



# CASH VALUE

## HOW THE FINANCIAL CLINIC PUTS MONEY INTO THE POCKETS OF WORKING-POOR FAMILIES

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April 2011

## ACKNOWLEDGEMENTS

The authors are grateful to the following colleagues who provided valuable suggestions and guidance: Thomas Adcock, Haidee Cabusora, Michael Collins, Marc Khouzami, Steve Lee, Becky Smith, Jennifer Tausig and Sean Wolters.

## INTRODUCTION

Practitioners engaged in the nascent field of financial development lack a shared system of tracking and analyzing customer progress toward financial security. Practice leaders—ranging from direct service organizations such as the Chicago-based LISC to NeighborWorks America of Washington, D.C.—define customer progress by their individual outcomes frameworks. But without uniform outcomes measures to assess our customers’ progress—and thus, our own performance—the field as a whole is handicapped. Many factors contribute to this problem, two being most prominent: organizations are grounded in distinct theories of change, are funded by a variety of sources with their own expectations, and lack of clarity about how to measure aspects of our work.

The Financial Clinic, a New York City-based nonprofit organization, exists to improve the financial security of working-poor people. Shortly after the Clinic’s founding, we sought to quantify our mission with a range of data points, inputs, milestones and outcomes. After defining five outcomes—assets, banking, credit, debt and taxes—as the fundamental core of financial security, we developed a step-by-step financial development framework and process.

In five years, the Clinic has collected data on over 4,500 customers for analyzing how our efforts support our mission. A number of overarching questions emerged:

Common metrics should be collected across programs so that aggregate data could be shared to demonstrate the impact of coaching programs.  
J. Michael Collins, University of Wisconsin Madison & PolicyLab Consulting Group and Karen Murrell, Higher Heights Consulting, *Applying Financial Coaching to Asset Building*, 2010.

**Cash Value:** A monetary quantification of the Clinic’s financial coaching and legal services.

**Taxonomy:** A proven methodology for classifying financial coaching activities and strategies.

- ▶ What is the monetary quantification—the “cash value”—of our work with customers? While not an outcome per se, how does cash value help us understand how to accomplish our mission?
- ▶ How do the Clinic’s outcomes—consistent savings, alleviated debt, higher credit scores—support financial security? Do these indicators provide us with the clearest and purest quantification of mission?
- ▶ Do the Clinic’s measurements constitute a “taxonomy” for the field—a proven methodology for classifying financial development activities and strategies? What do our observations about cash value and outcomes indicate to others about best practices?
- ▶ In light of Michael Sherraden’s argument that asset-building has additional, external benefits, is it possible to assess financial development “positive externalities” that improve working-poor peoples’ lives? (Michael Sherraden, *Assets and the Poor: A New American Welfare Policy*, New York: M.E. Sharpe Inc., 1991.)

The purpose of this research report is to delve into the first question; later reports will explore the other themes. In sharing the Clinic’s analysis and conclusions, we hope that we can inform how practitioners measure progress, and whether the field might coalesce around common metrics.

In the three sections, this research report will:

- ▶ Define and detail Financial Development as a guided journey to financial security;
- ▶ Quantify Cash Value in the numerous ways in which financial development improves customers’ balance sheets; and
- ▶ Describe the Intersection of Financial Development and Cash Value as beneficial links to the economic security of our customers.

## 1. FINANCIAL DEVELOPMENT

The Clinic coined “financial development” to reference the full range of educational, coaching and legal services needed to improve working poor families’ financial security. Financial development is fundamentally different from “financial literacy” because the Clinic goes beyond education in holding itself accountable for practical results. Likewise, the Clinic’s work includes more than “asset building.” While financial goals are critical drivers for customer accomplishments, financial development includes the “on ramp” services—coaching, counseling and advocacy—that make financial mobility possible.

The phrase “financial development” refers not only to a spectrum of activities, but also to the depth of our coaches’ work with customers in focusing on multiple areas of individual economic security: assets, banking, credit, debt and taxes.

