Financial Education as It Relates to CRA: Success or Failure?

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As we celebrate the fortieth anniversary of the CRA, I must begin by setting forth one of its primary purposes:

"The Community Reinvestment Act is intended to encourage depository institutions to help meet the credit needs of communities in which they operate, including low- and moderate-income neighborhoods, consistent with safe and sound banking operations." It was enacted by the Congress in 1977 and is implemented by Regulation BB.
The key words above are "...to help meet the credit needs of the communities in which they operate." Implicit in these words is the requirement to lend money to individuals within the communities. But if the individuals in the community have credit profiles that do not fit within "safe and sound banking operations," this primary mission of the CRA fails.

Banks too often express to me the inability to provide loans to individuals and businesses within their assessment area because they were not "sound loans" meeting their underwriting guidelines. My fear is banks can fulfill their CRA obligations and responsibilities by merely indicating, "We tried, but were unable to find bankable borrowers." I do recognize there are banks that are committed to educate and assist individuals and businesses to become stronger borrowers. Often, this assistance has been accomplished by providing grants, either directly or through their foundations, to nonprofit organizations to support financial education and coaching.

Although there are many aspects to CRA, this article is devoted to only one; to wit, has financial education had a positive effect on meeting the credit needs of communities as defined by the CRA? Many lenders have recognized this need and offer financial education and pre-purchase homeownership counseling accessible through the bank's website. In addition, they support HUD-approved nonprofit housing counseling agencies that provide the same services for group classes to fill the gap between the actual costs for counseling and HUD housing grants.

The question I now pose is, "Have these financial education efforts been successful?"

My analysis begins with the U.S. Congress and the Federal Reserve. In 2000, Congress requested the Federal Reserve study the CRA's effectiveness. The report recognized "...the difficulty of determining the CRA's influence on bank behavior..." as one of its conclusions and goes on to say, "Because financial and CRA incentives concurrently exist, it is difficult to separate how much influence should be attributed solely to CRA."[1] Unfortunately, this difficulty continues today.

In 2012, *The Journal of Financial Counseling and Planning*[2] raised the question of whether financial education changes behavior in low-income populations. As stated in their article "Translating Financial Education into Behavior Change for Low-Income Populations," "A number of financial education programs have been developed in recent years to address the financial education needs of low-income populations. However, research measuring the effectiveness of these (financial education) programs has not kept pace." Again, more effective ways to measure the success of financial literacy is needed.

In addition, there was "some" evidence that the amount of financial education received may result in improvement in financial behavior. Such programs had more success with those who began with lower levels of financial behavior. Given this finding, the real question becomes, "Even if this group improved, did the improvement rise to the level required to obtain credit?" (An interesting sidebar was that many of the training staff was low paid and having difficulty with their own personal finances.) That leads one to ask, "Who are the most effective counselors?" Are the best counselors ones who are most like the attendees or ones who the attendees can look up to as financially successful role models or ones with formal training? My experience as an attorney leads me to believe attendees learn best from those who are financially successful and properly trained.

In January 2015, the Congressional Research Service submitted a new report on the effectiveness of the CRA to Congress.[3] This report includes a section on the Congressional debate as to whether the CRA and subsequent amendments create incentives for banks to lend to unqualified borrowers, which may lead to losses. It also postulates that CRA is not providing enough incentives to increase the availability of credit, thus impeding economic recovery following the recession of 2007-2009. It further reasons there are other factors that influence banks' actions, policies and procedures when determining lending decisions to low- to moderate-income households.

In today's world, there is a movement towards financial coaching. I believe this approach is more meaningful, which will provide better results allowing success and effectiveness to be more easily tracked. Results of financial coaching are assessed through changes in three factors: credit score, amount of outstanding debt and amount of savings.

The Consumer Financial Protection Bureau (CFPB)[4] published findings in October 2016 that found coaching can help increase financial well-being. The CFPB based their findings on a research brief entitled *Financial Coaching: A*

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[1] Darryl E. Getter, "The Effectiveness of the Community Reinvestment Act, " Congressional Research Service, January 7, 2015, available at https://www.newyorkfed.org/medialibrary/media/outreach-and-education/cra/reports/CRS-The-Effectiveness-of-the-Community-Reinvestment-Act.pdf

[2] Angela C. Lyons, Yunhee Change and Erik Scherpf, "Translating Financial Education into Behavior Change for Low-Income Populations," Journal of Financial Coaching and Planning, Vol. 17, November 2, 2006, available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2232122

[3] Darryl E. Getter, "The Effectiveness of the Community Reinvestment Act, " Congressional Research Service, January 7, 2015, available at https://www.newyorkfed.org/medialibrary/media/outreach-and-education/cra/reports/CRS-The-Effectiveness-of-the-Community-Reinvestment-Act.pdf

[4] Consumer Financial Protection Bureau, "Financial Coaching: A Strategy to Improve Financial Well-Being," October 20, 2016, available at https://www.consumerfinance.gov/data-research/research-reports/financial-coaching-strategy-improve-financial-well-being/

