NOT GETTING ENOUGH CREDIT:

Exposing Credit Needs Among Opportunity Youth, and Introducing an Innovative Solution

Introduction and Acknowledgments

The following brief introduces MyPath Credit, the nation's first credit-building and saving model targeting low-income working young adults, and the results from its two-year pilot study conducted by University of Georgia (An, Lee, Larin and Caplan, 2017). With support from the Financial Capability Partnership Initiative, a project of the Federation and the Center for Financial Services Innovation, as well as JPMorgan Chase and the San Francisco Mayor's Office of Housing and Community Development, MyPath brought together strategic partners to test MyPath Credit. Year Up Bay Area (YUBA), a nationally-recognized youth leadership and employment program for low-income young adults ages 18-24, was selected as the program site. Self-Help Federal Credit Union, a leading community development credit union based in California, was selected as the financial institution partner, and University of Georgia was selected to conduct the study. To prepare partners, MyPath, a national nonprofit that promotes the integration of financial capability strategies into employment and workforce systems serving youth and young adults, provided technical assistance around planning; ongoing delivery and troubleshooting; financial curriculum; group and individual Financial Coaching; and data collection and outcome measurement. The pilot and related analysis took place from November, 2013 through December, 2015.

After providing financial coaching services at YUBA in 2011 and 2012, MyPath identified credit—both having no credit and having poor credit—as a barrier for many students in accessing internships, employment, housing and loans. Drawing on lessons from our coaching experience at YUBA and from our MyPath Savings model, we designed MyPath Credit to address this identified credit need with a financial product alongside the financial coaching. The goal was to support low-income working young adults to build credit, savings and financial confidence while they were participating in an employment training and placement program to boost their economic supports and outcomes. This brief presents an outline of the model components, as well as the groundbreaking results that were generated from the MyPath Credit pilot.

MyPath is grateful to our partners and funders for supporting this groundbreaking effort to address a pressing and largely unexamined need among this nation's low-income working young adults. We would also like to recognize MyPath staff that worked on this pilot, including Margaret Libby, Lauren Larin, and Shirley Yee, with special recognition for John Luna, MyPath's Financial Coach, for his deep commitment to this pilot; as well as other key partners, Chris Carmichael of YUBA and Jeannine Esposito of Self-Help, for their efforts to make this pilot a success. Finally, we recognize the young adults from MyPath and YUBA, who demonstrate the power of putting the right tools and information into the hands of young people.

MyPath Credit Purpose and Pilot Study Overview

While previous research and practice have found that building credit is often a challenge for low-income youth (Birkenmaier & Tyuse, 2005; Chenven, n.d.; Miller & Robuck, 2013; Retsinas & Belsky, 2005), the purpose of MyPath Credit is to support low-income working young adults to build savings, credit and financial confidence while they are earning their first paychecks. Doing so prevents the debt and credit issues that challenge so many low-income adults, and positions young adults for upward mobility. Strong credit paves the way for accessing employment, housing and quality loans, economic opportunities that poor credit can place out of reach. Saving and establishing an emergency fund, in the case of MyPath Credit a $500 emergency fund—which more than half of U.S. households lack (Steiner, 2016)—prevents the use of predatory credit, and creates a "savings muscle," a cushion to weather financial shocks, and a sense of financial security and confidence.

Financial confidence offers low-income young adults a relationship to their finances that is different than what they have typically experienced in their families. They are often first generation savers, first generation credit-builders and the first generation to feel a sense of control over their finances. Combining these financial outcomes with the power of a job placement positions low-income youth for upward economic mobility. Further, research demonstrates that children who grow up in households that save experience upward economic mobility (Cramer, 2009), meaning these young adults will likely raise economically mobile children. The pilot was designed to test the model's effectiveness at achieving these outcomes, and to generate lessons about optimal delivery strategies.

