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Improving Financial Literacy: The Role of Nonprofit Providers

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The published version of this Working Paper may be found in the 2011 publication: *Financial Literacy: Implications for Retirement Security and the Financial Marketplace*.

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Abstract

Nonprofit organizations are one of the primary channels through which financial literacy services are delivered to lower-income adults in the US. There are several reasons why the nonprofit sector is involved in promoting financial literacy, including perceptions that nonprofit organizations are objective sources of information and that they are accessible to lower-income individuals. Using tax records, we identified over 2,100 nonprofit entities with programs related to financial literacy. The nonprofit financial literacy field is heterogeneous, which hinders our ability to make generalizations about this field as a whole. Nonetheless, nonprofit entities focused solely on financial counseling and money management appear to be smaller than organizations for which financial literacy services are secondary activities. Despite the breadth of financial literacy programming within the nonprofit sector, few studies have analyzed the impact of financial literacy services provided by nonprofit organizations.

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Financial Literacy: Implications for Retirement Security and the Financial Marketplace

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Chapter 15

Improving Financial Literacy: The Role of Nonprofit Providers

J. Michael Collins

In the United States, financial literacy interventions for lower-income adults are often delivered by nonprofit organizations. These interventions include financial education programs, financial counseling services, and other programs designed to increase consumers' financial capacity (Vitt et al., 2005). The provision of financial literacy interventions by the nonprofit sector contrasts with services available in the for-profit sector, which provides financial planning services, and with financial literacy efforts in the public sector. The role of the nonprofit sector in the area of financial literacy is important to understand in the context of public policies and strategies designed to promote financial literacy. This chapter reviews the reasons why nonprofit organizations are involved in the provision of financial literacy interventions and provides a brief overview of the development of the nonprofit sector in this field. Next, using tax records, we attempt to frame the scale of the nonprofit financial literacy industry. The chapter then turns to studies about the effectiveness of financial literacy interventions delivered by nonprofit entities, discusses trends in this field, and concludes with implications for the future.

Defining financial literacy, education, and counseling

The concept of financial literacy has become increasingly prevalent in research on consumers' financial capability. Financial literacy is a commonly used term but arguably an imprecise one. The concept of financial literacy borrows from the reading literacy field, in assuming that literacy can be taught and measured. Unlike reading literacy, however, there are no broadly accepted criteria for measuring financial literacy. The President's Advisory Council on Financial Literacy (2009) defines financial literacy as, 'the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being'. Thus, financial literacy is not simply a basic understanding of terms and definitions, as the Council's definition highlights the importance of being able to incorporate financial knowledge into one's decisions and behavior. For this chapter, financial literacy is defined as a set of financial skills that informs decisions, affects behavior, and ultimately leads to financial security over the life course.

The distinction between financial education and counseling is not always clear. Financial education typically means group seminars or classes in which financial information is provided to participants. Financial counseling generally refers to one-on-one advice or consulting, often provided before an impending decision or in response to a financial problem. Nonetheless, financial counseling sessions may incorporate more general educational topics and materials, and participants in financial education programs may have personal issues or questions that the educator or their peers address. The advent of telephone and Internet services further blurs the distinction between financial education and counseling. As financial education and counseling overlap in practice, this chapter refers to these modes interchangeably unless otherwise noted.

Nonprofit provision of financial literacy services

Nonprofit organizations are unusual because they are often defined by what they do not do—that is, generate profits for owners and shareholders. Even the term 'nonprofit' may cause some confusion, as nonprofit organizations may in fact generate accounting profit. The defining characteristic of a nonprofit organization is the principle of nondistribution of profits. In the United States, nonprofits are defined by the Internal Revenue Service's (IRS's) interpretations of the tax code (Internal Revenue Service, 2008). The tax-exempt status of nonprofit charitable organizations is enumerated under section 501(c)(3) of the IRS code. Nonprofit organizations are distinct from private foundations, and nonprofit entities must not benefit private interests. If a nonprofit organization engages in transactions that generate excess benefits for a person who has substantial influence over the organization, then the IRS may impose an excise tax. In addition to the prohibition against accruing excess personal benefits, nonprofit organizations are restricted but not entirely prohibited from engaging in political activities. The public's support for a nonprofit organization must be fairly broad, and must not be limited to a few individuals or families. Churches and religious organizations may operate similarly to 501(c)(3) organizations without the formal tax status designation, although some of these organizations may form other entities under the tax code to deliver services beyond religious functions.

