

Notes from Presentation to the Governor's Poverty Council

Jim White (CVOEO)

Financial Future is CVOEO's program. It's called community economic development services at other CAAs, and **"asset building services" at the VT CAAs and across the country.**

They are called asset building services because their aim is to help people gradually build economic stability through wealth accumulation, which is a truer foundation for household financial stability than simply generating income. **We are especially interested in appreciating assets, like businesses, education, home purchases, savings and good credit.** More affluent classes understand that it's not what you earn, it's what you keep. We assume that the same applies to all.

Asset building at the CAAs is a **3-legged stool**:

- a. Micro Biz
- b. IDA
- c. Financial Empowerment Services – spending/credit/savings

All inter-linked. MBDP clients use IDA for funding businesses, take financial classes, and build credit. IDA clients start saving and then use Financial Empowerment services to access credit building products and support. Financial empowerment clients come in to fix their credit and then want to save in the IDA.

All of the asset building programs I'm going to describe are statewide services of Vermont's Community Action Agencies, although there are differences in nuances, and even specific services, regionally.

A. MBDP

The VT CAAs' Statewide Micro Business Development Program (MBDP) provides free business technical assistance (training and counseling) to low income Vermonters and has since 1989. We work in conjunction with many partners including social service agencies, state agencies, other business technical assistance providers and lenders, both alternative and traditional.

Many Community Action Agency activities are oriented to providing crisis-management services. MBDP's different task is to help low income people achieve financial stability and, over time, to build assets.

We are the only statewide program with the purpose and expertise to assist low income, disadvantaged residents to use self-employment as a means to build financial opportunity.

We target services in two ways:

1. First, we work with microenterprises, or those with 5 or fewer employees. (Types of businesses served cover the map, from cleaning to small construction, from food production to hair salons, from auto care to personal and business services.)
2. Second, we work with income eligible individuals.
(1 person = \$38,550 3 = \$49,500 4 = \$59,450)

Income is based on 80% of HUD median income for Vermont, but typically about 40% of our clients meet 100% federal poverty guidelines.

Our clients include single parents, people with disabilities, unemployed or low-wage workers, people on benefits, veterans, incarcerated and formerly incarcerated people, minorities, New Americans and women.

What MBDP Does

Many clients have little or no experience in running a business. We evaluate their readiness and develop needed skills. If they pursue their business, we guide them through a business and marketing plan, and help identify funding sources and prepare funding applications.

- Hands on: 1) literacy issues 2) No business experience or training

We also help clients get their credit in order.

After start-up, we continue to be involved, delivering technical support and/or providing referrals.

The types of businesses we work with range broadly, and a partial list would include cleaning, painting, cement work, carpentry, roofing, window repair, lead abatement, small farms, farm tours, pet care, upholstery, cafes, small markets, bakeries, lawn care, small retail stores, courier services, art and craft businesses, yoga studio, massage, hair salons, computer services, digital design, knives sharpening, auto diagnostics, auto glass service, and so forth.

Big picture outcomes provided by MBDP

1. **We level the playing field for self-employment.** By this I mean, we make business opportunities accessible to everyone, even those with little capital or education or credentials. This is important because business is one of the few real paths to wealth in our society, especially for people of limited means and education.

Added note: illiteracy is an increasing issue nationally and increases significantly as go down the income ladder. Fact is that many of our clients are borderline literate or illiterate. Without our help, could not deal with business plan, regulation forms, loan applications, etc. critical to start-up. Literacy problems would shut many low income people out of self-employment except for our intervention.

2. **In times of economic change, microenterprises are especially important.** Studies show that most new jobs in a downturn result from new business starts, not from existing businesses.

SBA data says that in 2011 the biggest growth in jobs in VT came from businesses with 1-4 employees.

MBDP is the only statewide program that focuses primarily on starting businesses.

Couple this with the fact that in a downturn, **low-income people have much higher unemployment rates** than middle and upper income people, and need jobs the most. **We focus our start-up services on those who most need them.**

Plus, microenterprises create jobs for others – at rate of 26% of starts. LI business owners tend to provide jobs for other LI people.

3. **We don't just start businesses and create jobs, we help people:**

- a. build income, not just gain skills (aver. gain \$11,800). For 1/3, primary source of household income.
- b. build assets, which is the amount of wealth they get to keep. Businesses could build equity
- c. building careers and lives, not just earn a wage.

4. **We create locally owned businesses** that pump dollars back into local economies. 22% of jobs in Vermont come from microenterprises. 60% of profits circulated and retained locally, versus 20% from chains and 6% from discount stores (Source: Nat. Main St. Center).

- For low income people as for people of any income, self-employment offers various ways of contributing to and being a respected part of community.
5. **Latest research** indicates there may be an educational advantage for households where there is a micro business owner, in that higher percentage of youth from these households attend college compared to youth in other households. (AEO's *Bigger than You Think*).

B. IDA – what is it? (started in 2000)

First real asset building program. (started in 2000)

- People save for up to 3 years.
- We match \$1,000 in savings 2 to 1 (total \$3,000)
- Match and savings go to 1) home purchase 2) post-secondary ed or 3) self-employment
- People must take financial education, produce an asset plan
- Must be at 200% of poverty and have earned income.

