Center for Social Development
GEORGE WARREN BROWN SCHOOL OF SOCIAL WORK

Financial Capabilities of Service Providers

Results of an Online Survey of the Asset-Building Field in Washington State

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2011

CSD Working Papers
No. 11-03

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Washington University in St. Louis

Acknowledgements

This study is part of a larger research effort commissioned by Burst for Prosperity, an initiative sponsored by the Children's Home Society of Washington, and funded by the Northwest Area Foundation. In addition, the author acknowledges the support and contributions of the Washington Asset Building Coalition; Diana Dollar, Karan Gill, Jennifer Thacker and Julie Watts from Burst for Prosperity; Michael Sherraden, Margaret Sherraden, Margaret Clancy, Julia Stevens, Carrie Freeman and Bob Zager from the Center for Social Development; and Sally Kakoti who was the research assistant for this study.

Financial Capabilities of Service Providers: Results of an Online Survey of the Asset-Building Field in Washington State

This mixed-methods study was commissioned by Burst for Prosperity to explore and describe the state of asset building in Washington State. Among the objectives of this research endeavor was to explore the financial capabilities of service providers in the asset-building field, particularly service providers' level of financial and debt literacy, their personal financial practices, and their level of comfort and preparedness to work on the financial aspects of their clients' lives. The study found that respondents in the asset-building field had very positive self-assessments of their financial capabilities and the vast majority reported high levels of functioning across the different financial practice domains. However, the level of financial literacy among respondents was no better than the general population. Much work remains to improve the financial capabilities of service providers.

Key words: *Financial capabilities, service providers, asset building, financial literacy, financial practices*

Executive Summary

Background and Purpose

To succeed in today's post-industrial economy, people must continually invest in themselves and expand their capabilities. While income is important for consumption, it does not in of itself enable people to improve their circumstances over the long term. Development occurs through asset accumulation and investment. Assets provide individuals with control over resources, financial security, and the ability to meet unanticipated lumpy costs. Assets also facilitate investments in future aspirations, and enable people to seize opportunities that might otherwise be closed to them. Asset building is therefore about helping individuals create, manage and protect a pool of resources or assets that could be used to improve, enhance, and transform the economic futures of these individuals and their families.

The first asset-building program in Washington State, in the form of Individual Development Accounts (IDAs), was rolled-out by six community-based organizations serving 12 counties in the year 2000 (Center for Social Development, 2008). Since then, the asset-building movement has grown and expanded across the entire state. While the number of asset-building programs and services has been growing steadily in the State of Washington, little is known about the asset-building field.

Burst for Prosperity commissioned a mixed-methods study to explore and describe the state of asset building in Washington State in September 2009. Among the objectives of this research endeavor is to explore the financial capabilities of service providers in the asset-building field, particularly service providers' level of financial and debt literacy, their personal financial practices, and their level of comfort and preparedness to work on the financial aspects of their clients' lives. Service providers in the asset-building field play a critical role in helping their clients achieve valued economic outcomes, and it is incumbent on them to ensure that they have the skills and knowledge required to maximize the likelihood of success for their clients (Gambrill, 1999, 2006). Little, however, is known about the financial capabilities of the service providers, or about how comfortable and prepared they are to work on the financial lives of their clients.

Specifically, the objectives of this study are to:

1. Explore service providers' self-assessed level of financial knowledge and financial management abilities;
2. Describe service providers' financial and debt literacy levels;
3. Describe service providers' financial behaviors; and
4. Describe service providers' perceived level of comfort and preparedness to deliver asset-building services

This study is part of a larger research initiative commissioned by Burst for Prosperity to explore and examine the asset-building field from both service providers' and clients' perspectives. The research is funded by the Northwest Area Foundation, with the Children's Home Society of Washington acting as the sponsoring agent.

Methodology

Invitations were sent to 353 service providers from 117 agencies across Washington State via email explaining the purpose of the study and to request their participation in an online survey. The list of service providers was compiled from member agencies of the Washington Asset Building Coalition (WABC). A total of 184 service providers from 84 different agencies responded to the online survey, with an overall response rate of 52%. As data on the financial capabilities of service providers were only collected from those in the middle-management and frontline staff positions, and not from those in the senior management positions, the final sample for the analyses is comprised of 125 respondents. Of these, 50 respondents were from the middle-management levels, while 75 respondents were from the frontline. Another 30 respondents were excluded from the analyses as they failed to respond to any of the financial items in the survey. These 30 excluded respondents were statistically similar to the analysis sample in terms of their work designations.

The self-administered survey instrument was fielded online from April 2010 to July 2010. It included items that explored respondents' self-assessed financial knowledge and abilities, respondents' perceptions of their level of comfort and preparedness in working on the financial aspects of their clients' lives, as well as items that assessed respondents' financial and debt literacy, their financial behaviors, and their ownership of financial products. The financial measures in the survey were adapted from the University of Michigan's monthly Surveys of Consumers conducted in November and December 2001(Hilgert et al., 2003), the Financial Links for Low-Income People (FLLIP) program in Illinois (Anderson, Scott, & Zhan, 2004), Lusardi and Tufano's (2009) study on debt literacy, and the Survey of Financial Literacy in Washington State (Moore, 2003).

The results of this study were then compared to the findings from the above-mentioned studies on which the survey instrument was based. Both the Surveys of Consumers, and Lusardi & Tufano's

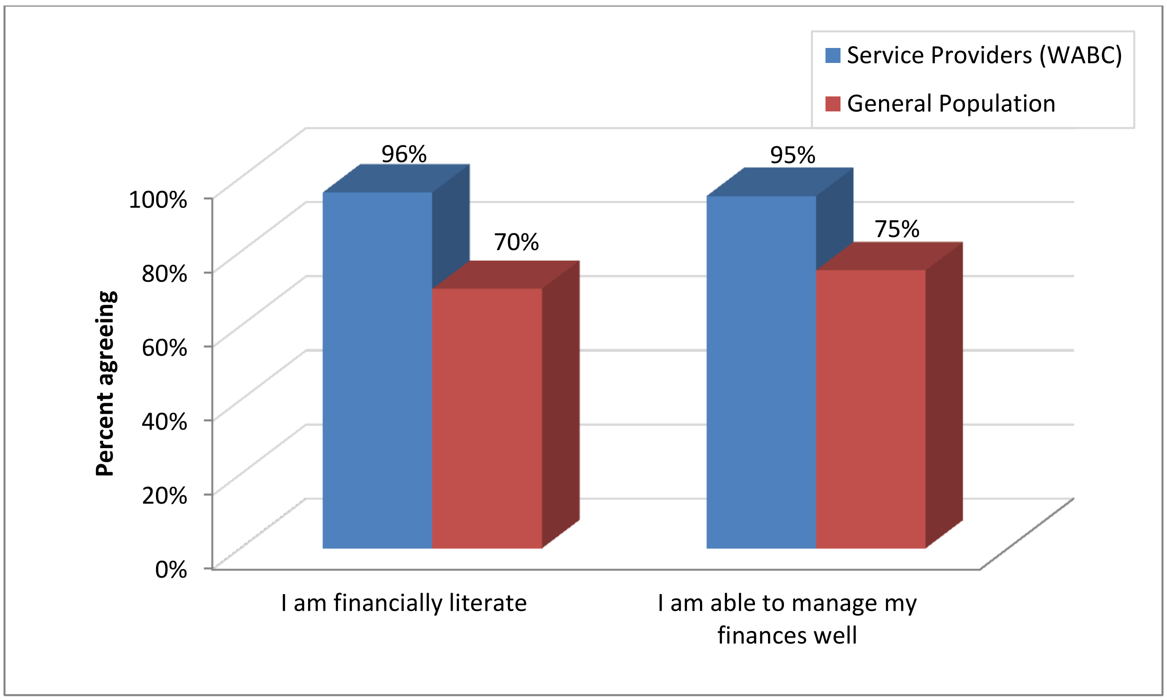
(2009) debt literacy study utilized a nationally representative sample. Similarly, the Survey of Financial Literacy in Washington State used a sample that was representative of the general population of the State of Washington.