There is an extensive literature on the role of nonprofits in the United States across a range of programs and policy contexts. Although this chapter by no means attempts to summarize all of the literature on nonprofits, some insights from past research are helpful for understanding why nonprofits are engaged in promoting financial literacy. In a widely cited study, Rose-Ackerman (1996) identifies three major economic functions of nonprofits. First, nonprofit managers are not motivated by the need to return profits to owners or shareholders. Second, because nonprofit managers are not motivated to seek profits, consumers may select nonprofit goods and services because they believe that nonprofit organizations have little incentive to misrepresent their services. Therefore, an organization's nonprofit status serves as a quality signal in environments where consumers recognize information asymmetries and therefore distrust private-sector providers. Third, nonprofits may provide more diverse services than the services provided in other sectors, as the nonprofit sector allows individuals with extreme or unpopular ideas to develop and advance their ideas or services outside of the pressures of the market or political economy. In such cases, nonprofit entities may be better able to meet the needs of people who are otherwise underserved by the private market.

An alternative approach by DiMaggio and Anheier (1990) examines nonprofits from a sociological perspective. The authors review the historic development of nonprofit organizations, which arose out of the Gilded Age to confront urban problems, while also defining and protecting the boundaries of social classes. Over time, nonprofits evolved from charities that worked with the underclass to organizations that perform functions that typically fall under the purview of government. Similar to Rose-Ackerman's later insights (1996), DiMaggio and Anheier (1990) observe that nonprofits offer an avenue for pluralism in civil society by providing services to subsets of the public that are not represented by the median voter. Because nonprofits exist outside of government, they may have a greater desire and ability to test innovative policy interventions. In turn, the public sector may later adopt and expand programs and interventions that prove successful in the nonprofit sector.

Weisbrod (1997), a long-time scholar in the area of nonprofits, explores the growth in the use of nonprofits for delivering public programs and policies both domestically and abroad. His work presents a number of critiques and challenges for the nonprofit sector. As the nonprofit sector has grown, it has become more reliant on public funds, corporate grants, and program-related revenue and less reliant on charitable donations. This shift away from charitable contributions could potentially erode consumers' perceptions that nonprofits are more objective and less biased than for-profit entities. Nonprofit organizations have also increasingly entered markets in the pursuit of revenue. Nonprofits that enter new markets may potentially disrupt the sectors of the economy that were already engaged in those markets. Finally, a lack of market or public accountability may result in nonprofits interfering with public and for-profit responses to society's needs.

The nonprofit sector's involvement in the financial literacy arena reflects this literature. First, nonprofits that offer financial literacy programs are often perceived as having no vested interest in consumers' financial choices. Unlike for-profit financial institutions, nonprofits are less likely to benefit from steering consumers to particular financial decisions. The role of nonprofit organizations as unbiased and objective sources of information may serve as a quality signal for consumers and donors, and might facilitate subsidies from the public sector. Second, nonprofits can potentially serve consumers whose financial literacy needs fall outside the scope of services provided by the public and for-profit sectors. In practice, this role often takes the form of community-based organizations using geographic proximity or existing social relationships to deliver services to lower-income, minority, or culturally distinct populations. These efforts may increase the perception that nonprofit organizations are readily accessible and may lower barriers to entry into services for populations that are otherwise underserved.

Roles of nonprofits in providing financial literacy interventions

Nonprofit organizations are highly heterogeneous in terms of the services they provide and their positions in the broader economy. Nonprofits that provide financial literacy programming appear to comprise an especially diverse group of organizations. As such, making generalizations about financial literacy efforts in the nonprofit sector is infeasible. However, even stylized facts about the nonprofit field and its involvement in efforts to promote financial literacy should prove useful in understanding the potential contributions of the nonprofit sector to this field. Nonprofits engaged in promoting financial literacy range from small community-based organizations whose volunteers conduct educational workshops, to large multiservice agencies that offer intensive ongoing programs with professional staff.

Few nonprofit organizations have been established to deliver financial literacy explicitly; rather, most nonprofit agencies engaged in efforts to promote financial literacy became involved in this field over time. Furthermore, many nonprofit organizations in this field are associated with a particular funding source and/or type of service. For instance, the US Department of Housing and Urban Development (HUD) housing counseling program has existed for several decades and has funded more than 1,000 nonprofit organizations that provide financial education or counseling related to housing (Herbert et al., 2008). In addition, the Assets for Independence (AFI) program of the US Department of Health and Human Services has funded nearly 300 nonprofit organizations that provide matched saving accounts, also known as Individual Development Accounts (IDAs). Most of the organizations that administer IDAs through the AFI program provide or even require some degree of financial literacy education or counseling (Office of Community Services, 2008). With the goal of increasing consumers' capacity to utilize banking services, the Community Reinvestment Act of 1977 gives financial institutions incentives to provide financial support to nonprofit organizations that focus on bolstering consumers' banking and borrowing literacy. In terms of examples of support from entities outside of the public sector, the National Foundation for Credit Counseling has provided an accreditation system for nonprofit financial counseling agencies since the 1950s, in part to offer standards and credentials across organizations, as well as to provide a forum for collective advocacy with financial institutions and policymakers. In each of these cases, however, the financial education is linked to a particular product or industry segment, rather than to support the development of general financial education.

