

# Background: Genesis and Replication of the Financial Empowerment Centers

Elaine Jones 18 May 2012

Historically, the topic of money has been taboo, reserved for intimate conversations within the family. Even as the Great Recession forces the majority of Americans to downsize and cut back, people continue to feel guarded about seeking assistance to address their own declining financial health. Yet, the wealthy are seeking financial help in droves - and doing so unapologetically - as they have seen their fortunes dwindle. In fact, according to the Bureau of Labor Statistics, the field of professional financial advisers is expected to grow 32% from 2010 to 2020. Yet, the hefty price tag associated with these services has left those most in need of financial services going without.

In Philadelphia, the financial situation is particularly dire. The city has had the highest poverty rate among the country's ten largest cities for the last twenty years. In the past three years, Philadelphians have seen an 8% decrease in their incomes, throwing them into an even more vulnerable financial state. Without a doubt, this tenuous economic landscape has necessitated the introduction of a substantial and innovative intervention.

Enter the Philadelphia Financial Empowerment Centers, a partnership between the City of Philadelphia and Clarifi, the region's leading non-profit agency for financial counseling. The initiative, funded by Bloomberg Philanthropies and Living Cities, replicates the success of New York City's Financial Empowerment Centers, which have helped more than 20,000 people improve their credit, open safe bank accounts, and reduce their debt since 2008. The Philadelphia partnership was one of five chosen from nearly 50 initial applicants, with the official award made in January 2013. The grant is for three years with funding to continue through late 2015. The centers expect to see over 9,000 Philadelphia residents in the next three years.

Clarifi is well-positioned to take on the task of helping the citizens of Philadelphia achieve financial health and maintain self-sufficiency. Founded in 1966 as Consumer Credit Counseling Service of Delaware Valley, Clarifi has its roots in serving people struggling with debt and credit. Last year alone, Clarifi held over 10,000 counseling sessions in debt management, credit improvement, homebuyer education, and foreclosure prevention. The Financial Empowerment Center initiative will further Clarifi's mission to create hope by helping people identify and secure the most important assets in their lives.

## **Measuring Success: Client Goals and Outcomes**

Much of the success of New York's Financial Empowerment Centers is tied to the measurement of outcomes: defined financial milestones that can be quantified over time and have the potential of affecting other services. In other words, if a counselor helps a client reduce debt, does that client then avoid homelessness? Is her need for other benefits reduced or eliminated? To that end, the initiative has outlined financial milestones and outcomes that counselors will work with clients to achieve:

*Banking:* Many lower-income residents have had problems with bank accounts in the past, or have few banks in their neighborhoods. Unfortunately, what are plentiful in these neighborhoods are marginal financial services: check cashing stores, rent-to-own stores, tax preparation companies hawking "refund anticipation loans" and other fringe financial services. The elderly are especially vulnerable to financial predators. The most recent scam is the "pension advance loan." Similar to a payday lender, the pension advance schemer convinces a retiree to take advances against pension payments. These "advances" are really loans with effective interest rates that can approach 100%. The City of Philadelphia and Clarifi are working with local banks and credit unions to develop products for citizens who may have had difficulty managing bank accounts or have never had an account. The Financial Empowerment counselor works with a client to establish a safe bank account and set up a savings

plan. The counselor follows the case for a minimum of three to six months to encourage the client to continue saving and provides budgeting advice as needed.

*Savings:* Regardless of income, many of us have trouble saving enough money. For those clients needing to improve their savings rate, the counselor will develop a detailed budget and savings plan. The benchmark for the program is for the client to achieve a consistent savings rate of at least 2% of net annual income. It may not seem like a high savings rate, but when most of the Center's clients are in debt or suffering emotional or financial crises, it can be a high bar. The counselor also provides ongoing support and counseling to assure that the client keeps that rate of savings for six months or more.

*Credit:* Credit problems can plague anyone, but people with lower income experience a higher percentage of credit issues. Financial Empowerment Center counselors help their clients achieve credit goals two ways: If a client has no credit, the counselor sources affordable secure credit cards to help establish a credit history. If a client has a blemished payment history resulting in a low credit (FICO) score, the counselor works with the client to pay off collection accounts and dispute any errors on the credit report with the goal of increasing the FICO score by at least 35 points. Counselors contact individual creditors directly to set up payment plans or resolve any differences. Again, follow up is a vital component of the counselor/client relationship. The counselor continues

contacting the client to provide guidance and support.

*Debt:* Debt collectors can be quite persuasive and persistent. Someone can be convinced to send money to a collector in cases where that debt may no longer be valid. Moreover, funds are scarce in many households in Philadelphia. A harassing collector can convince someone to send money when those dollars are needed for rent, food and other necessities. Financial Empowerment counselors have been trained in debt collection regulations and negotiation. The counselor first makes sure the client's debts are valid, and then works with the collector to negotiate a payment plan. At minimum, the goal is to reduce the client's overall debt by at least 10%.

## **Implementation of the Philadelphia Financial Empowerment Centers**

After the award announcement in January, Clarifi and the City had just two months to get the initiative off the ground and running. Clarifi hired a team of ten counseling staff and, together with the Community College of Philadelphia, trained the new staff on the fundamentals of personal finance, counseling and case management. The new counselors come from diverse backgrounds and have had careers in social work, teaching, banking, and community development. Several have advance degrees and are multilingual.

It was a hectic ramp-up to the launch. The City and Clarifi

designated six partner sites as the initial Financial Empowerment Centers. These locations had to be set up, and in some cases, renovated to make the space work-ready for the counseling. The sites are placed strategically across Philadelphia within communities that have the highest need. One of the sites is in the City's Municipal Services Building; other sites are integrated into partner organizations -- local social service nonprofits that provide crucial programs for the population. The site partners offer an abundance of services including immigrant rights representation, GED preparation, legal services, housing emergency services, and healthcare. An important piece of the initiative is to leverage social services among city agencies and service providers.

One key distinction of this model is that Financial Empowerment counselors are housed in the nonprofit partners and city agencies, not in Clarifi offices. The counselors become imbedded in those organizations, learning their programs and referring clients. They become part of the work family of those agencies, attending staff meetings and events, and building relationships.

In March, six Financial Empowerment Centers were officially launched throughout the city with an opening celebration attended by over 100 guests, including Mayor Michael Nutter and Patty Hasson, Clarifi's Executive Director. Since the launch, over 400 people have been counseled at the Centers. Many have returned for

additional counseling – a testament to both the need for financial education in our city and the skill and expertise of the counselors. Clients are making progress achieving milestones toward their goals.

Counselor Gary McLaughlin, a former social worker, remarked that his clients come to the session feeling “overwhelmed and often embarrassed about their finances. We have to work to evolve those feelings into confidence, optimism and strength through empathy and consistent support.”

Megan Lui, another counselor, stated that her clients are “eager to come back and are happy to see progress with their finances. They feel they have more breathing room.”

The partners in the initiative – Clarifi, the City of Philadelphia and the social service site partners – have been encouraged by the strong start the program has shown in the first two months. The Philadelphia Financial Empowerment Centers hope to emulate the success experienced by New York. Without a doubt, our residents need and deserve the help.

**Elaine Jones is the Counseling Program Manager for Clarifi and oversees the Financial Empowerment Centers in partnership with the City of Philadelphia. She has been with Clarifi for five years in various management positions and has an extensive history in credit and housing counseling. Prior to joining Clarifi,**

**Elaine spent 14 years as a mortgage underwriting manager with JP Morgan Chase.**