Findings

Self-Assessed Financial Literacy and Financial Management Abilities

The data from this study indicate that respondents from the asset-building field generally have very positive assessments of their own financial knowledge and abilities, compared to self-assessments of the general population. Almost all respondents perceived themselves to be financially literate, compared to between 61% and 70% reported in the general population of Americans (Applied Research & Consulting LLC, 2009; Lusardi & Tufano, 2009). In addition, 95% of service providers thought they were able to manage their finances well. This compares to around 75% found in the general population (Applied Research & Consulting LLC, 2009).

Figure 1. Self-assessed financial knowledge and abilities by population

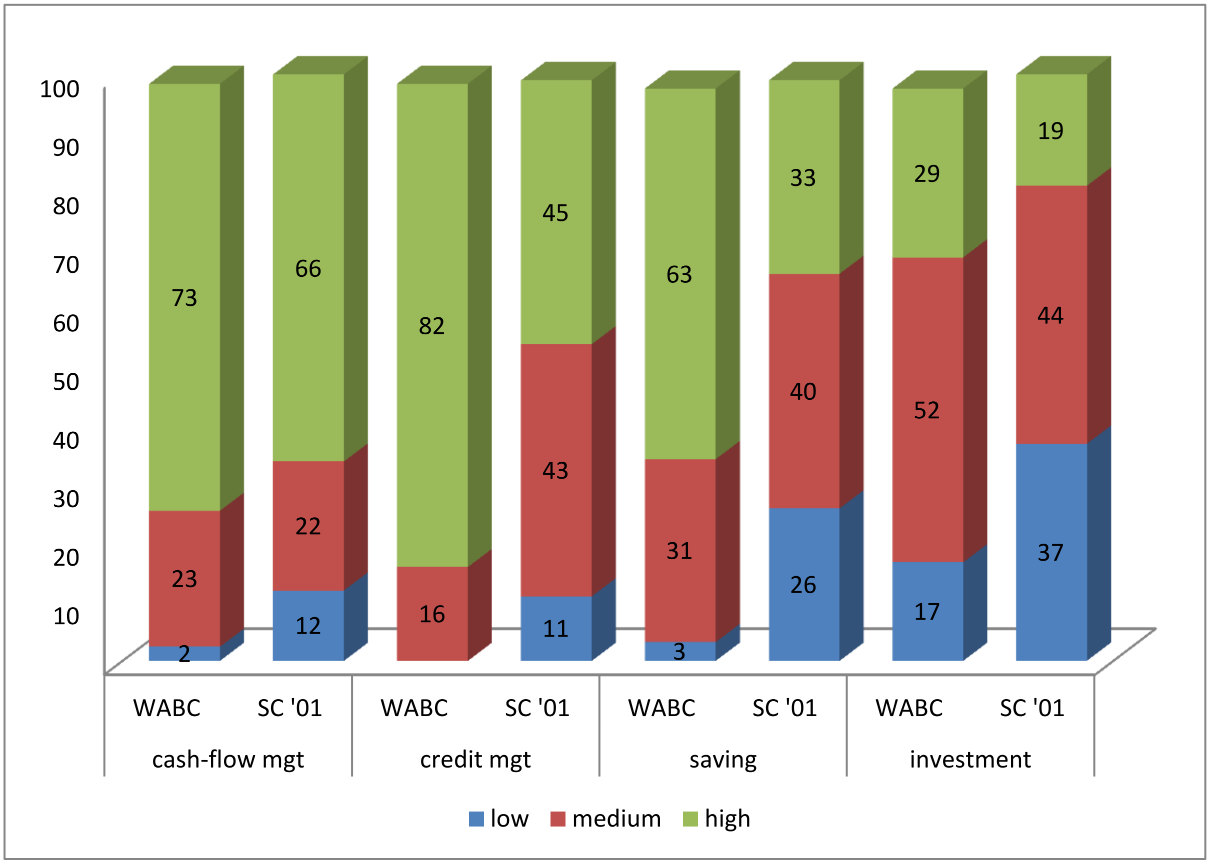


Financial Practices

Overall, service providers in the asset-building field in Washington State exhibit desirable financial practices, often with higher frequencies than found in the general population as reported in the Surveys of Consumers 2001 (SC'01) study (Hilgert et al., 2003). Regarding the financial practice domains of cash-flow management, credit management, saving, and investment, the majority of respondents exhibited various desired financial behaviors and engagement with key financial products. In fact, most of the respondents practice more than 70% of the behaviors listed in the various financial practice domains, and are considered to have a high level of practice in these domains (see figure 2).

Comparing the various financial practices, the data indicate that respondents are strongest in cash-flow and credit management, with respondents, on average, engaging in about 81% of the financial behaviors in each practice category respectively (see figure 3). Examples of behaviors in these practice categories include having checking accounts, paying bills on time and credit card balances in full, having a budget, comparing credit card offers, and reviewing one's credit report.

Figure 2. Distribution of levels of index scores (%), by type of financial practice



Following cash-flow and credit management are financial practices related to saving, with respondents practicing, on average, 72% of the behaviors measured in the index. The behaviors measured include having a savings account, an emergency fund, and Certificates of Deposits; saving regularly; and saving for long-term goals.