A growing number of government policies mandate financial education and counseling services within certain contexts. In turn, nonprofit organizations commonly provide programs that fulfill the financial education and counseling requirements enacted by the government. For instance, under the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005, individuals must receive financial counseling before they can file for bankruptcy in court and must participate in financial education after filing. Approved nonprofit organizations must provide these financial counseling and education services. Housing is another area in which the government mandates financial counseling in particular circumstances. Throughout much of the 2000s, the government-sponsored enterprises Fannie Mae and Freddie Mac required financial counseling before approving mortgages that fell under certain guidelines. Fannie Mae and Freddie Mac's housing counseling requirements spurred the growth of nonprofit financial counseling providers.

Human services agencies, including agencies that provide unemployment assistance, food assistance, and family services, may also incorporate financial education or counseling into their programs. For example, in some areas nonprofit educators under contract with the Supplemental Nutrition Assistance Program, previously known as the Food Stamps Program, engage in budgeting exercises with the goal of helping clients save money and afford healthier food. Overall, nonprofit organizations that provide financial literacy services in response to government policies must deliver financial education and counseling services that fulfill the legislative mandates. However, their programs often address broader financial topics as well.

Beyond financial education and counseling programs that are tied to specific mandates or funding streams, some nonprofit organizations are engaged in the provision of more general financial literacy services. These programs are often taught in a classroom or seminar format with the goal of increasing participants' financial knowledge across a range of topics including credit, banking, taxes, and saving. Programs may be offered in a variety of contexts and settings, including public spaces, workplaces, and schools. Typically, group education seminars or workshops focus on particular financial topics. One-on-one counseling is delivered either face-to-face or via telephone, in response to an acute crisis or to address specific issues.

Costs of providing financial education and counseling services

It is tempting to assume that the nonprofit delivery of financial education and counseling services is less costly than the provision of the same services by the private for-profit sector (due to the elimination of profit margins) or by the public sector (due to increased efficiencies in service delivery, which include closer proximity to targeted populations and the use of donated labor and materials). Nevertheless, the extensive empirical literature on the costs of service delivery across the nonprofit, public, and for-profit sectors yields mixed results for an array of industries, including healthcare and legal services (cf. Rose-Ackerman, 1996). While no studies have compared the costs of financial literacy services across sectors, the findings from more general analyses remain informative. Few studies conclude that nonprofit entities provide services at lower costs than the for-profit sector, although several studies indicate that nonprofits provide higher-quality services at similar costs. In some cases, the literature suggests that no discernable differences exist in cost or quality across sectors. Nevertheless, lower costs are not a primary finding in the literature on the benefits of nonprofits. Therefore, until studies specifically compare the costs of financial literacy services across sectors, the more general literature indicates that nonprofit financial education and counseling programs are likely not less expensive than the services that the for-profit and public sectors provide.

Estimating the costs of nonprofit financial literacy services is an interesting yet elusive empirical issue in search of reliable data. While evidence in this area is small in scale and unpublished, a few studies have attempted to quantify the costs of various financial education and counseling programs. As these studies tend to employ different accounting methods, comparing findings across studies is challenging (Dylla and Caldwell-Tautges, 2009; Gabriel and Todd, 2010). One method of estimating the costs of financial literacy service delivery is to refer to the standardized cost measurement systems used by public pension systems (CEM Benchmarking Incorporated, 2010). According to one summary of thirty-five state pension programs, the median cost for one-on-one counseling was $138, and the median cost for group presentations was $54 per client in 2009. These figures are consistent with estimates from the housing and credit counseling industries, as well as with estimates derived from HUD-housing counseling funding levels and the number of clients served by these funds (Mayer et al., 2009).

Prior research on nonprofit delivery of financial literacy

Few studies explicitly examine nonprofit providers of financial literacy services, and many of the studies we identified for this chapter appear only as working papers or as reports, and have not been published in peer-reviewed journals. One wide-ranging report by Vitt et al. (2000) describes over eighty financial education programs operating in the early 2000s. Primarily based on case studies, this report demonstrates the breadth of financial education activities in existence. A range of institutions, including human services agencies, housing organizations, nonprofit credit unions, and faith-based organizations, are described in this report. Most of the twenty-nine community-based financial literacy organizations they identified were founded since 1998, and local governments or public–private collaboratives established many of these organizations. Vitt et al. note that these initiatives are often organized under complex coalitions of partners, and that about one-third of the groups they identified focused on homeownership education. Consistent with the theories about the role of nonprofits in the economy, many organizations in their report served populations with special needs. The typical organization provided 9–12 hours of education per client, although some programs were much more intensive. Compared to the financial education and counseling field as a whole, the programs in their report likely provided relatively longer and more intensive services because of the high proportion of homeownership programs included in their report. Homeownership programs often include multiple sessions delivered over a number of days or weeks. Vitt et al. also describe the frequent use of lay volunteers or pro bono professionals as program instructors or guest speakers. Some of these volunteers or professionals may have a vested interest in client outcomes. For example, bankers and real estate agents may be experts on buying and financing a home, but they may also have incentives to promote particular services and service providers.