### ASSETS: CONSISTENT SAVINGS

Asset building lies at the heart of the Clinic’s work. Consistent savings is the DNA of financial security. Indeed, the Clinic mantra is “savings is an activity, not an amount.” Through anecdotal evidence, our Financial Coaches know that positive changes in their customers’ financial behavior are made not so much by increased income as by setting financial goals and saving money on a consistent basis.

**Financial Development:**  
The full range of educational, coaching and legal services targeted to improve working poor families’ financial security.

### BANKING: MORE FORMAL, FEWER FRINGE SERVICES

The Clinic is strongly focused on helping our customers access mainstream financial relationships—savings and checking accounts at commercial banks, and direct deposit of paychecks—while steering them away from expensive fringe services such as neighborhood check-cashing services, rent-to-own stores, and other high-interest, short-term loan operations.

### CREDIT: INCREASED CREDIT SCORE

A positive credit history is key to a multitude of our customers’ needs—everything from establishing a mobile phone contract to emergency loans to job applications. The Clinic is committed to helping customers access their credit files and increase their credit scores.

### DEBT: REDUCE DEBT-TO-INCOME RATIO

Often, Clinic Coaches help customers determine precisely how much money they owe, and to whom—for how long and at what rate of interest. For many, this will be the first time they have seen a comprehensive inventory of their debt. By identifying and prioritizing debt, we then help customers take the initial steps toward paying, renegotiating or discharging their obligations—often with the help of Clinic Attorneys versed in bankruptcy, consumer credit and tax law.

### TAXES: SAVING FOR FINANCIAL GOALS

Many of the federal government’s most effective antipoverty policies are administered through the tax code. Clinic Coaches, for instance, focus on tax planning to obtain maximum income tax refunds for their customers, and assist them in regularly saving a portion of those refunds—earmarked for specific financial goals.

**2. CASH VALUE**

The Clinic has established a virtual roadmap to chart the ways we calculate our work in simple terms of dollars saved by our customers. Akin to the free tax preparation field’s approach to assessing credits, the Clinic created a methodology for assessing the annual “cash value” of our accomplishments in each area of financial security that are attributable to our Financial Coaches’ and attorneys’ work with customers.

As the notes below outline, not every dollar the Clinic claims as a “cash value” can be documented; there are some instances, especially around assets and banking, that we make assumptions about our customers’ behavior. However, there are an equal number of instances in which we know there to be cash value, but we do not claim it. For example, when a Financial Coach increases a credit score or lowers the cost of servicing a debt, we only assess the annualized value. After internal deliberation, we found the methodology below to be a balance we are comfortable with.

<b>AREA</b>	<b>CASH VALUE DEFINED</b>	<b>EXAMPLE</b>	<b>NOTES &amp; ASSUMPTIONS</b>
ASSETS	Any savings—whether related to alleviating household budget stress through work supports or actual formal savings—attributable to our Financial Coaches’ work with customers.	A Financial Coach helps a customer set up a regular, automatic transfer to savings from a checking account.	After three successive savings deposits or receipt of benefits, the Clinic calculates the total value of the transfers over the course of a year.
BANKING	The value of any reduction in banking costs that a Financial Coach garners for customers.	After assessing the cost of current services, Coaches can often eliminate ATM, monthly or overdraft fees.	The average annualized cost-savings represent a cash value.
CREDIT	Value from a credit file that can be assessed from an increased credit score, or a corrected error.	When a customer’s credit score increases, the cash value is the difference in the cost of future debt. Moreover, Coaches also help write dispute letters to correct errors; if successful, the dollar amount becomes cash value.	The cost difference produced from a change in credit score is projected over one year; the actual dollar amount of the dispute is wholly attributed.
DEBT	The face value of debt alleviated or debt service reduced by our financial coaching or legal intervention.	A Financial Coach helps a customer negotiate a lower balance or reduced interest rate.	The cost savings, up to one year, is calculated as cash value.
TAXES	The credits and refunds a customer receives due to the help or advocacy of a Clinic Attorney or Financial Coach after April 15th.	A Financial Coach assists a customer to file back taxes or amend past filings; the actual (not projected) refund is claimed as cash value.	The Clinic has secured nearly \$7.4 million in tax refunds in three tax seasons. Those refunds are not included in the analysis.