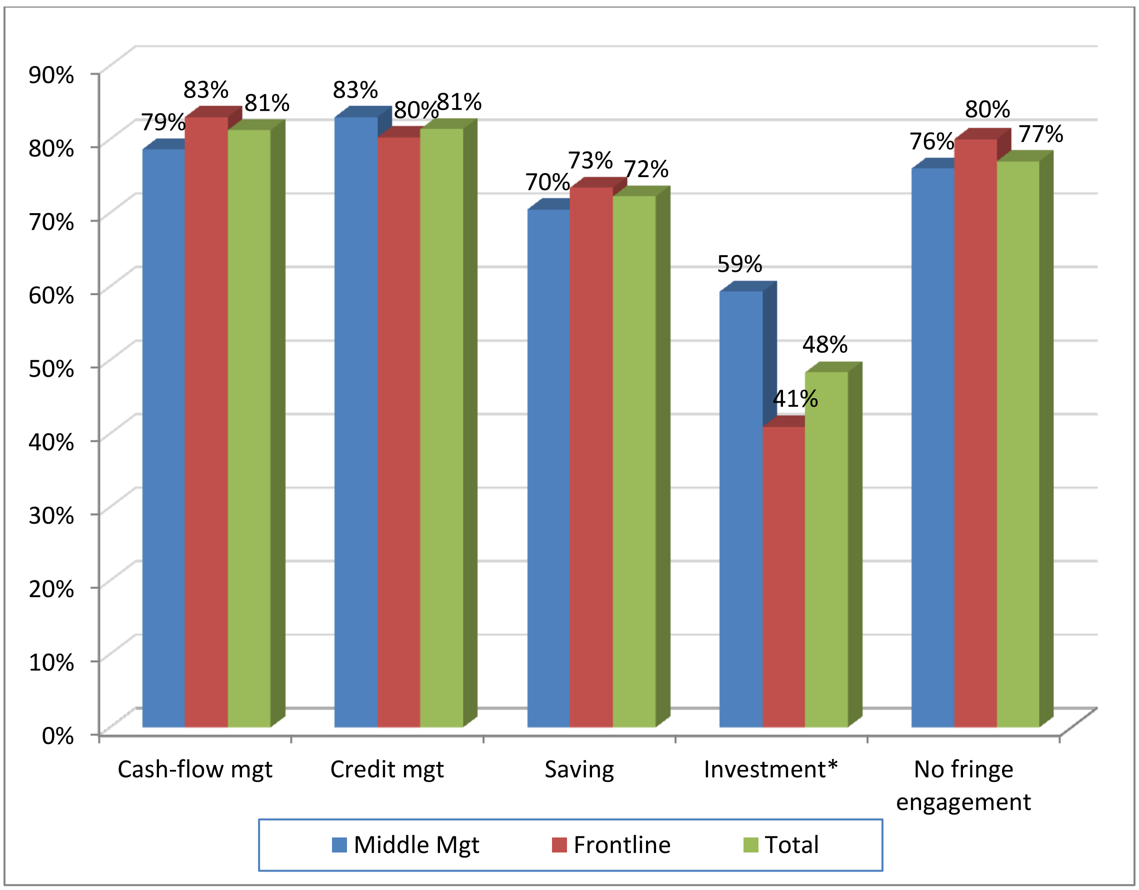
Respondents are however, weakest in practices related to investment, with respondents engaged in, on average, only 48% of the behaviors. For example, just a third of service providers reported having some kind of an investment account, an IRA/Keogh, or mutual fund account respectively, and slightly over half spread their money over different types of investments.

In regard to engagement in the fringe or alternative financial services market, the vast majority of service providers had not engaged in any fringe activities at all in the recent year. While 14% of respondents had low levels of engagement, 6% had a medium level of engagement, and 1% had a high level of engagement in fringe financial practices. Of the respondents, 4% reported having taken a payday loan in the last twelve months, 5% reported using check-cashing services, and 3% reported taking cash advances from their credit cards, using pawn shops, and cashing blank checks from credit card companies.

On other practices covering a broad range of financial domains, fewer respondents reported owning their homes (59%) and ever buying a house (66%), compared to the general population (Hilgert et al., 2003; Moore, 2003). Respondents also refinanced their mortgages at a lower rate, possibly due to the lower home ownership rates. On the other hand, more respondents (70%) set goals for their financial futures than Washingtonians (51%) or the American general population (36%). Additionally, almost nine in 10 respondents in this survey read about money management compared to about two in 10 among the general population (Hilgert et al., 2003; Moore, 2003).

The data further indicate that the financial practices of respondents, with the exception of practices pertaining to investments, are statistically similar across designations, length of service, and perceptions about whether adequate training was received or additional training is needed. Regarding investments, respondents at the middle management level are more engaged, while those with less than two years of service are less engaged.

Figure 3. Mean practices by financial practice categories and designation



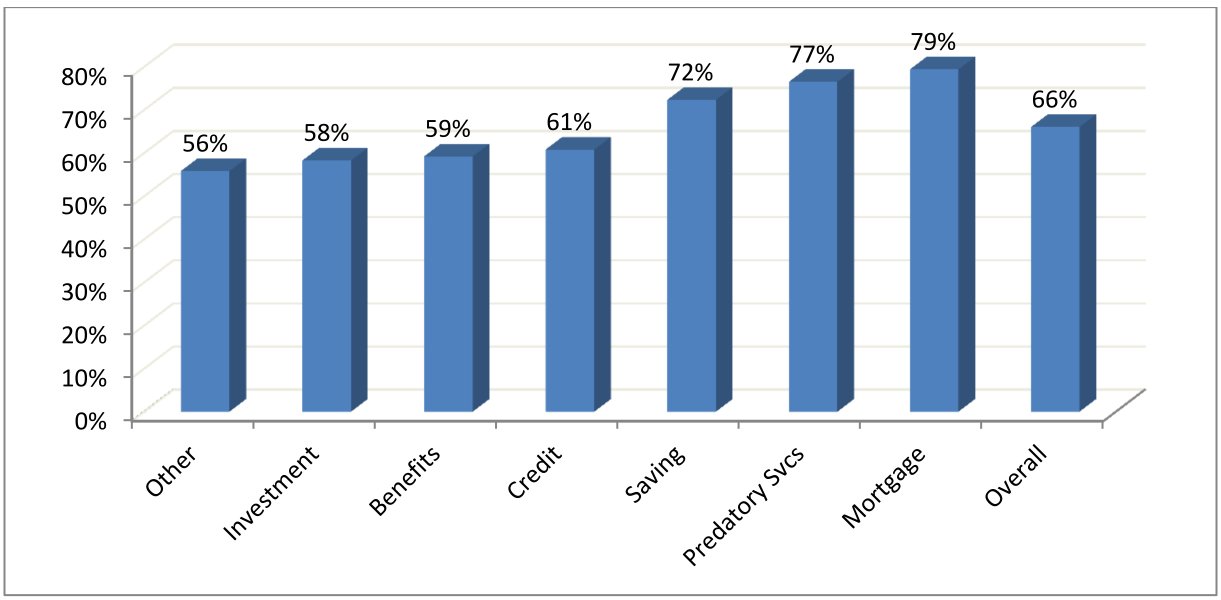
* Middle management and frontline staff have significantly different means at the p < .05 level

Financial Literacy

To assess the financial literacy of respondents, a 41-item quiz was administered with subscales covering the areas of credit, saving, investments, mortgages, predatory services, public benefits, and a broad category of other financial management topics. The items tested respondents' financial knowledge at a rudimentary level, with true-false questions such as "If you use your home as collateral for a loan, there is no chance of losing your home"; "Payday loans usually have low interest rates"; "With compound interest, you earn interest on your interest, as well as on your principal"; "Your credit rating is not affected by how much you charge on your credit cards"; and "Mutual funds pay a guaranteed rate of return."