Most of the remaining studies about nonprofit financial literacy services examine particular facets of financial education or counseling programs. For instance, Herbert et al.'s paper (2008) on housing counseling tracks HUD-certified nonprofit housing counseling providers. The authors estimate that 1.7 million individuals received housing education and counseling through the 1,800 HUD-certified nonprofits in 2007. The authors surveyed a sample of these organizations and found that HUD funding represented the largest source of revenue for most of these organizations. The survey also indicated that about three-quarters of the HUD-certified nonprofit counseling agencies had fifty or fewer employees and served fewer than 1,000 clients per year. Seventy-seven percent of the HUD-approved housing counseling agencies reported offering financial literacy education.

As noted earlier, most of the organizations that administer IDAs through the AFI program provide or even require some degree of financial education or counseling. One study found that most of the nonprofit organizations (79 percent) that received AFI funding offered general financial literacy services (Office of Community Services, 2008). A survey of ninety-one AFI-funded programs documented how often the organizations covered specific financial topics. Budgeting and credit management were the most common topics the organizations covered, followed by saving and banking. It is notable that the topics covered by the AFI-funded entities extended beyond mere information and definitions. The programs also covered attitudes, goals, and even values. In fact, more organizations addressed financial values and goals (86 percent) than homeownership (66 percent) or retirement (37 percent). The typical AFI-funded program provided 5–12 hours of financial education, and 80 percent of the organizations also offered financial counseling.

Trends in nonprofit providers of financial education and counseling

In order to describe the field of nonprofit providers of financial literacy services, one can link administrative data from the IRS to data from GuideStar, which provides information about nonprofits. Working with the National Center for Charitable Statistics, GuideStar receives images of tax forms directly from the IRS and then posts them online. Public charities with incomes in excess of $5,000 must file IRS Form 990 or 990-EZ each year. Every private foundation, regardless of income, must file IRS Form 990-PF. Data from the forms are digitized, searchable, and may be downloaded. Besides providing financial information, each organization lists its tax-exempt purposes or the mission of its four largest programs using the National Taxonomy of Exempt Entities Core Codes (NTEE-CC). This hierarchical system classifies organizational activities into ten major categories and dozens of subcategories. Along with each organization's name, its mission statement, comments from its financial statements, and descriptions of its programs, the NTEE-CC codes can also be searched.

In general, data from IRS forms are considered reliable and accurate (Froelich et al., 2000). Because the dates of nonprofit organizations' fiscal years differ, filing dates for the IRS forms vary. Organizations may have an additional six months to file their Form 990 if they receive extensions, and it may take GuideStar up to six months to digitize the IRS data. Therefore, data lags of up to two years are possible. Our analysis draws on tax records from June 2007 to May 2009. The data exclude smaller organizations (gross receipts under \$5,000), which are not required to report to the IRS, and organizations with less than \$25,000 in annual gross receipts that lack full financial and programmatic information. The GuideStar dataset offers little information about religious entities, regardless of size, because they are not required to file with the IRS. However, some religious organizations voluntarily choose to file with the IRS and may be represented in the data. Other challenges arise from the fact that the NTEE-CC codes may be overly broad and from the possibility that organizations with many programmatic activities may not list codes associated with their secondary activities.

The data in this analysis were downloaded for the specified date range using these search terms: 'financial literacy', 'financial education', 'financial counseling', 'credit counseling', and 'housing counseling'. These searches were designed to identify common descriptive phrases (e.g., 'financial literacy') such that the universe of organizations engaged in financial literacy services would be flagged. A total of 2,218 unique organizations were identified out of the 1.9 million tax-exempt organizations in the GuideStar dataset. By comparison, 'poverty' and 'health' generated 6,056 and 124,752 results, respectively. If more than one record for an organization was available, only the record from the most recent tax year was retained.

Table 15.1 displays the NTEE-CC codes at the highest grouping level for the 2,218 organizations. Three-quarters (74 percent) of the organizations in the dataset are classified as human services agencies. Together, education and public benefit programs account for just 16 percent of the organizations in the extracted dataset. The majority of the remaining organizations were either uncoded or health-related entities.

