with her coach in November 2017 she had no savings. She was receiving fixed Supplemental Security Income payments of around \$840 a month and was worried about her ability to save, but because she started off with a manageable amount, automated the deposits, and stuck to her plan, she now has \$551 in her new savings account. Leia internalized the belief that “savings is a habit, not an amount,” and now has her savings to lean on in case of emergencies. Though Leia admits that she dips into her saving occasionally, she sees the power in keeping her savings automatic and plans to continue building her savings each month.

Customers are meeting debt obligations and still focusing on the future.

Contrary to mainstream advice, our research also confirms that rather than seeing them as mutually exclusive, many LMI on Change Machine find ways to save for long-term goals while also paying down debt. Working with a financial coach can be an important resource for LMI customers seeking to find the right balance between saving and paying down debt in a way that supports achieving their financial goals. Financial coaches can also advocate on behalf of customers with creditors to either settle some debts or establish workable payment plans that create additional room to save. Bridget Tate, the Clinic's Director of National Programs and a certified housing consumer credit counselor and financial coach with over fifteen years experience, always reminds customers that putting money into savings to achieve a financial goal is like “paying yourself” and designating even small amounts as “non-negotiable” sets them up for future success.

Change Machine data show that 11 percent of customers with over 2 meetings were able to both reduce debt balances and increase their savings, and these customers seemed to share a number of characteristics.¹⁶



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Identify a passionately held financial goal as a critical ingredient in building the motivation for saving. Instead of relying on savings behaviors because it's the "right thing to do" or following prescribed formulas, customers who are asked to align savings with a financial goal save more often. While there is nothing new about goals as a motivator, we believe that the type of goal is important and we emphasize that goals should be passionately-held, forward-thinking, and asset-driven. These goals are centered on the unique and specific priorities customers and their families, rather than common attributes of financial security (e.g., homeownership, purchasing a car). Common customer asset-oriented goals seen in Change Machine include saving for a family event (e.g., a quinceañera, a birthday party), or long distance travel.

Change Machine customers who set a passionately held, asset driven financial goal with a financial coach—such as taking a vacation or throwing a graduation party—are more likely to consistently save than customers without goals. Customers who identify an event-related financial goal have three or more deposits into their savings than other customers, and those who identify a vacation-related goal increase the number of deposits by four.

Saving consistently is what matters. The Clinic's coaching model is built on the belief that saving is an activity not an amount, and that everyone—no matter their financial circumstances—can save, and that starting out with small amounts is the key to establishing consistency. The Clinic also believes that setting the right motivation for saving is just as important as the behavior itself. Just like learning a new skill or playing a sport, saving is something that everyone and anyone can do, and the commitment to setting the money aside is far more important than the amount. Clinic coaches prompt customers to start with small amounts of savings as a powerful first step. But at the end of the day, it is the customer who makes the daily budget and financial decisions to continue on that path. Starting with setting aside small amounts can reduce the mental barrier that so many face when trying to put money away.

Customer Story

When Joan came for coaching, she had over \$1,500 in debts that had fallen into collections when she went through a rough financial patch a few years before. While her income was not substantial, and she has not yet paid off her items in collections, she has been able to build up her emergency savings. Joan decided to set up automatic transfers to her savings account each time she gets paid, telling her financial coach: "It is not much, but it is something, and that is important to me." These small contributions have added up and she now has over \$1,000 in savings. Joan told her financial coach that she prioritized saving because she did not want to relive what happened to her the last time she had a financial emergency and had to rely on expensive credit. With some savings in place, Joan felt more confident managing her debt and paying off her collectors. She knew that she could negotiate with them to get more favorable, manageable terms that she could pay without having to dip too excessively into her savings. She just needed some help in knowing the protocol for negotiating with collectors.

The Racial Wealth Gap on Change Machine

Recent research has significantly advanced an understanding of the deep and persistent racial wealth inequality that persists in the United States. For generations, minority communities have faced legal and institutional barriers to asset-building—such as redlining—and they are also often the target of unchecked wealth-stripping scams and abusive business practices. Aided by a distorted tax code, the majority of wealth continues to concentrate in