On average, respondents answered 66% of the items on the financial literacy quiz correctly. This is statistically similar to the general population. Respondents appear to be most knowledgeable on matters pertaining to mortgages, with a mean of 79% of items in the mortgages subscale correctly answered. This is followed by knowledge of predatory services (mean = 77%), saving (mean = 72%), and credit (mean = 61%). Respondents are least knowledgeable about public benefits (mean = 59%), investment (mean = 58%) and other financial management issues (mean = 56%).

Figure 4. Mean percent of correct answers by financial domain

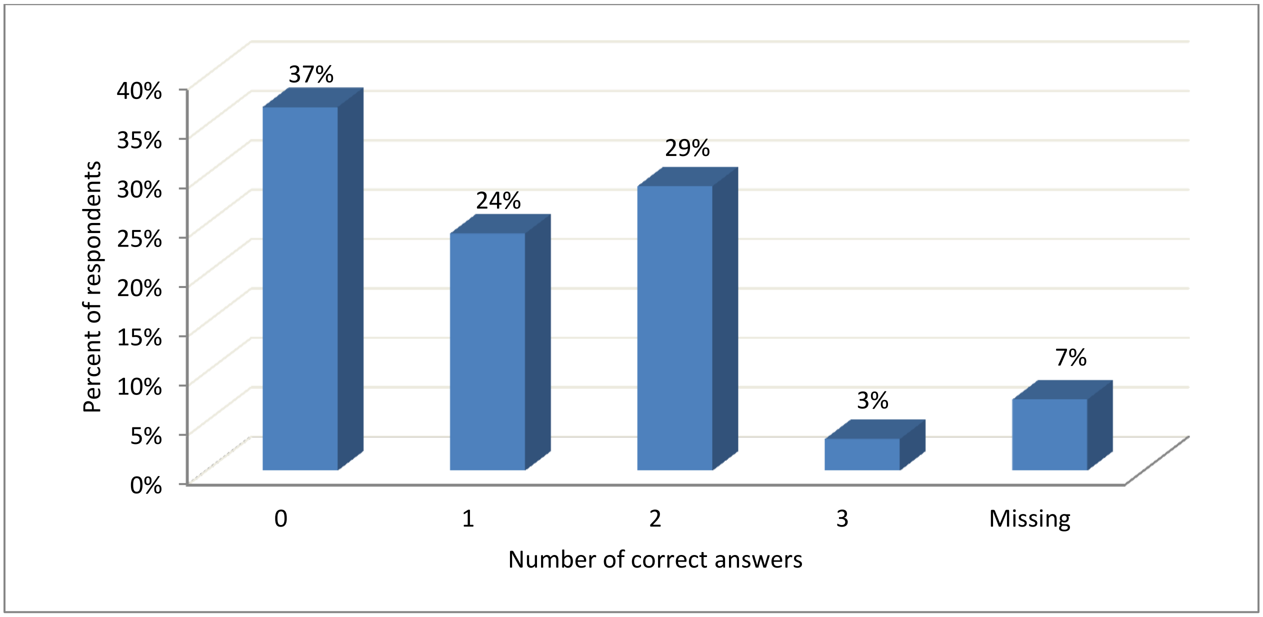


Further analysis found that the financial literacy levels of middle management and frontline staff are statistically similar on all subscales. No significant differences were also observed when comparing those who perceived that they received adequate training to deliver asset-building services and those who did not, and between those who did and did not perceive a need for additional training. However, the length of service in the asset-building field was found to be significantly associated with the knowledge levels of respondents. Respondents with fewer than two years of service have significantly lower levels of knowledge compared to those with five or more years of service on the subscales that pertain to credit, saving, and investment, and on the overall scale.

Debt Literacy

Respondents' debt literacy levels were assessed through a three-item instrument measuring the understanding of credit card repayment, compound interest, and the time-value of money. While respondents in the asset-building field have a similar level of debt literacy as the general population, it has to be noted that less than half of all respondents were able to correctly answer the questions pertaining to compound interest and credit card repayment, and only a small handful were able to understand the time value of money. In addition, 37% of the respondents (potentially up to 44% if missing were included) failed to get a single question correct, and close to a quarter of respondents only managed to get one of the three items right. The data clearly indicate that the debt literacy levels of service providers are rather low, and that more attention to increasing the knowledge in this area is needed.

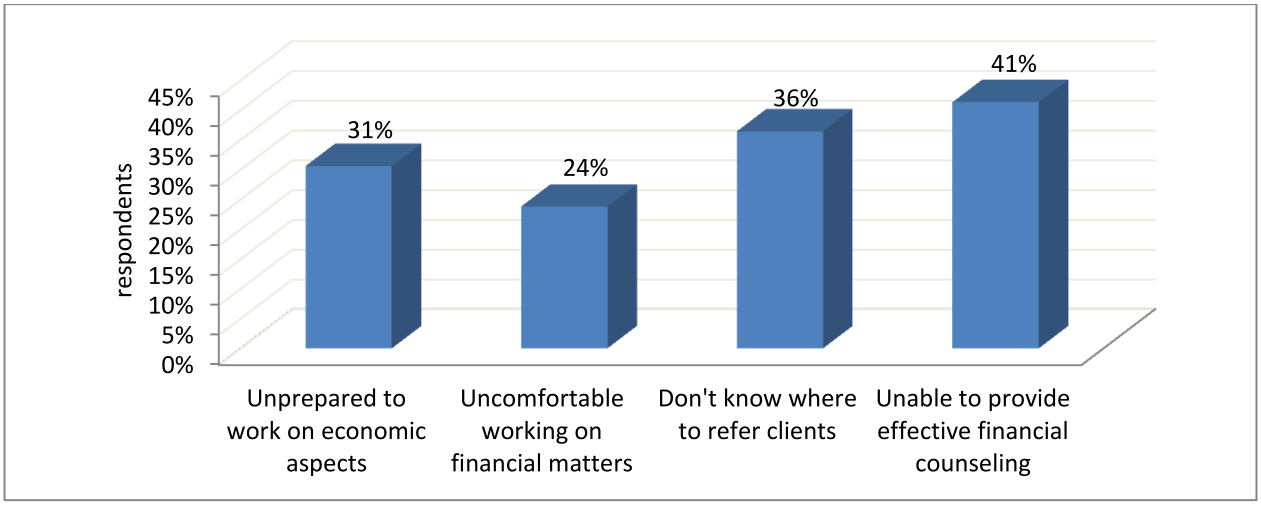
Figure 5. Number of debt questions correctly answered



Perceived Level of Comfort and Preparedness to deliver Asset-Building Services

A series of questions were asked of respondents to assess their perceived level of comfort and preparedness to work on the financial matters of their clients' lives. When asked to what extent they agreed with the statement "I feel prepared to work on the economic aspects of my clients' lives," about 31% of respondents disagreed. In addition, another 24% of respondents disagreed with the statement "I feel comfortable working with clients on their financial matters." It is also surprising to find that 41% of respondents disagreed with the statement "I am able to provide effective financial counseling to my clients," and that 36% of respondents disagreed with the statement "I know where to refer clients for asset-building services that are not available at my agency." Together, these findings suggest that between 25% and 40% of service providers do not feel sufficiently equipped to work in the main areas of asset-building – that of working on the financial lives of their clients either directly through financial counseling or by referring clients to external resources.