Table 15.2 displays the program category codes for each organization's major programmatic activities. Only the ten most frequently cited codes are included in the table, and less common codes are aggregated into the

TABLE 15.1 GuideStar records for tax-exempt organizations by National Taxonomy of Exempt Entities—Core Codes (2007–9)

NTEE-CC[a]	Number	Percentage
Arts, culture, humanities	24	1.1
Education	162	7.6
Environment	3	0.1
Health	54	2.5
Human services	1570	73.8
International affairs	7	0.3
Public benefit	188	8.8
Religion related	22	1.0
Unclassified	3	0.1
Missing	95	4.5
Total	2,128	100.0

[a] National Taxonomy of Exempt Entities—Core Codes.

Source: Author's calculations; see text.

TABLE 15.2 GuideStar records for tax-exempt organizations by program category (ten most frequent, 2007–9)

Major program category code	Number	Percentage
Financial counseling/money management	847	39.8
Housing development	97	4.6
Human services: multi	35	1.6
Community/neighborhood development	40	1.9
Human services: Other	482	22.7
Education: Other	32	1.5
Housing: Other	31	1.5
Housing rehabilitation	25	1.2
Homeless	28	1.3
Family services	25	1.2
Other	486	22.8
Total	2,128	100.0

Note: Program categories based on National Taxonomy of Exempt Entities—Core Codes.

Source: Author's calculations; see text.

'other' category. Forty percent of organizations listed 'Financial Counseling/Money Management' as a programmatic activity. Listing a code is a choice that each organization makes. Organizations with multiple activities may not list every programmatic code. This is clear when examining the remaining 60 percent of the programmatic codes. The largest share of the 1,281 organizations that were not coded 'Financial Counseling/Money Management' listed a human services code (482 organizations, which accounts for 23 percent of the total and 38 percent of the organizations

TABLE 15.3 Financial literacy extract from GuideStar records by IRS tax status (2007–9)

Tax status	Number	Percentage
501(c)(14) Credit unions	7	0.3
501(c)(19) Post or organizations of war veterans	2	0.1
501(c)(3) Private nonoperating foundation	71	3.3
501(c)(3) Private operating foundation	20	0.9
501(c)(3) Public charity	1,990	93.5
501(c)(4) Civic leagues and social welfare orgs	25	1.2
501(c)(6) Business leagues, etc.	11	0.5
501(c)(7) Social and recreation clubs	1	0.1
501(c)(9) Employees associations	1	0.1
Total	2,128	100.0

Source: Author's calculations; see text.

that were not coded as 'Financial Counseling/Money Management'). The 'Other' category covers 486 of the 2,128 organizations (23 percent). This finding suggests that organizations with financial literacy search terms are engaged in a wide range of programmatic activities. While one might predict that the 'Financial Counseling/Money Management' code would encompass the entirety of the financial education and counseling field, relying on this code alone would not capture all of the organizations with mission statements or program descriptions that discuss financial literacy services. In the end, the NTEE-CC code alone is insufficient for capturing the extent of the financial literacy services delivered by nonprofit organizations, as approximately 60 percent of organizations do not fall under the 'Financial Counseling/Money Management' code.

Table 15.3 lists the IRS tax status of the extracted organizations. Nearly all of the organizations (94 percent) are public charities under Section 501(c)(3) of the Internal Revenue Code. Three percent of the organizations, or just seventy-one entities, are private non-operating foundations, which grant money to other charitable organizations. Only twenty organizations (1 percent) are private operating foundations, which fund in-house charitable programs, rather than making grants. Only a small number of other legal forms of organizations are identified in the dataset. Thus, most nonprofit organizations identified as financial literacy service providers are charities in the narrow legal sense, as opposed to other forms of not-for-profit organizations.

Finally, Table 15.4 displays financial data on organizations categorized by NTEE-CC program code. The data include median total revenue, median total expenses, the ratio of revenue to expenses, and the ratio of administrative expenses to total expenses. Note that data were available for only 1,426 out of the 2,128 organizations (67 percent) that were initially identi-

TABLE 15.4 Financial literacy GuideStar records median dollar value of reported revenue, expenses, and administrative cost to total expenses ratio by organization category (2007–9)

Program code	Revenue ($)	Expenses ($)	Revenue expense ratio (%)	Administrative expense ratio (%)	Number reporting
Financial counseling/ money management	260,913	594,480	44	17	394
Housing development	1,433,816	1,168,027	123	16	91
Human services: multi	893,748	938,600	95	14	24
Community/ neighborhood development	1,787,428	1,569,170	114	17	35
Human services: Other	1,102,373	1,251,253	88	15	411
Education: Other	255,450	281,096	91	10	17
Housing: Other	591,464	599,135	99	16	28
Housing rehabilitation	1,431,309	1,834,142	78	14	23
Homeless	665,780	678,046	98	15	28
Family services	528,852	486,380	109	21	24
Other	602,830	685,182	88	17	351
All codes (median)	699,699	855,583	82	16	1,426

Note: 702 organizations in data did not report selected financial variables.