Strategy to Improve Financial Well-Being[5] and a practitioner brief entitled *Implementing Financial Coaching: Implications for Practitioners.*[6]
As it relates to the primary directive of the CRA, the CFPB findings indicate:

1. Access to financial coaching resulted in measurable gains for the low- and moderate-income consumers in three areas:
    a. Money management
    b. Objective financial health metrics (savings, debt and credit score)
    c. Subjective feelings of financial confidence
2. Consumers have different levels of engagement in coaching based on needs
3. Financial coaching is customized to meet each person's goals

The CFPB in June 2017 issued another research report, *CFPB Data Point: Becoming Credit Visible.*[7] One of their conclusions is, "...consumers in lower-income areas are much more likely [than those in higher-income areas] to have their credit record created as the result of a third-party debt collection account or some other non-loan item, including a public record." Restated, lower-income consumers are more likely to become credit visible due to negative records such as a debt in collection.

As this finding relates to financial coaching, it demonstrates the initial baseline for low- to moderate-income individuals is different than other income classifications. As such, any financial coaching must be adjusted accordingly. It is important to include coaching on rebuilding credit, rather than building a credit profile or increasing a good credit score. This process normally increases the time to reach the level of "safe and sound banking operations" that will enable the individual to access bank credit.

Finally, the CFPB has researched the factors that make financial education effective and increase a consumer's financial well-being.[8] They are:

1. Know the individuals and families to be served;
2. Provide actionable, relevant and timely information;
3. Improve key financial skills;
4. Build on motivation; and
5. Make it easy to make good decisions and to follow through on them.

So where does this leave us with respect to the CRA's mission and purpose? Financial education in and of itself is most effective when it is coupled with additional follow-up. This is where financial coaching comes in. In 2016, the *Financial Coaching Consensus Report* indicated financial coaching has a very quick and dramatic positive effect,

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[5] Ibid.

[6] Consumer Financial Protection Bureau, "Implementing financial coaching: Implications for practitioners," Practitioner Brief, October 2016, available at https://s3.amazonaws.com/files.consumerfinance.gov/f/documents/102016_cfpb_Implementing_Financial_Coaching_Implications_for_Practitioners.pdf

[7] CFPB Office of Research, "CFPB: Data Point: Becoming Credit Visible," Consumer Financial Protection Bureau, June 2017, available at https://s3.amazonaws.com/files.consumerfinance.gov/f/documents/BecomingCreditVisible_Data_Point_Final.pdf

[8] Consumer Financial Protection Bureau, "Effective financial education: Five principles and how to use them," June 2017, available at https://s3.amazonaws.com/files.consumerfinance.gov/f/documents/201706_cfpb_five-principles-financial-well-being.pdf

which is easily measured through credit score, savings and debt.[9] This report indicates, "The vast majority of funders (77 percent), managers (69 percent) and coaches (78 percent) report that financial coaching improves their clients' financial situations."

Not to over simplify, but effective financial empowerment through financial education and coaching enables individuals to properly budget and determine if they have a deficit or savings at the end of each month. Financial coaches can easily work with people to set reachable financial goals to adjust their expenses and/or take steps to increase their income. Once an individual has additional disposable income, they can reduce their outstanding debt. This reduction in debt, with proper credit building counseling, will increase their credit scores. Higher credit scores will result in more available credit at lower interest rates with more credit options for the consumer. Simultaneously, the individual will have the ability to increase savings. Finally, as an advocate for homeownership, increasing one's credit score, decreasing non-mortgage debt and increasing savings will result in a profile considered to be a "safe and sound banking" profile – thus a win/win for consumers, depository institutions, lenders and communities.

It is clear to me that one of the most effective ways for depository institutions to obtain positive consideration on their CRA examinations is to support financial education coupled with financial coaching. This empowerment of individuals will result in banks ultimately being able to meet the lending and credit needs of their assessment areas. The current void experienced in many communities can easily be filled by partnering with nonprofit organizations to provide effective financial empowerment.

Banks should be positive and proactive to work towards ensuring their communities' credit needs are met by working to ensure that individuals and businesses in their target areas become safe and sound borrowers.

It is my conclusion that financial education coupled with financial coaching is an effective tool and a necessary requirement in today's environment to "meet the credit needs of the community" as required by CRA.

ABOUT THE AUTHOR

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[9] Asset Funders Network, "Financial Coaching Census 2016: A Progressing Field of Practice," 2016, available at http://assetfunders.org/documents/AFN-Financial_Census2016.pdf

ABOUT THE BOOK

This article first appeared in **CRA at 40: Views on the Present and Future of Community Reinvestment**, published by findCRA in November 2017. The book was created in celebration of the 40th anniversary of the Community Reinvestment Act. It tells the stories of community development, from the perspective of those working in our communities who bring their knowledge and passion to bear every day in confronting the most critical problems facing communities in need. The book is about real-world experiences told in plain language by those who live them to provide a lens for readers to see CRA at work, ideas for its future and most importantly, what it means in people's lives. To access the full text or order copies of the book, please visit www.findCRA.com/CRAat40.