Figure 6. Perceived comfort and preparedness to deliver asset-building services



Implications and Recommendations

The data from this study indicate that respondents from Washington State's asset-building field generally had very positive assessments of their own financial knowledge and abilities, which is higher than self-assessments of the general population. While this finding may be perceived as a strength in that it reflects service providers' confidence in their abilities to deliver asset-building services, it may also mask underlying gaps if objective measures of knowledge and behaviors do not align with these positive self-assessments. Results of the analysis suggest that there may, in fact, be such a gap between self-perceptions and the objective measures of financial capabilities of service providers.

Regarding the financial practices of service providers, the majority of respondents exhibited the various desired financial behaviors and engagement with key financial products such as saving and checking accounts, and most were classified as having "high" levels of functioning in the various financial practice domains. However, there remains much room for improvement. For instance, 30% of respondents reported that they do not use a budget or track their expenses, while around 25% reported that they do not have any emergency funds, do not save or invest regularly, and do not have long-term saving goals. In addition, respondents' engagement in various investment practices could be further strengthened as fewer than half of respondents had investments outside of their employment-related retirement plans. Engagement with the alternative financial services market could also be further reduced; almost a quarter of respondents had interacted with fringe financial products in the past year.

In terms of financial literacy levels, the results of this study suggest a disconnect between self-perceptions and objective reality. Even though respondents from the asset-building field had more positive perceptions of their financial knowledge compared to the general population, the findings indicate that they had similar or slightly lower levels of financial knowledge on the subscales pertaining to credit, saving, investments, mortgages, and other financial matters. They also had similar levels of debt literacy compared to the general population. In addition, respondents were similar to low-income individuals who completed a financial education program with respect to their knowledge of predatory services and public benefits. Furthermore, respondents did not know anywhere between 21% and 44% of questions across the various financial domains, and up to 42% of respondents may actually know less than the general population. This level of literacy may be less than ideal for those who work in the asset-building field. Much remains to be done to increase the financial literacy of service providers.

The level of comfort and preparedness to deliver asset-building services should also be strengthened. While the majority of respondents reported that they feel sufficiently comfortable and prepared to work on the financial aspects of their clients' lives, a sizable proportion felt otherwise. In addition, close to four in 10 respondents felt that they were not able to provide effective financial counseling, nor did they know where to refer clients for additional services outside their respective agencies.

To address the gap between service providers' self assessments of their financial capabilities and what they actually know and practice, periodic objective assessments of the strengths and gaps in knowledge, skills, and practices are recommended. With periodic objective assessments, service providers will be able to pin-point the areas that need to be addressed in their own personal lives, as well as identify the areas in which they are already doing well and could do even better. The results from such periodic assessments could also be used to customize trainings for service providers at the agency level.

There is also a need for the establishment of a training curriculum that systematically addresses the various aspects of service delivery in the asset-building field, from enhancing service providers' financial knowledge and practices, to equipping them with the skills to work effectively on the financial aspects of their client's lives. Such training programs should have the dual focus of enhancing the financial capabilities of service providers, as well as equipping service providers with the skills and knowledge to increase the financial capabilities of their clients.

Finally, there needs to be an establishment of a set of core competencies and standards with respect to service providers' financial capabilities. While it is not adequate that service providers have the same level of financial knowledge as the general population, how much more should service providers know before being "certified" as being sufficiently prepared for the field? In addition, what are the core practices that all service providers should be expected to have? What core competencies, knowledge, and behaviors should low-income clients have as a result of receiving asset-building services? Discussions on these questions need to begin for service providers to be more effective, and for the asset-building field to advance further.

Conclusion

In conclusion, this study has found that respondents in the asset-building field have very positive self-assessments of their financial capabilities. For many respondents, this positive self-assessment is justified, with the vast majority reporting high levels of functioning across the different financial practice domains, and with some 30% of respondents being able to answer more than 80% of the financial literacy questions correctly. In fact, on the whole, respondents have reasonable levels of financial literacy that are similar to those found in the general population. That said, there is still much that could be done to improve the financial capabilities of service providers in the asset-building field. It would not be unreasonable to expect and require all service providers to have a higher level of competence and expertise when compared to the general population. And if service providers are to be effective in assisting clients with their financial issues, it is imperative that they are well-trained. This study has established the need for additional training, and has identified possible areas of focus for the training. With periodic and objective assessments of financial capabilities, as well as with a comprehensive training plan, service providers can be even more effective in helping low-to-modest-income families break out of the cycle of poverty and get onto the path of wealth creation.

I. Introduction

To succeed in today's post-industrial economy, people must continually invest in themselves and expand their capabilities. While income is important for consumption, it does not by itself enable people to improve their circumstances over the long term. Development occurs through asset accumulation and investment. Assets provide individuals with control over resources, financial security, and the ability to meet unanticipated lumpy costs. Assets also facilitate investments in future aspirations, and enable people to seize opportunities that might otherwise be closed to them. Asset-building is therefore about helping individuals create, manage, and protect a pool of resources or assets that could be used to improve, enhance, and transform the economic futures of these individuals and their families.

Policies to build the assets of low-income families in the State of Washington began with the passage of the Washington WorkFirst Act of 1997. The first Individual Development Account (IDA) programs were rolled-out by six community-based organizations serving 12 counties in the year 2000 (Center for Social Development, 2008). Today, the asset-building movement has expanded across the entire state, with 17 local coalitions established under the umbrella of the state-wide Washington Asset Building Coalition (WABC). Asset-building programs and services include promoting and incentivizing saving, banking, homeownership, IDAs, microenterprise development, and financial education and counseling, and providing affordable financial services and products ("Washington Asset Building Coalition," n.d.).

While the number of asset-building programs and services has been growing steadily in the State of Washington, little is known about the field. Burst for Prosperity commissioned a mixed-methods research initiative in September 2009 to explore and describe the state of asset-building in Washington State from the perspectives of both the service providers and their clients. Among the objectives of this research endeavor is to explore the financial capabilities of service providers in the asset-building field, particularly to assess service providers' level of financial and debt literacy, financial practices, and level of comfort and preparedness to work on the financial aspects of their clients' lives. This report describes the purposes, methods, findings, and implications of this part of the study that pertains to service providers' financial capabilities. The overall research effort is funded by the Northwest Area Foundation, with the Children's Home Society of Washington acting as the sponsoring agent.

II. Background and Project Objectives

Service providers within the asset-building field regularly work with individuals and families who are economically distressed or disadvantaged. However, unlike at other social service agencies where the economic vulnerability of clients is viewed merely as one of the eligibility criteria for service, asset-building agencies have been addressing the economic vulnerability of their clients as the main focus.