Source: Author's calculations; see text.

fied—meaning the remainder of organizations failed to meet the $25,000 threshold for reporting and selected not to report detailed expenses. Median expenses exceeded median revenue in eight of the eleven program codes. Among all of the 1,426 organizations, median revenues are 82 percent of expenses—and as low as 44 percent for organizations that fall under the Financial Counseling/Money Management program code. Median administrative costs range from 10 to 21 percent of total expenses across the program codes. Housing rehabilitation, neighborhood development, and human services organizations are the largest entities in terms of median revenue and expenses. Financial Counseling/Money Management organizations are relatively small in terms of their median revenue and expenses and, as mentioned earlier, organizations with this program code have the smallest ratio of revenue to expenses (44 percent). Note also that only 394 out of the 847 (47 percent) organizations with the Financial Counseling/Money Management program code in Table 15.2 reported financial data on IRS Form 990. The fact that only 47 percent of these organizations met the minimum threshold for reporting their financial data (an annual gross revenue of $25,000) suggests that many of the Financial Counseling/Money Management organizations in the GuideStar dataset are small legal entities without significant activities.

Because of the methodology used to extract the data, the time lags associated with filing IRS forms and posting them online, and the nature of the IRS reporting requirements, one must be cautious in interpreting these findings. Nevertheless, the general patterns appear to suggest that organizations focused exclusively on Financial Counseling/Money Management have fewer resources than organizations for which financial education or counseling is a secondary activity. It also appears that Financial Counseling/Money Management organizations generate less revenue than organizations that fall under most other program codes. This finding may reflect the fact that this field is relatively new, or it may signal a lack of sustainable resources.

Literature on the impact of financial education and counseling provided by nonprofits

There is a growing literature on the impact of financial education and counseling, much of which centers on programs operated by nonprofit agencies. For example, Zhan et al. (2006) analyze financial education programs operated by ten nonprofit agencies associated with the Financial Links for Low-Income People program in Illinois. The sites provided 12 hours of financial education to individuals with incomes less than 200 percent of the poverty level. Participants completed forty-eight true–false and multiple-choice questions in pre–post surveys. The questions covered five areas the authors identified as important to low-income individuals: predatory lending, public and work-related benefits, saving and investing, banking, and credit use and interest rates. Participants' financial knowledge scores increased by 20 percentage points to a mean of 74 percent, more than a one-third marginal increase. However, the study did not utilize a comparison group, which raises concerns about the magnitude of the findings.

Another illustrative example is Sanders et al.'s evaluation (2007) of a financial education program delivered in two battered women's shelters. Women in two similar shelters with comparable populations comprised a comparison group. The financial education program consisted of four 3-hour sessions that focused on money and power, developing a cost-of-living plan, building and repairing credit, and banking and investing. A thirty-five-item pre–post questionnaire was used to measure changes in financial knowledge and attitudes. The comparison group's mean score did not change from pre- to post-test, and the treatment group's mean score increased by 5 percent (at the margin). While the use of a comparison group marks an improvement over descriptive studies that lack such a group, this study highlights another common problem with evaluations in the field—attrition. Only 57 percent of women completed the post-test; furthermore, pretest scores were significantly different between women who completed the post-test and those who dropped out of the study.

Clancy et al. (2001) use a quasi-experimental exposure model to analyze fourteen nonprofits in the American Dream Policy Demonstration. Funded programs offered IDAs, which are subsidized saving accounts available to low-income households. The number of required hours of financial education varied across the sites, which allowed the authors to estimate the effect of each additional hour of financial education on participants' deposit frequencies and average monthly net deposits. Data on these two outcomes were obtained from depository institutions up to 3 years after enrollment in the program. From 0 to 6 hours, each additional hour of financial education is associated with a \$1.24 increase in monthly net deposits and from 7 to 12 hours a \$0.54 increase, and diminishing and inconsistent effects occur beyond 12 hours. From 0 to 12 hours, each additional hour of financial education is associated with a 2 percent marginal increase in deposit frequency. However, clients who seek more financial education may be more motivated and likely to succeed, so these estimates may overstate financial education's causal effects.

Elliehausen et al. (2007) evaluate nonprofit credit counseling using a quasi-experimental design. Five nonprofit agencies administered counseling in person or over the telephone. All of the clients participated in an initial 60–90-minute session, and some clients participated in more than one counseling session. The comparison group comprised noncounseled borrowers who lived in the same zip code and had similar credit profiles as the treatment group. While the initial analysis indicated that counseling led to significant improvements in credit scores, the estimated effects decreased sharply after controlling for selection effects. Among counseled borrowers in the lowest credit score quintile, credit scores increased by less than 1 percent more than the comparison group. This evaluation design not only illustrates how researchers can use credit bureau data to assess behavioral outcomes associated with nonprofit programs, but also highlights the need for a very large sample when attempting to model selection processes.