### 3. INTERSECTION OF FINANCIAL DEVELOPMENT AND CASH VALUE

From 2006 through 2010, Clinic Attorneys and Financial Coaches have conducted 8,760 unique (not duplicated) customer meetings for 5,784 customers who have met their Financial Coach two or more times. This resulted in 849 records of cash value derived—totaling just over \$2 million.

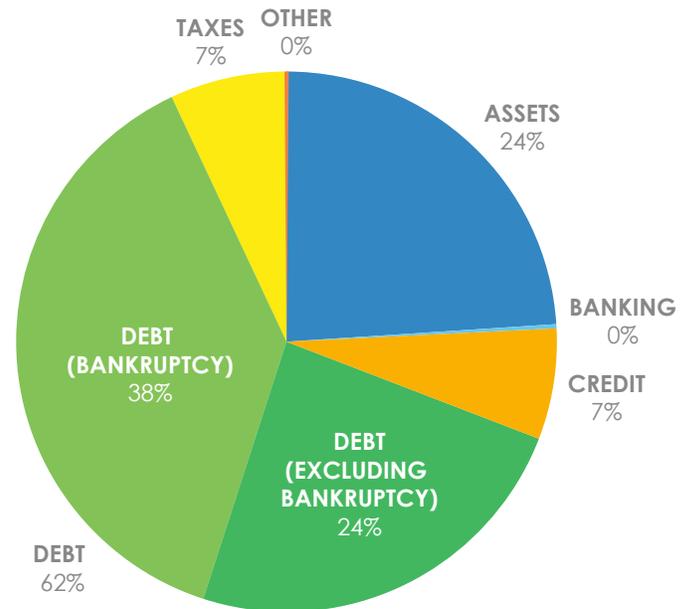
The Clinic has accomplished the following:

FINANCIAL DEVELOPMENT AREA	NUMBER OF RECORDS	CASH VALUE TOTAL	% OF THE TOTAL CASH VALUE	AVERAGE RECORD	MEDIAN RECORD
Assets	506	\$510,165	24%	\$1,008	\$300
Banking	41	\$6,452	0%	\$157	\$72
Credit	65	\$144,571	7%	\$2,224	\$676
Debt	163	\$1,345,647	62%	\$8,256	\$1,950
Taxes	61	\$157,848	7%	\$2,588	\$1,038
Other	13	\$4,787	0%	\$368	\$204
<b>Total</b>	<b>849</b>	<b>\$2,169,470</b>	<b>100%</b>	<b>\$ 2,555</b>	<b>\$481</b>

We were struck by the wide difference between the average and median figures. Even in our analyses that removed outliers, the disparity was persistent. We believe this reflects the wide range of customers’ needs and the Clinic’s corresponding assistance, but further research is needed.

#### CASH VALUE BY AREA

The Clinic’s largest gains were in debt alleviation, representing nearly two-thirds of the cash value of our services. This is largely attributable to our bankruptcy work. The second major concentration is savings, reflecting our mission’s belief that financial security pivots on consistent savings. Despite our customers’ low incomes and high debts, Clinic coaches encourage thrift through our message: “Savings is an activity, not an amount.”