Economic issues and the financial lives of clients are the targets of intervention for asset-building service providers, with the aim of increasing financial knowledge, encouraging positive financial practices and behaviors, facilitating access and engagement in the financial mainstream, and ultimately, leading clients onto the path of long-term asset accumulation and wealth building.

Low- and moderate-income populations often face financial challenges such as having to access alternative financial services that carry higher costs than conventional services (Barr, 2004; Caskey, 2006; Fellowes & Mabanta, 2008), not having savings for emergencies (Brobeck, 2008a, 2008b; Bucks, Kennickell, Mach, & Moore, 2009; Jacob, Hudson, & Bush, 2000), and under-utilizing tax benefits (Caputo, 2006, 2009). In addition, financial literacy among low- and moderate-income individuals tends to be lower as well (Bernheim, 1998; Jacob et al., 2000; Zhan, Anderson, & Scott, 2006).

Service providers in the asset-building field, who work with these low- and moderate-income clients, are uniquely positioned to help increase the financial capacities of these populations (Anderson et al., 2004; Birkenmaier & Curley, 2009; Sherraden, Laux, & Kaufman, 2007). They play a critical role in helping their clients achieve the valued economic outcomes, and it is incumbent on them to ensure that they have the skills and knowledge required to maximize the likelihood of success for their clients (Gambrill, 1999, 2006). Little, however, is known about the financial capabilities of the service providers themselves, or about how comfortable and prepared they are to work on the financial lives of their clients.

While there are many different interpretations of what constitutes financial capacity, there is growing consensus that it encompasses both the ability to act (knowledge, skills, etc.) and the opportunity to act (through access and engagement with the financial markets) (Sherraden, 2010). In addition, it involves multiple aspects of behaviors relating to how financial decisions are made and resources managed (FINRA, 2009). In other words, financial capability is about what you do as well as what you know (Sledge, Tescher, & Gordon, 2010).

The purpose of this study is to explore and describe the level of financial capability of service providers in the asset-building field in the State of Washington, as well as to explore service providers' perceptions of their comfort levels and preparedness in delivering finance-related services to their clients. Specifically, the objectives of the study are:

1. Explore service providers' self-assessed level of financial knowledge and financial management abilities;
2. Describe service providers' financial and debt literacy levels;
3. Describe service providers' financial behaviors; and
4. Describe service providers' perceived level of comfort and preparedness to deliver asset-building services

III. Methodology

Participants

As a list of all service providers directly involved in the delivery of asset-building services is not available, the research team enlisted the assistance of the Washington Asset Building Coalition

(WABC), a statewide coalition of agencies involved in asset-building, to develop the sampling frame. At the WABC quarterly meeting in January 2010, WABC members were presented with an overview of the study, and were requested to provide the research team with a list of all staff members involved in delivering asset-building services at their respective agencies. Chairpersons of the various regional asset-building coalitions were also approached to reach out to agencies that were not represented at that particular meeting.

A list of 353 names and email addresses representing 117 agencies was eventually compiled for this study. Emails were sent to all 353 service providers on the list in early April 2010, inviting them to participate in the study. A total of 184 service providers responded to the invitation, with a response rate of 52.1%. These respondents came from 84 different agencies, representing 71.8% of agencies in the sampling frame. Another 11 service providers could not be contacted for a variety of reasons, including having incorrect or blocked email addresses, or having resigned from the agency.

Overall, there were 29 respondents who worked at the senior management level at their agency; 59 respondents who worked at the middle management levels as program directors, program managers or supervisors; 91 respondents who identified themselves as being case managers or frontline staff members; and 5 who self-identified as being volunteers.

As respondents at the senior management level were not assessed on any of the financial items, they were excluded from this study. The final sample for this study consists of 125 service providers, comprising 50 middle management level personnel, 73 case managers or other frontline staff members, and two volunteers. Another 30 respondents were excluded from the analyses as they failed to respond to any of the financial items in the survey. For the purposes of this study, the two volunteers were reclassified as frontline staff.

Procedures

A self-administered survey instrument was created for this study, and was deployed online using the online survey service provided by SurveyMonkey. The online survey instrument included items that explored respondents' self-assessed financial knowledge and abilities, respondents' perceptions of their level of comfort and preparedness in working on the financial aspects of their clients' lives, as well as items that assessed respondents' financial and debt literacy, their financial behaviors, and their ownership of financial products. The financial measures in the survey were adapted from the University of Michigan's monthly Surveys of Consumers conducted in November and December 2001(Hilgert et al., 2003), the Financial Links for Low-Income People (FLLIP) program in Illinois (Anderson et al., 2004), Lusardi and Tufano's (2009) study on debt literacy, and the Survey of Financial Literacy in Washington State (Moore, 2003).

The online survey was fielded from April 2010 to July 2010. Email invitations were sent out to the entire sampling frame in late April 2010, and reminders were sent at 3- to 4-week intervals thereafter to those who did not respond. In addition, reminders via voicemail were sent to all non-responders towards the end of May, and to those who partially completed the survey in late July.

IV. Findings

Respondent Profiles

The final analysis sample consists of 125 respondents, of whom 50 classified themselves as members of middle management, and the remaining 75 as case managers or other equivalent frontline positions. Among the 30 respondents who did not respond to any of the financial items and were therefore excluded from the analysis, nine were from the middle management level, and 21 were from the frontline. Chi-square tests of independence indicated that those who were excluded from the analysis were not statistically different from those who responded to the financial items with respect to their designations at their respective agencies.

In terms of gender, the majority of the respondents were female, reflecting the gender imbalance of the social service field. Slightly over 74% of the respondents reported they were female, 20% reported being male, and 5.6% of the sample did not disclose their gender. Almost all of the respondents also had at least some college education. The majority of the respondents (52%) had bachelor's degrees, and 18.4% had graduate degrees. Another 11.2% had some college education, 11.2% had associate degrees, and 0.8% had other professional certifications. Only 0.8% of the respondents had only a high school diploma or equivalent, while 5.6% of respondents did not disclose their educational qualifications.

With respect to age, about three in four respondents were more than 30 years of age at the time of the survey. Of the sample, 8.8% reported that they were under 25 years old, 16.8% between 26 and 30 years old, 24.8% between 31 and 40 years of age, 16.0% between 41 and 50 years old, and 27.2% above 50 years of age, while 6.4% did not indicate their age.

More than half of the respondents had less than three years of service in the asset-building field. Among respondents, 21.1% reported being in the field for less than one year, 12.8% for one to two years, and 20.2% for two to three years. Another 16.5% of respondents had been in the field for between three and five years, compared to 29.4% who had been in asset-building for five years or more. Information on the length of service was not available for 12.8% of the sample.