More recently, Carswell (2009) surveyed 1,720 mortgage borrowers who had participated in nonprofit prepurchase housing counseling in Philadelphia. This evaluation is notable because the survey was administered 5 years after counseling. In view of the lengthy follow-up period, the 24 percent response rate (405 responses) is low, but still quite remarkable. Over 72 percent of respondents reported they had no difficulty paying their mortgages, 85 percent reported they prioritized mortgage payments over other bills, and 64 percent reported they had made financial sacrifices since becoming homeowners. As twenty-six counseling agencies were involved in the evaluation, Carswell analyzed whether agency characteristics were associated with the outcome measures. However, this portion of the analysis yielded few statistically significant findings, other than some evidence that borrowers with more financial problems attended more intensive services, consistent with selection effects.

Turning to postpurchase homeownership counseling, Collins (2007) analyzes nonprofit financial counseling for mortgage borrowers in default. The dataset comprised 299 clients who received face-to-face and/or telephone-based counseling. The author consulted public records to determine mortgage outcomes six to nine months after counseling. Because the number of hours in counseling could be endogenous with loan outcomes, the author constructed an instrumental variable using the number of marketing materials the city used to promote counseling in each zip code. This instrument proved correlated with the number of hours in counseling but uncorrelated with individual foreclosures. The analysis indicated that counseling reduced the probability of negative foreclosure outcomes.

One of the only studies that explicitly compares nonprofit financial counseling/education delivery to other forms of service delivery was conducted by Hirad and Zorn (2002), who evaluate prepurchase homeownership counseling's impact on ninety-day mortgage delinquency rates. Their dataset allowed them to compare a nonrandom comparison group to individuals who participated in four different modes of counseling: in person, classroom, home study, and telephone. Face-to-face counseling was associated with a 34 percent reduction in delinquency, while classroom and home study counseling were associated with 26 and 21 percent reductions, respectively. Nonprofit education/counseling resulted in even greater effects, but further analysis shows that this relationship is a result of the mode of delivery. For instance, classroom education provided by a lender, public agency, or nonprofit organization yields similar effects, regardless of which type of agency runs the program. When selection effects are modeled, only classroom education is linked with a decline in delinquency, with no effects for type of provider.

Overall, the evidence of the effectiveness of nonprofit programs is not robust. It is possible that current counseling models are delivered in such crisis moments (e.g., foreclosure) that they fail to impact behavior significantly. Likewise, education models may be too shallow and lack opportunities for practice and follow-up. The lack of robust findings may also be attributable to problems in evaluation design. Most importantly, existing studies often suffer from selection effects due to a lack of random assignment. Seeking out and completing financial education or counseling may be endogenous with outcome measures in unobservable ways. Meier and Sprenger's research (2008) has important methodological implications in this regard. The authors offered a short credit education workshop at a tax preparation site. On the basis of a time preference survey, individuals who were most future-oriented were also the most likely to agree to attend the workshop. The authors conclude that if 'the measured effects of financial information interventions do not rely on randomization, then their observed educational effects are most likely overestimated' (Meier and Sprenger, 2008: 4).

Together, the findings from the studies discussed earlier are consistent with the notion that the most motivated consumers enroll in financial literacy programs. These consumers may already be the most likely to demonstrate knowledge gains and behavior changes relative to nonparticipants, regardless of the intervention. Given that few studies use randomized designs, it seems likely that many evaluations overestimate program impacts. Furthermore, reliance on self-reported outcomes raises concerns about response bias, in which participants select desirable survey answers. Because many studies rely on self-reports collected at the point of service, service providers could overtly or subtly guide respondents to particular survey answers, which would also upwardly bias results.

To the extent nonprofit organizations are the setting for research into the effects of financial literacy services, the length of the follow-up period is important to consider. Short follow-up periods allow researchers to capture immediate effects, but they hinder researchers' ability to capture more permanent outcomes. However, longer follow-up periods can exacerbate the problem of attrition bias, as fewer baseline respondents can be traced. Lengthier follow-up periods entail higher costs, which may be a greater burden for nonprofit organizations than for the for-profit and public sectors. Nonprofit organizations often have high staff turnover rates, which can hamper tracking clients and even disrupt program implementation. Any program evaluation with two or more data collection points requires clients' cooperation, administrative procedures for following-up with nonrespondents, and in some cases incentives (sanctions) for client compliance (noncompliance) to minimize attrition.