MyPath Credit Model Design

MyPath Credit includes group and one-on-one financial coaching, and a unique financial product that combines credit-building and savings features. The first group session introduces the concept of credit, its importance, and the MyPath Credit program as a way to build it. The second session supports participants to enroll in the financial product, a 12-month $500 loan, the proceeds of which are "frozen" in an account while youth make small monthly payments directly from their paychecks, which are reported to the three main credit bureaus. At the end of 12 months when the loan has been repaid, participants have $500 in savings and typically a FICO score ranging from 680-700 if they start with no credit. One-on-one financial coaching is available to all young adults that enroll for the duration of the 12-month program.

Based on insights from behavioral economics and MyPath's own research, MyPath Credit is designed to be integrated into existing youth employment programs serving low-income 18-24 year olds for four key reasons: (1) This integrated design makes enrollment easy and hassle-free for participants; (2) Given the lack of trust between many low-income young adults and the financial system, introducing the program in a trusted setting with trusted sources is critical for take-up; (3) The influence and support of peers is key and offers motivation and accountability among the cohort to support and sustain behavior change over time; and (4) The youth program offers a structure into which MyPath Credit can be integrated, making saving and credit-building feel like a natural part of the existing program and employment.

MyPath Credit Pilot Data Summary

This brief summarizes evaluation findings from the two-year pilot. The study had two main research questions:

1. How do participants credit scores change after 6 months and 12 months of MyPath Credit engagement?
2. How do participants' financial knowledge and attitudes change over the same time period?

Research Methods

This evaluation study assessed the success of MyPath Credit in promoting financial capability among young adults ages 18 to 24 using a pre- and post-test design for three cohorts of participants between September 2013 and September 2015. Participation rates in the MyPath Credit program among the Year Up students started at 25% and increased each cohort, closing out at 50% of the final cohort in the study.

Data Collection

MyPath Credit participants FICO credit scores were gathered at three different time periods: (1) during the first 3 months after a YUBA student enrolled in the MyPath Credit program prior to starting to make their first monthly payments; (2) after making 6 months of monthly payments of the credit-building loan (which normally happens between month 8 or 9 into the YUBA program); and (3) after completing 12 months of monthly loan payments (usually after the participant's graduation from the YUBA program). Credit score data were collected from three cohorts of YUBA students, a total of 121 students. Data on attitude and knowledge indicators were collected from one cohort at baseline and 12 months through a pencil and paper survey.

Study Participant Demographics

Average annual family income of the YUBA participants was $26,024 and the youth's personal annual income was $7,366. The YUBA family income figure is approximately half of Oakland's median income and nearly a third of San Francisco's (YUBA draws participants from both San Francisco and Oakland). Forty-five percent of the participants were female and 55% were male. Fifty-one percent of Year Up participants were African American; 16% were Latino, 14% were Asian or Pacific Islander, 6% were White, and 13% were other/unknown.

FINDING ONE: *Four in Five Low-income Young Adults Face Credit Barriers*

More than three-quarters of low-income working young adults (79.7%) in the study face credit barriers, either having no credit or poor credit. At baseline, 50.4% of participants had no credit score, or were unscorable and credit "invisible." This finding illuminates the Consumer Financial Protection Bureau's finding in its recent report, Data Point: Credit Invisibles (The CFPB Office of Research, 2015), that nearly half (4 in 10) of the country's 26 million credit invisibles are under age 25. Nearly a third of participants (29.3%) had "low credit scores" defined for this study as a FICO score of less than 680. This is a higher threshold than the industry's, as MyPath aims to move participants to 680 and above. Less than a fifth of participants (17.1%) had "good credit scores," defined as 680 or higher.

FINDING TWO: *MyPath Credit Improves Credit Scores*

After 6 months of participating in MyPath Credit, only 1.6% of the participants did not have a credit score, and over half had moved into the good credit category (53.7%). This half that moved into the good credit category are those that began as credit invisibles. The participants that began with low credit scores improved on average from 23 to 30 points.

The results of paired group t-tests on credit scores showed that there was a statistically significant increase in participants' credit scores between baseline and 6 months ($t(115) = -11.53$, $p < .001$), and baseline and 12 months ($t(112) = -10.76$, $p < .001$). There was no statistically significant difference in participants' credit scores between 6 and 12 months of MyPath Credit program ($t(110) = -.11$, $p > .05$).