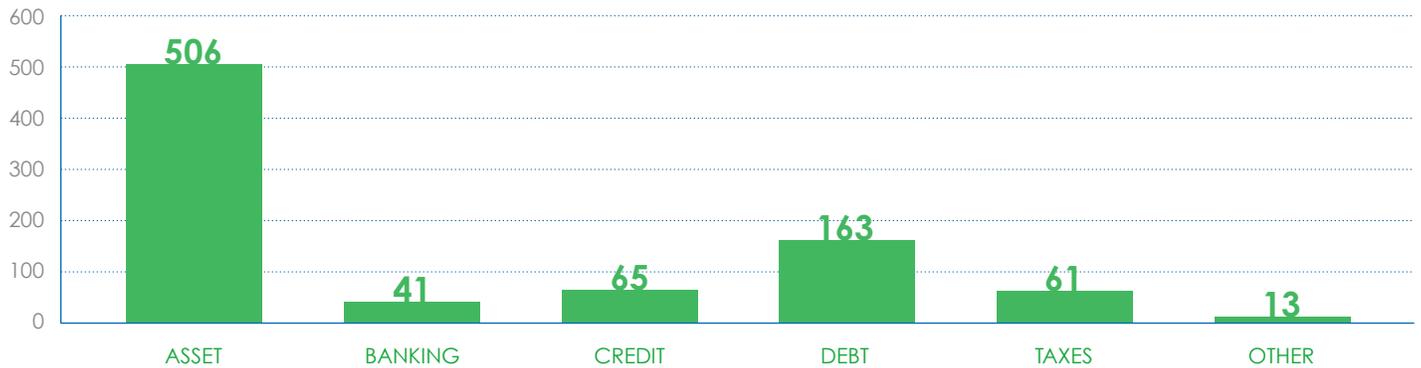


**CASH VALUE BY AREA**

**ONE-ON-ONE MEETINGS FOCUSED ON SAVINGS**

The majority of meetings revolved around asset building, resulting in \$510,000 cash value. While thrift is secondary to debt in terms of cash value measurements, there are many more instances of savings—506 records for saving, compared to 163 records for debt.

**NUMBER OF RECORDS**



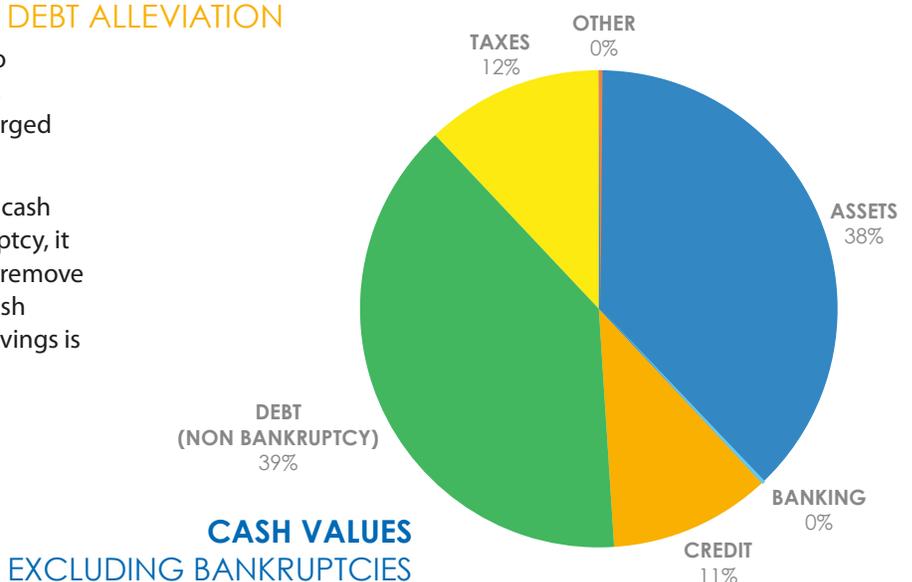
The clear majority of cases—54 percent—involved individual savings programs established for customers. Over the course of a year, working-poor customers averaged nearly \$900 in savings—a considerable amount, given our customers’ annual income average of \$19,600. Saving monthly at an annual rate of two percent over ten years, the Clinic’s customers will accrue an average of almost \$10,000. This accrual becomes an asset that may be used to buy a home, pay for education, or to establish a small business.

Clinic coaches generated another \$100,000 of miscellaneous cash value in the assets area, primarily by obtaining government benefits for income and work supports. These supports averaged over \$2,200 per record.

**MOST CASH VALUE RESULTS FROM DEBT ALLEVIATION**

About two-thirds of the cash value delivered to customers resulted from debt alleviation work, including \$825,000 that Clinic attorneys discharged through bankruptcy petitions.