Self-Assessment of Financial Knowledge and Abilities

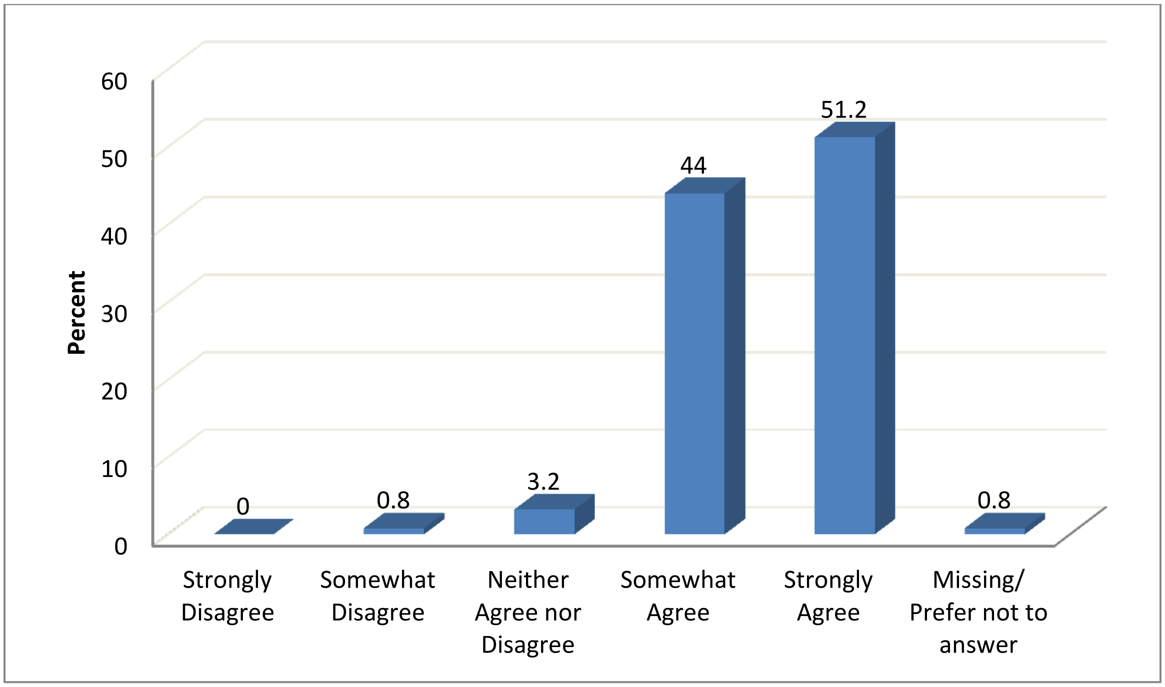
Existing research on financial capabilities of individuals frequently finds that respondents have favorable self-assessments of their own abilities, regardless of where they may objectively stand (e.g. Applied Research & Consulting LLC, 2009; Lusardi & Tufano, 2009). Consistent with this research, the results of this survey found respondents to have a positive assessment of their own financial capabilities, as measured by self-assessments of financial literacy, and financial management.

Self-assessed financial literacy

In terms of financial knowledge, the data suggest that respondents had a very high level of perceived literacy. Over 9 in 10 respondents agreed with the statement "I am financially literate," with 48% of respondents somewhat agreeing with the statement, and another 48% strongly agreeing. Only 3.2% of respondents either disagreed with or were neutral on the statement, while 0.8% did not respond to this item. The proportion of respondents with positive self-assessments was much higher than that found by previous studies using nationally representative samples. For example, Lusardi and

Tufano (2009) found that, when asked to assess their overall financial knowledge, just over 61% of respondents rated themselves at a five or higher on a seven-point scale, where one is very low, and seven is very high. The National Financial Capacity Study (NFCS'09) similarly found that 70% of respondents assessed their overall financial knowledge at the higher end (5,6, or 7) of a seven-point scale (Applied Research & Consulting LLC, 2009). In comparison, 96% of respondents in this study assessed themselves as being financially literate.

Figure 7. Self-assessed financial literacy – I am financially literate



In general, frontline staff (50%) appeared to have a more positive self-assessment of their financial knowledge compared to their counterparts from the middle management level (46%). In addition, more respondents who had been in the asset-building field for five years or longer strongly agreed that they were financially literate (68%) compared to those who have been in the field for two to five years (20%) and for less than two years (38%).

The majority of those who agreed that they received adequate training to deliver asset-building services also strongly agreed that they were financially literate (61%). In comparison, around 37% of respondents who felt that they did not receive adequate training strongly agreed that they were financially literate.

Table 1. Self-assessed financial literacy by designation and length of service.

		Designation (%)		Length of service (%)		
		Middle Mgt	Frontline	Less than 2 years	2 - 5 years	5 or more years
I am financially literate	Strongly disagree	0	1	3	0	0
	Somewhat disagree	2	0	0	0	3
	Neutral	0	3	5	0	0
	Somewhat agree	52	46	54	50	29
	Strongly agree	46	50	38	20	68
n		50	74	37	40	31

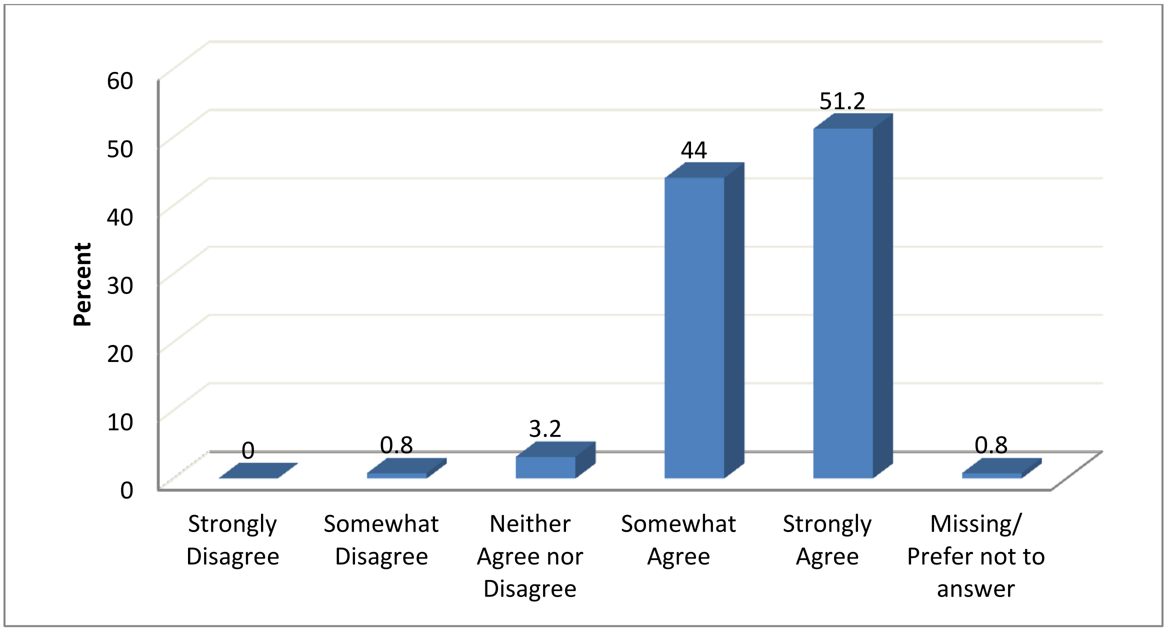
Table 2. Self-assessed financial literacy by adequacy of training received.