FINDING THREE: *MyPath Credit Produces Emergency Funds*

Additionally, on average, the 121 study participants saved $500, or a total of approximately $60,500 during the pilot. Many young adults continued to save following the 12-month financial product term by keeping their auto-debit set up to make automatic deposits from each paycheck.

FINDING FOUR: *MyPath Credit Increases Financial Knowledge and Self-Efficacy*

There was a statistically significant difference in participants' financial knowledge between baseline and 12 months of MyPath Credit program, $t(75) = -2.13$, $p < .05$, with participants reporting higher level of financial knowledge compared to the level in baseline.

There was also a statistically significant difference in participants' financial self-efficacy between baseline and 12 months of MyPath Credit program, $t(74) = -2.81$, $p < .01$, with participants in the 12th month of MyPath Credit program reporting higher level of financial self-efficacy compared to its level in baseline.

Key Lessons from the MyPath Credit Pilot

LESSON ONE: *Credit is a major barrier facing low-income young adults.*

MyPath Credit pilot data reveals the severity of the credit barriers facing low-income working young adults in this country. Given the economic roadblocks associated with poor credit and no credit, it is staggering that four in five young adults in the study have no or poor credit. It is important to note that half of participants were credit "invisible," thus were able to see their credit scores jump by 680-700 points at 6 and 12 months.

LESSON TWO: *With the right tools, low-income young adults can build credit and save.*

Upon program completion, MyPath Credit participants established $500 in savings and improved their credit scores and financial confidence. When the opportunity to save and build credit is well-designed and integrated into the program setting, youth will engage. Take-up rates increased from 25% in the first cohort and closed at just over 50% with the final cohort. This increase speaks to the desire among students for this kind of opportunity and also the way that its appeal gradually increased, as students talked about it and eventually began encouraging each other to enroll, viewing it as an additional benefit of the YUBA program.

LESSON THREE: *Credit-building and saving can be effectively integrated into an employment program for young adults.*

MyPath Credit's design and its accompanying technical assistance for program site and financial institution partners effectively reduced the obstacles that research has identified as challenges youth face in accessing credit. MyPath's technical assistance supported YUBA staff to introduce Credit components at the right touch-points in its existing program, and supported Self-Help to adjust its enrollment process to reduce obstacles. These efforts to integrate the model components and make enrollment hassle-free resulted in positive experiences for young adults.

LESSON FOUR: *Once employed and financially capable, young adults seek continued financial advice.*

While we saw statistically significant improvements in financial knowledge and confidence among participants, this new financial capability often resulted in continued interest and engagement with MyPath's Financial Coach. Many students continued to reach out via email, text, and in-person to ask about next steps, how to evaluate car loans, and saving for a mortgage—indicating that once a low-income young adult is employed and financially capable, they want and benefit from ongoing financial advice and support. We believe this engagement also speaks to the importance of relationship-building and the right Financial Coach (Libby, 2016).

Next Steps from the MyPath Credit Pilot

The MyPath Credit pilot and study has uncovered the magnitude of the credit barrier facing low-income working young adults in this country, and introduced an innovative solution with powerful outcomes. With proof of concept established and key lessons learned, we are turning our focus to designing MyPath Credit 2.0, an iteration of the model that combines technology and peer relationships with financial access, with an eye toward expanding our reach. As always, MyPath is engaging young adults as partners in design to ensure continued relevance and impact. We are also engaging in additional research to better understand the ongoing needs of young adults and the longer-term impact of building credit, savings and financial confidence on employment and on economic well-being more broadly.

We hope this brief will generate more interest in this pressing need among low-income young adults, as well as increased investment in additional research and technology development, in particular when it involves young adults. We look forward to engaging more policymakers, funders, practitioners, young adults and other stakeholders as we move to build more partnerships to address this opportunity gap with youth-driven scalable solutions. Without solutions—access to tools that enable saving and borrowing—low-income young adults are largely shut out of opportunities to access opportunity, i.e. employment, housing and college, all key drivers of financial security and economic mobility. While we have identified some critical early lessons about an effective approach, there is more work to be done to ensure broad access to such tools and pathways for working low-income working young adults across the country.

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