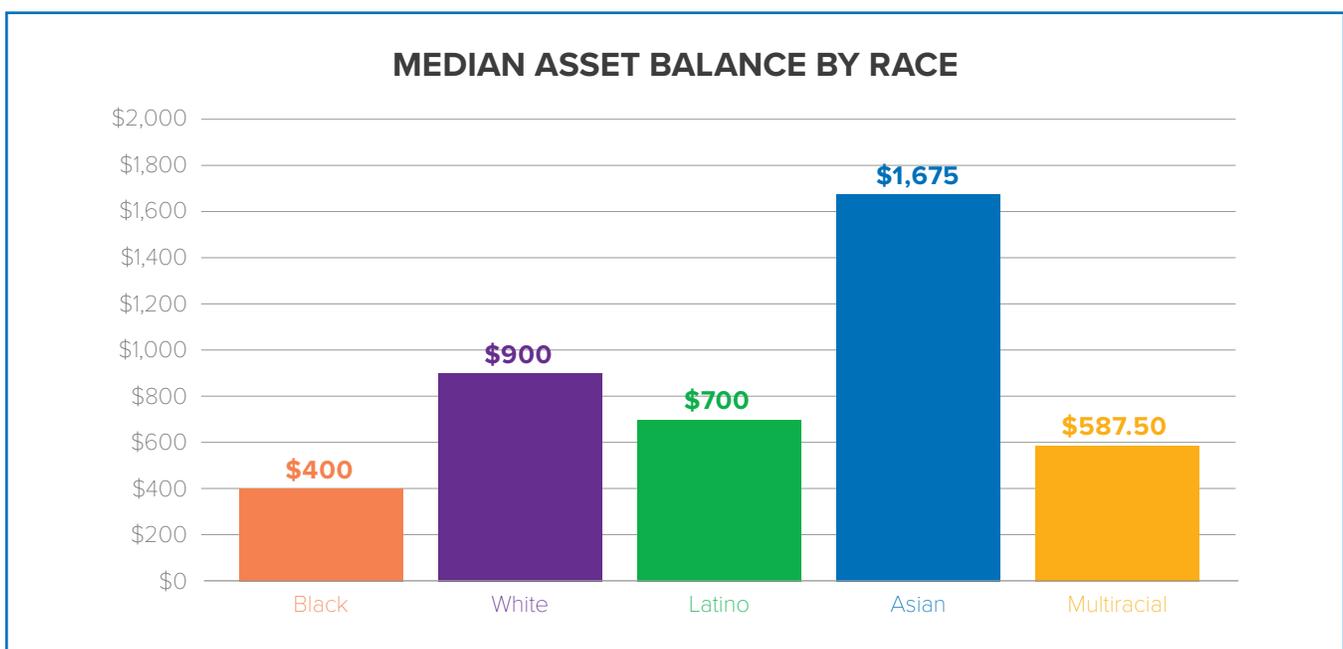


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the hands of the very richest households, which are overwhelmingly white. The situation is such that even if the racial gap in income were bridged—a substantial gap in its own right—it still wouldn't come close to correcting the divergence of wealth and asset ownership that exists. The racial gap extends to access to banking as well, and black Americans are disproportionately more likely to be either unbanked or underbanked than white Americans.¹⁷

The median asset balance of Change Machine customers is reported in the chart below and is broken down by race, illustrating the extent of the racial wealth divide within the populations the Clinic and its partners serve. On average, white customers have over twice the asset balance of African American customers and about a 25 percent higher balance than Latino customers.



The racial wealth divide of Change Machine customers is mirrored in the gap in rates of account and asset ownership. While Change Machine customers report owning a savings account less frequently than the average low-income household, only 29 percent of African American customers and 26 percent of Latino customers report owning a savings account, compared to 37 percent of white customers.

Table X: Percent Change Machine Customers with Wealth Building Accounts, by Race

	White	Black	Hispanic
% With a Savings Account	37%	29%	26%
% With an Employer Retirement Account	7%	3%	2%
% With an IRA	6%	1%	1%

The lack of wealth generating assets—like retirement accounts—among the entire customer base is a key indicator, and it is substantially worse among African American and Latino customers. Just 1 percent of these customers say they own an IRA or an employee sponsored retirement account.



What Needs to Be Done?

The data reported here offers a glimpse into the savings and asset profiles of Change Machine customers who face serious barriers to long-term financial security and asset-building. The picture that emerges is one of significant liquid asset poverty exacerbated by income volatility, a lack of banking services and asset ownership, and racial inequality in terms of both asset value and ownership.

The conventional wisdom also pays far more attention to individual behaviors than to the underlying systemic barriers to financial security that are hardwired into today's economy, legal code, regulations, and consumer marketplace. Such barriers include pervasively low-wages, predatory lending, and disincentives to saving built into public policy. By ignoring the practices and systems that result in widespread debt, conventional advice places the onus on the individual to deal with debt rather than address systemic problems.

The Clinic knows that working with a financial coach can dramatically improve customer outcomes and help them organize their financial demands in a way that aligns with their goals and values. Many of the barriers customers face to saving and asset building are systemic and are the result of an economy that continues to work poorly for the least well off. In conclusion, the Clinic proposes three policy solutions that will go a long way in supporting LMI individuals to build assets and achieve financial security.

Eliminate stigmatizing and burdensome asset limits and resource tests for all public assistance programs.

Means-tested social welfare programs (e.g., Medicaid, SNAP) often impose strict asset limits on their beneficiaries, making it extremely difficult for them to save money. These asset limits are not often adjusted for inflation.¹⁸ Saving to achieve personal financial goals and for long-term stability should be rewarded and incentivized, not penalized. Many states maintain strict asset limits and resource tests for public assistance that present huge barriers to families trying to get ahead by saving for the future. Behavior change, refund splitting, and matched savings programs will be ineffective as long as asset building counts against you in applications for needed social supports like TANF. These rules are burdensome, stigmatizing, and threaten to keep LMI households from building the financial baseline they need to weather unexpected hard times.