A final consideration relates to the degree to which one expects consumers' behavior to change when nonprofits provide financial information or advice. A number of competing factors could impede even a knowledgeable consumer from making optimal financial decisions. There are several examples in which financial education is one component of a larger program, including homebuyer education and matched saving initiatives. In such programs, financial information conceptually enhances the effectiveness of the primary intervention. Alternatively, auxiliary programs could be created to complement financial education and enhance consumers' ability to act on newly gained information. For example, to the extent a lack of self-control prevents consumers from changing their behavior, an ongoing financial coach could help clients set and monitor goals. Providing services that directly complement financial education may prove more effective than the provision of financial education alone.

Components of leading programs

As the field develops and matures, best practices will emerge concerning what content is best matched to various types of learners and what modes of service delivery are well received by learners. Unfortunately, no existing research clearly documents the relative efficacy of different content areas. Discussions with community-based educators, as well as a review of widely used curricula, indicate that nonprofit financial education and counseling programs tend to cover a set of key financial topics. Currently, nonprofit organizations tend to focus on broad concepts and rules of thumb, as opposed to specific financial strategies. Content is not strictly knowledge-based but also focuses on self-awareness of financial attitudes, with an eye toward preventing or improving negative financial behaviors. Areas highlighted by existing programs include (*a*) developing goals, which helps people take control of their financial choices; (*b*) budgeting, which promotes monitoring spending in order to save and pay off debt; (*c*) managing credit, which includes repairing past problems and reconfiguring existing liabilities; (*d*) accessing financial services, which includes opening and utilizing transaction and saving accounts, as well as borrowing; (*e*) income tax preparation, which includes strategies for using a refund and ways to take advantage of tax provisions; and (*f*) saving for the future, including maximizing access to retirement and other benefits, as well as targeted saving products. Most but not all programs cover these topics. Some nonprofit programs are beginning to cover topics such as investing, insurance, disability claims, and other topics of interest to lower-income adults, but most remain focused on basic budgeting, credit, and saving. These content areas are distinct from the issues and topics covered by private financial planners. Issues such as risk tolerance, portfolio allocation, and estate planning seem more likely to be handled by private for-profit providers than by nonprofit programs. While these divisions may change over time, it does not appear that a high degree of overlap or competition exists between for-profit and nonprofit providers of financial literacy services.

The direct and indirect evidence suggest that financial literacy programs systematically attract people with specific risk and motivation profiles into particular modes and durations of education and counseling (Meier and Sprenger, 2008). For example, clients who can navigate the logistical challenges of attending lengthy face-to-face services are likely highly motivated. In contrast, clients mandated to enroll in web-based seminars may have less interest in sustained behavior change. While some practitioners may be eager to work with highly motivated clients, mandated clients will display a range of motivation levels and will include individuals who otherwise would be difficult or even impossible to reach. Nonprofit programs will be better able to tailor their outreach efforts and services as selection effects are better understood. By reviewing the characteristics of clients who enroll in each type of service, programs will be in a better position to match services to clients.

Conclusion

This chapter began with questions about the role of nonprofits in the economy and the scale of nonprofit organizations' involvement in financial literacy services. While there is little prior research in this area, we draw on analyses of related not-for-profit organizations to argue that nonprofits are less likely to have incentives to mislead consumers, and that nonprofits can meet the needs of populations underserved by public programs and the private market. Our analysis of IRS data suggests that approximately 2,100 nonprofits in the United States provide financial literacy services. Of these, about two-thirds were active enough that they had to report their revenues and expenses to the IRS. It appears that entities focused principally on financial counseling and money management are smaller and less financially viable than other more diverse organizations, for which financial literacy services are secondary activities.

Our review does not provide much evidence that nonprofit financial education and counseling services have strong impacts on financial behavior. However, in light of the scale and capacity of many programs, it should come as no surprise that few nonprofits have participated in large-scale program evaluations. Existing studies are marred by selection bias, a lack of longitudinal data, and attrition. In particular, studies using quasi-experimental approaches generally find that program impacts are modest. Yet even in nonprofit settings, randomized waitlists or other innovative research designs could allow researchers to identify comparison groups without withholding services from clients. The use of administrative or institutional data can mitigate the problems of client cooperation at follow-up. Accordingly, nonprofit programs could engage in more carefully designed and implemented evaluations in the future. If a goal is facilitating behavior change, more focused interventions may be required, including ongoing counseling, financial coaching, or peer-to-peer services.

In 2009, the US Treasury Community Development Financial Institutions Fund launched the Financial Education and Counseling Pilot Program. This is a new federal effort to award grants to nonprofits that provide financial literacy services for prospective homebuyers. The explicit focus on nonprofits and financial literacy is consistent with the continued use of this sector to deliver financial education and counseling. The continued expansion of federal subsidies will help this field build capacity over time.

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