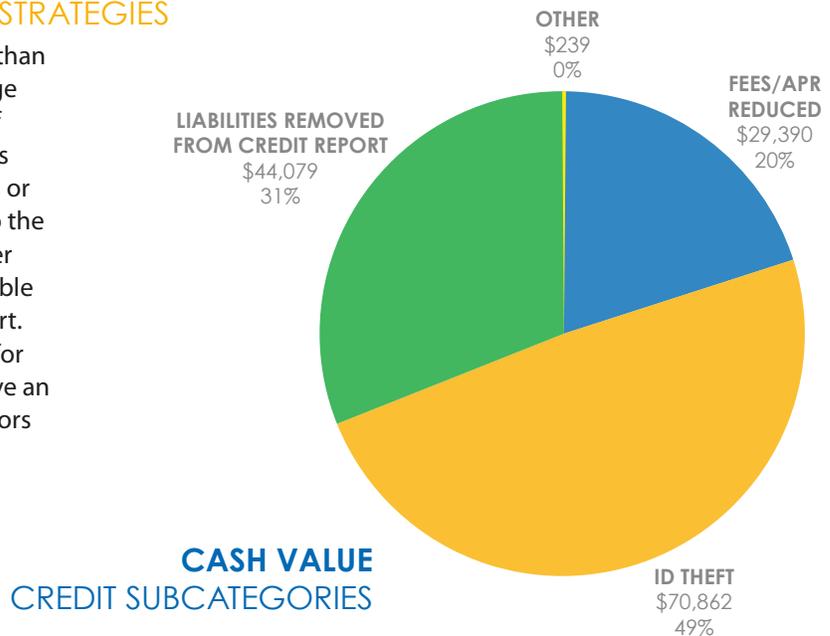
While debt alleviation is the largest area of the cash value behind our work, after removing bankruptcy, it looks closer to the savings segment. When we remove the bankruptcy debt from the entire pool of cash value, debt is recalculated at 39 percent and savings is a comparative 38 percent.



Removing bankruptcies from the analysis also produced an average and median that are more reflective of one another. The average debt alleviated without bankruptcies is \$3,192; the median debt without bankruptcies is \$993. Outliers persist, but not as dramatically skewed by debt discharges.

**DIVERSITY OF CREDIT COUNSELING STRATEGIES**

Credit advocacy and education resulted in more than \$140,000 recovered for customers through a range of diverse strategies. For instance, about a fifth of the Clinic’s customers averaged an annual savings of \$891 due to coaches helping them reduce fees or APRs. About half of cash value attained related to the discovery and resolution of identity theft. Another third reflected instances in which coaches were able to remove erroneous liabilities from a credit report. For affected customers, credit reports amended for accuracy increased credit scores, as well as remove an average of \$3,391 of debt that creditors and debtors may have pursued them to pay off.



**TAXES: ADVOCACY AND PREPARATION**

The Clinic’s tax assistance resulted in more than \$155,000 of added cash value for customers, or about 7 percent of the total cash value of our work. While some of this was achieved by preparing tax returns outside of the tax season (nearly \$21,000), much of the Clinic’s activities (36 out of 61 records) focused on coaching and legal advocacy work with the IRS and the New York State tax authorities. On average, the Clinic’s Financial Coaches secured \$2,500 per customer.

**THE SUPPORTIVE ROLE OF BANKING**

The cash value garnered in the banking area by the Clinic’s Financial Coaches was negligible, averaging less than \$200 per person. Even the total number of records—41, or 5 percent of the total—indicates banking is not an area of focus for generating immediate and tangible cash values.

Despite the low cash value, the Clinic’s collective experience points to a supportive though critical role that banking plays in helping customers save, receive tax refunds and generally become more financially secure. Moreover, helping customers make smart choices about banking options—by avoiding unnecessary ATM and overdraft fees, for example—do not represent activities that inherently have substantial money at stake, even when the costs are annualized.

**CONCLUSION**

Analysis of the Clinic’s cash value has reinforced our belief that the activity of savings is a necessary ingredient for financial security, regardless of the credit and debt issues that prompt customers to seek our assistance. The Clinic’s data does suggest that although credit and debt matters are what overwhelmingly draw customers to the Clinic, our coaches are sufficiently nimble to convince them that financial security also means work in assets, banking and taxes.

As we turn from the monetary quantification of our mission to an analysis of the Clinic’s outcomes (forthcoming), we will be keeping these observations in mind.



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