Publicity goes to the asset, but real value of the program is people's success in saving.

71% of participants are women. 29% had been in TANF and 11% were in TANF when they enrolled.

C. Financial Empowerment Program

Financial literacy became financial education. **Now called Financial Empowerment or Capability Services.** Education, yes, but leading to action and behavior change.

Target -- All IDA participants and many MBDP participants and many others in the community. At CVOEO, young people are the largest demographic at about 54%.

At CVOEO, over 650 households served per year for past 2 years and over 500 per year for the 6 years. There is clearly need for these services.

A. Classes and financial coaching

Spend

Credit

Savings and first time investing

B. Credit building – CBA, so can pull credit reports and scores. Link people to safe and effective credit building products.

C. Banking. Counter movement towards payday and title loan companies and prepaid cards. Serving unbanked and underbanked.

Many partners who recognize the value of this and lack the expertise use us. Reality is that asset building is getting rapidly integrated into more broad based programming

- Youth at risk (Spectrum)
- Education (VAL)
- Housing (CHT & COTs)
- Offender Services (Correctional Centers and offender reentry programs)
- Employers (United Way's Working Bridges Program)
- New Americans (AALV)

We are doing the work defined by the **federal Consumer Financial Protection Bureau**, which just published a draft curriculum called **Your Money, Your Goals, “a financial empowerment toolkit for social service programs.”**

D. Stats and success and numbers

Micro

Between 2010 and 2013, MBDP has annually averaged 97 business starts or expansions, 91 FTE jobs created, and \$880,152 in business capital accessed. The cost to the VT General Fund per job created was about \$3,200.

IDA (only 35 slots per year)

- The program has enrolled 1,300 participants

- Accumulated \$1,154,047 in savings and earned \$1,534,230 in match
- Participants made 851 matched withdrawals -- 485 (57%) have started or expanded their own businesses, 170 (20%) have become first-time homeowners, and 196 (23%) have pursued post-secondary education or training.

Financial Empowerment

GM annual surveys since 2009

2013 -- 67% met federal poverty guidelines.

Outcomes:

- 86% brought bills more current
- 52% told us they increased savings since services
 - 35% started to save for the first time
 - Of those who save, 32% saved the same amount every month for at least 6 months
- 45% reduced their debt
- 68% reported taking specific steps to improve their credit
- 45% reported increased use of banking institutions

Why are asset building programs effective?

1. They meet the individual where they are motivated to take steps. Identify and feed a person's motivation.
2. **They do this in a structured way, over time and using meaningful incentives to reach clear goals. Result is improved self-reliance and self-confidence. The result can be transformative for an individual.**
3. **Their ultimate purpose is to build assets, or net worth, not just income.**

This gives people a chance to move beyond the hand to mouth cycle.

4. **Focus on money makes things immediate and practical. Even the most vulnerable of Americans deal with money every day. Everyone relates to the subject. There is always a next step to talk about with money and there is a feeling of empowerment with every next step taken.**

E. New research on anti-poverty programs that are working

Lots of research underway – Citi/CFED/Annie E. Casey/Aspen Institute/Neighborworks, etc.

1. Karen passed out the CFED Research Brief about financial coaching for participants in a job training program.
2. Another handout re the Financial Capability Demonstration Project sponsored by Citi Foundation and Neighborworks America. P 6.

This latter show outcomes that are not far off from what we have found with our annual participant surveys for Growing Money.

3. Urban Institute article provides evidence that LI people can save, as if the national IDA program hasn't provided enough proof.
4. Mae Watson Grote piece is more of a big picture perspective. It argues for the integration of social services and financial services, and asks how we can pretend to address poverty and leave the need to build household financial stability out of the equation?

Behavioral economics is another field providing new research and tools for working with low income people.

F. State's approach to addressing poverty and how it might be improved

OEO is taking the lead within state government in applying asset building to very low income people. Pilots to integrate services, use incentives creatively, and do not exclude very low income and vulnerable people. Current pilots include:

- Family Supportive Housing
- Head Start Family Independence Pilot
- Opportunity Loan Fund
- TANF project in Barre

We need to interest more state agencies interested and involved in this work and in following OEO's leadership.

Other ideas:

- a. Recognizing that asset building services complement safety net services, AND LEND THEMSELVES TO INTEGRATION WITH OTHER SERVICES. Strongly encourage integration of asset services with traditional social services, such as at Reach Up and VR and even DOL.
- b. Moving beyond small pilots to help stabilize and build these services.
- c. Building capacity across the state
- d. Dealing with benefit cliff and savings limits attached to benefits – these are major impediments to saving
- e. Reducing rigidity. Rigid rules that mean someone \$100 over 125% of poverty limit is excluded from a pilot.
- f. Recognizing this is not a quick fix and we need longitudinal data. Reflects recent trend with services for the homeless that emphasize relationship building with clients rather than one time and task specific encounters.
- G. Properly funding the programs that work
- H. Expand state funding for IDA so that there are additional goal options and more participant slots.

