



A NEW FRAMEWORK FOR ACHIEVING HOUSEHOLD FINANCIAL SECURITY

For the majority of middle- and low-income families in America today, wages are stagnant, savings are minimal and the practice of financing current consumption by taking on debt has become the dominant strategy for making ends meet. By the first quarter of 2010, nearly 56% of all consumers had subprime credit scores,¹ a condition that directly impacts everything from their capacity to access quality employment and rental housing to their ability to qualify for affordable credit, banking services, car and mortgage financing.

The extent of financial distress among U.S. households is alarming, and there is no silver bullet strategy that can fix the problem. Families face hard choices when trying to balance their short- and long-term financial needs. All too often, what is convenient or accessible as a short-term solution – such as a payday loan or a credit card – makes the situation worse in the long run. And plans to save for an emergency fund, a child's college education or even a home remain unrealized.

In order to help families move up the economic ladder, we need a clear understanding of the many factors that contribute to either building up or eroding the financial security of households, and how these factors are related to each other.

CFED has developed a **Household Financial Security Framework** to help us think through what it takes, at the household level, to build financial security over time. Reducing poverty and achieving financial security and empowerment is a dynamic process in which households iteratively gain skills, increase income, begin to save, leverage saving into assets and protect gains made along the way. The Framework's focus on the household provides a universal lens that we can all look through. From there it is possible for any organization – government, nonprofit, philanthropic or private sector – to identify the specific ways their work contributes to the financial betterment of families. The framing fosters cross-sector communication and also helps people understand why and how their work is connected from the vantage point of the household, as well as how they may be able to build additional financial security supports into existing programs serving low- and moderate-income families.

Using the lens of this Framework, it is possible to look holistically at whether the needs of households in your community are being met. Once you have identified the particular household strengths and needs in your community, you can look at the services and infrastructures currently available to households and try to find the gaps. Are there needs that are going unmet? Are there services that are being provided that are not being leveraged? What partnerships could be formed to better serve households?

In order to help families move up the economic ladder, we need a clear understanding of the many factors that contribute to either building up or eroding the financial security of households, and how these factors are related to each other.

¹ TransUnion Trend Data (Q1 2010). Defined as TransUnion TransRisk scores lower than 700. Based on earlier analysis of TransRisk Scores, we know that in some cities *nearly three quarters* of consumers have subprime credit.

HOUSEHOLD FINANCIAL SECURITY FRAMEWORK

LEARN

Knowledge and skills that enable navigation of and success in markets (labor, financial) have a direct bearing on financial security

- **K-12 & Postsecondary Education:** Basic literacy and math skills, plus commitment to lifelong learning are critical for employment and advancement
- **Financial Education & Counseling:** Timely, relevant, accurate information on basic budgeting, taxes, financial products and services, and use of credit
- **Asset-specific Education:** Preparation for homeownership, business ownership, postsecondary education, and financial investments

Assets can increase income and earning capacity

EARN

Wage Income
+ Business Income
+ Public & Employee Benefits
+ Tax Credits
+ Investment Income

= **Income**

Ability to Maximize Income Depends On:

- Access to *reliable* **basic goods and services** (housing, transportation, medical care, child care, food)
- Available quality **job and business opportunities**
- Access to **public benefits and tax credits** (e.g., EITC, Child Care)
- **Asset ownership** (higher education, home, business, financial investments)
- **Knowledge and skills** related to work, taxes and benefits

SAVE

Income
- Current Consumption
- Debt Payments

= **Savings**

Ability to Save Depends On:

- Access to *affordable* **basic goods and services** (housing, transportation, medical care, child care, food)
- **Debt reduction**
- Convenient, low-cost **financial products** (transaction and savings vehicles, credit and insurance products)
- Convenient, affordable **financial structures** (e.g., direct deposit, automatic enrollment, online banking, bank location)
- **Knowledge and skills** related to money management, financial products, and credit building and repair

INVEST

Savings
+ Borrowing
+ Public Incentives

= **Assets**

Ability to Build Assets Depends On:

- **Price and appreciation of assets** (higher education, home, business, financial investments)
- **Affordable financing**
- Access to **public incentives** (e.g., downpayment assistance, gov't loan guarantees, tax incentives, Pell Grants, IDA/CSA match)
- **Knowledge and skills** related to asset purchase and management

PROTECT

Gains must be protected against loss of income or assets, extraordinary costs, and harmful or predatory external forces

- **Insurance (public or private):** Protects against loss of income or assets as well as against extraordinary costs (e.g., unemployment, disability, life, health/medical, property)
- **Consumer Protections:** Protect consumers from discriminatory, deceptive and/or predatory practices (e.g., redlining, predatory mortgage lending, payday lending, banking practices)
- **Asset preservation:** Depends on government policies (e.g., community investments, blight ordinances, foreclosure prevention) and market conditions

The Framework on the opposite page is meant to describe the cycle of asset building and financial empowerment from the household perspective. Households need enough income to finance basic consumption and pay down debt with enough left over to save for the future. Once savings have accumulated, they can be invested in assets, which can then help households boost their incomes through increased earning capacity or income-generating dividends or profits. Throughout the cycle, access to insurance and consumer protections help households protect the gains they make. This is an ongoing process in which each component contributes to the next and the household's overall ability to become financially stable. The Framework describes the key variables, activities, conditions and supports that allow households to:

- **LEARN:** People need to have a wide range of knowledge and skills in order to successfully navigate job markets, manage their personal finances, and succeed in the labor, business and financial markets. They gain these skills through formal education (K-12, postsecondary education and beyond), financial education and counseling, and training on purchasing and maintaining assets (homeownership counseling or small business training).
- **EARN:** Households obtain income generally through wages, business profits, investment income and public benefits. The ability to maximize their income depends on the quality of those opportunities, having access to the benefits for which the household qualifies, and the knowledge and skills to navigate and access available income opportunities. In order to consistently perform their jobs and operate their businesses, households also need access to reliable basic goods and services, such as food, housing, transportation, child care and medical care.
- **SAVE:** In order to save, households must have income left over after meeting basic consumption needs – such as food, housing, transportation, child care and medical care – and paying down debt. They also need the budgeting skills and financial knowledge necessary to manage their finances and credit and reduce debt. To convert that disposable income into savings, households must also have knowledge of and access to convenient, low-cost savings products and structures, such as transaction and savings vehicles, short-term credit products, and infrastructures like direct deposit and automatic enrollment in savings plans. These infrastructures can support continuous savings behavior, helping households grow savings over time.
- **INVEST:** Households typically invest and grow their wealth by leveraging savings accumulated over time with debt financing and public incentives in order to purchase assets such as a home, higher education, financial investments, or a business startup or expansion. In addition to their own personal savings, their ability to make these asset purchases depends on the cost of the asset they are purchasing, their credit score and ability to access affordable financing, their access to public incentives (like down payment assistance, government loan guarantees, and tax benefits for homeowners and retirement savers), and training that supports specific asset investments, like homeownership counseling, business training, academic preparation, and investment advising and financial coaching.
- **PROTECT:** Throughout the cycle, households need protection against loss of income or assets, extraordinary costs, and harmful, discriminatory or predatory external forces. Financial setbacks due to loss of income- or wealth-building assets can be significantly diminished or even avoided if households have access to adequate, affordable and fairly priced insurance products (such as health, unemployment, disability, property and life insurance), as well as consumer protections from discriminatory, deceptive or predatory financial products and practices, and asset preservation opportunities such as foreclosure prevention programs and counseling.

In addition to describing the connections between learning, earning, saving, investing and protecting, the Framework highlights the critical importance of delivering essential services to households and how those services, such as public benefits, child care, affordable housing or matched savings, contribute to the overall financial well-being of the household. Also crucial are the larger systems and infrastructures, both policy- and market-based, necessary to facilitate entering and staying in the economic mainstream.

ADDITIONAL RESOURCES

In addition to this Framework, CFED has developed resources that provide data containing a snapshot of the financial security and stability of households at the national, state and local levels. These tools are designed to help fuel a productive and focused conversation about the conditions of financial insecurity and inequality in a community. They contain information that helps leaders at the state and local level take action to address those conditions through policy and program strategies, and to do so by working across traditional silos. These resources can be used to assess the particular household financial strengths and needs in the geography of interest.

ASSETS & OPPORTUNITY SCORECARD

The *Assets & Opportunity Scorecard* is a comprehensive look at wealth, poverty and the financial security of families in the United States. The *Scorecard* assesses the 50 states and the District of Columbia on 58 performance measures, which describe how well residents are faring, and 34 policy measures – including 12 policy priorities – which describe what states can do to help residents build and protect assets. These measures are grouped into six categories: Financial Assets & Income, Businesses & Jobs, Housing & Homeownership, Health Care, Education, and Community Investment & Accountability Policies.

The *Scorecard* provides an assortment of research and advocacy tools to aid leaders, advocates and researchers to better interpret and understand the data and explain the economic realities for households across America. These tools include State and Asset Poverty Profiles, which provide a snapshot of a state's performance on each measure. Policy Briefs and Resource Guides explain the 12 priority policies, describe what constitutes a strong policy and provide examples of successful policy change strategies.

For more information, visit <http://scorecard.cfed.org>.

LOCAL ASSETS & OPPORTUNITY PROFILES

CFED's newly developed Local Assets & Opportunity Profile is a practical and useful data tool that enables local leaders in the public, private and nonprofit sectors to understand and assess the state of household financial security among residents, thereby helping to identify areas where additional intervention is needed. The Profile includes a set of over 60 data indicators across seven categories that document and assess the current conditions of financial security, economic opportunity, financial access and behavior, as well as disparities in outcomes across the population on key indicators. This core set of data indicators is meant to serve local leaders as a diagnostic and planning tool in support of their work to improve and expand the financial stability of low- and moderate-income residents in their communities.

For more information, visit http://cfed.org/policy/local_policy_advocacy.

ABOUT CFED

CFED (Corporation for Enterprise Development) expands economic opportunity by helping Americans start and grow businesses, go to college, own a home, and save for their children's and own economic future. We identify promising ideas, test and refine them in communities to find out what works, craft policies and products to help good ideas reach scale, and develop partnerships to promote lasting change. We bring together community practice, public policy and private markets in new and effective ways to achieve greater economic impact.

www.cfed.org