Equity solutions should include giving people more options to make use of their tax refund to build savings, and then let's match it.

Tax refunds provide exactly the kind of windfall families need to get them started saving in a long-term asset like an IRA or a 529 account. Tax refunds can account for up to a third of yearly income for low-income filers, and making it easier to direct some of that money into an emergency fund or a wealth-building asset can help address the racial wealth gap. This is exactly why the Clinic advocated for Refund 529 in New York State—where residents can now split their state refund and directly deposit a portion of it right into their college savings account! The Rainy Day EITC—a matched savings program for individuals who defer part of their Earned Income Tax Credit refund for six months—is another innovative solution that can increase the impact of saving at tax time.¹⁹

Reward consistent savings.

Consistent savings is the key to behavior change, especially if you start small... LMI households can benefit from policies that make it easier to save for the future and a tax refund is a perfect place to start. States like California and Oregon already allow tax filers to direct deposit part of their state refund into a range of wealth building accounts like IRAs, IDAs, and 529 college savings accounts. More states need to embrace this practice and states that already do, like New York, need to expand the types of accounts that are eligible. In addition, Congress can enact the Rainy Day EITC plan that would set up matched savings for individuals that defer and save part of their tax refund.



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Raise wages and increase cash transfer programs to support asset building. Wages have stagnated. In the first quarter 2019, the median wage was \$47,060.²⁰ In spite of a strong labor market, the purchasing power of the average American has barely increased over the past 15, contributing to worsening income inequality. The Clinic's analysis shows that while it's possible for LMI Change Machine customers to save and reduce their debt, higher baseline incomes and income supports like TANF increase the likelihood that a customer achieves this outcome. This suggests an obvious but essential insight: Higher wages and meaningful support from social programs support asset building and long-term financial security.

Coming Next:

Join us for a deep dive through Change Machine's data generated from our growing national programs. In 2020, the Clinic expects to reach 12,000 individuals and families across 44 partners in 10 states. We are focused on building financial security in adult and youth workforce programs, housing insecure, older adults, community college students struggling with student loan debt, and the millions who are struggling to stabilize their household balance sheets. In this critical year where the national conversations about how to move this country to financial justice, we will continue to debate these issues on Change Machine's Share platform: We hope you'll join us in these upcoming discussions!

Acknowledgements

The Change Matters series is made possible by generous support from The Prudential Foundation, MetLife Foundation, TD Charitable Foundation, JPMorgan Chase & Co., and Booth Ferris Foundation. The views and opinions expressed in Change Matters represent only those of The Financial Clinic and do not necessarily reflect those of our funders or their affiliates.



Endnotes

- ¹ <http://press.careerbuilder.com/2017-08-24-Living-Paycheck-to-Paycheck-is-a-Way-of-Life-for-Majority-of-U-S-Workers-According-to-New-CareerBuilder-Survey>
- ² <https://www.forbes.com/sites/zackfriedman/2019/01/11/live-paycheck-to-paycheck-government-shutdown/#746ce4544f10> and <https://www.federalreserve.gov/publications/2018-economic-well-being-of-us-households-in-2017-preface.htm>
- ³ The Consumer Financial Protection Bureau (CFPB) regulates the offering and provision of consumer financial products or services under the federal consumer financial laws and educates and empowers consumers to make better informed financial decisions.
- ⁴ <https://www.consumerfinance.gov/consumer-tools/financial-well-being/about/>
- ⁵ The additional five financial security outcomes include achieving a financial goal, reducing financial transaction costs, establishing or improving a credit score, reducing debt, and saving a portion of a tax refund towards a financial goal.
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- ¹² <https://www.pewtrusts.org/en/research-and-analysis/fact-sheets/2016/01/payday-loan-facts-and-the-cfpbs-impact>
- ¹³ See this report for more info [FDIC unbanked]; and for more on the Clinic's perspective see our recent public testimony before the New York City Council on the ways cashless shops and restaurants harm the unbanked. <https://thefinancialclinic.org/wp-content/uploads/2019/02/Written-Testimony-The-Financial-Clinic-NYCC-Consumer-Affairs-Cashless-Business.pdf>
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- ¹⁵ See Boshara, Ray <https://www.stlouisfed.org/publications/bridges/spring-2018/saving-and-paying-off-debt> and Gallagher, Emily <https://www.stlouisfed.org/publications/in-the-balance/2017/cash-on-hand-is-critical-for-avoiding-hardship>
- ¹⁶ This analysis was limited to those customers that reported their debt balances while they were working with a financial coach.
- ¹⁷ The Color of Money: Black Banks and the Racial Wealth Gap, 2019.
- ¹⁸ <https://www.cbpp.org/research/policy-brief-protecting-low-income-families-savings>
- ¹⁹ <https://www.nysaves.org/home/why-ny-529-direct-plan/highlights.html>; <https://www.prosperitynow.org/resources/policy-overview-rainy-day-eitc>
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