		I am financially literate (%)					n
		Strongly disagree	Somewhat disagree	Neutral	Somewhat agree	Strongly agree	
Received adequate training	Disagree	0	3	5	55	37	38
	Neutral	0	0	0	62	38	29
	Agree	2	0	0	37	61	54

Self-assessed financial ability

On respondents' self-assessed ability to manage their own finances, a similarly high proportion of respondents had favorable self-ratings. More than half of all respondents (51.2%) strongly agreed with the statement "I am able to manage my finances well," and another 44% somewhat agreed. Only 1 person (0.8%) somewhat disagreed with the statement, while 3.2% neither agreed nor disagreed, and 0.8% did not provide a response to this item. In other words, over 95% of respondents responded "agree" or "somewhat agree," suggesting they felt that they were able to manage their finances well. Again, the proportion of respondents with favorable self-assessments appeared to be higher than that found in the general public, where around 75% of respondents assessed themselves to be at the higher end (5, 6 or 7) of a seven-point scale when responding to the statement "I am good at dealing with day-to-day financial matters, such as checking accounts, credit and debit cards, and tracking expenses" (Applied Research & Consulting LLC, 2009).

Figure 8. Self-assessed financial ability – I am able to manage my finances well



As with self-assessed financial literacy, more frontline staff members (57%) rated their self-assessed financial ability more positively than those at the middle management levels (44%). Those with between two and five years of service in the asset-building field, however, were about evenly distributed between those who somewhat agreed (50%) that they were able to manage their finances well, and those who strongly agreed (48%) with the statement. Among those with five or more years of service, 61% strongly agreed with the statement, compared to 54% of those with less than two years of service.

Table 3. Self-assessed financial ability by designation, and service length.

		Designation (%)		Length of service (%)		
		Middle Mgt	Frontline	Less than 2 years	2 - 5 years	5 or more years
I am able to manage my finances well	Strongly disagree	0	0	0	0	0
	Somewhat disagree	0	1	3	0	0
	Neutral	6	1	3	3	3
	Somewhat agree	50	41	41	50	36
	Strongly agree	44	57	54	48	61
n		50	74	37	40	31

Most respondents believed they were able to manage their finances well despite their assessment of the training they received. Among those who disagreed that they received adequate training to deliver asset-building services, most (48%) strongly agreed that they were able to manage their finances well, 8% were neutral on the statement, and none disagreed. Similarly, the majority of those who were neutral (55%) or agreed (54%) that they received adequate training also strongly agreed that they were able to manage their finances well.

Table 4. Self-assessed financial ability by adequacy of training received.

		I am able to manage my finances well (%)					n
		Strongly disagree	Somewhat disagree	Neutral	Somewhat agree	Strongly agree	
Received adequate training	Disagree	0	0	8	45	48	38
	Neutral	0	0	0	45	55	29
	Agree	0	2	2	43	54	54

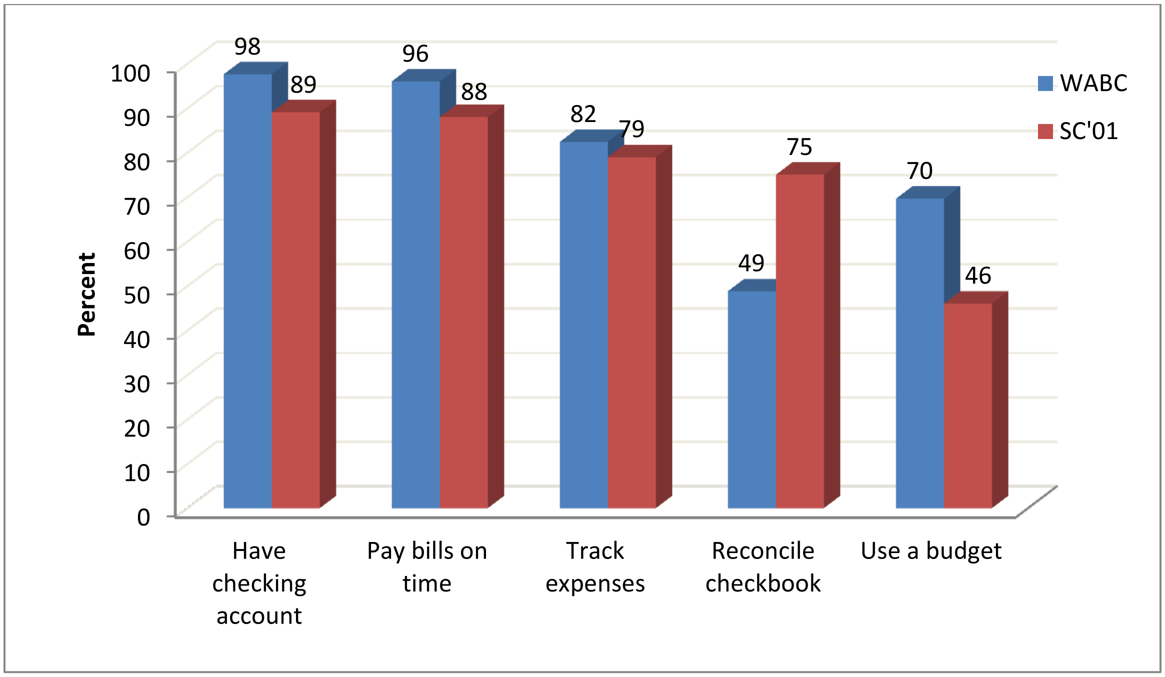
Financial Management Practices and Experiences

In the online survey, respondents were asked about their own financial behaviors, as well as their use of various financial products ranging from savings and checking accounts to products from the alternative financial markets such as payday loans. To look at the financial practices of respondents, measures of financial management behaviors and financial product ownership were combined (Hilgert et al., 2003). The financial practices were categorized as cash-flow management, credit management, saving, investment, fringe services, and other. Appendix 1 lists the behaviors or products used to analyze each type of practice and provides a comparison with the results from surveys of other nationally representative samples.

Cash-flow management

Overall, service providers in the asset-building field in Washington State exhibited desirable financial practices, often with higher frequencies than found in the general population. With respect to the financial practices pertaining to cash-flow management, the data indicate that service providers in Washington State were as financially capable, if not more so, than the general population as found in the Surveys of Consumers (SC'01) conducted in November and December 2001 (Hilgert et al., 2003). More than 9 in 10 respondents had checking accounts and often or always paid their bills on time. In addition, more than 8 in 10 service providers tracked their expenses, and close to 70% used a spending plan or budget. However, less than half of the respondents reported that they reconciled their checkbook at the end of every month, compared to over 75% of respondents in the Surveys of Consumers study. A plausible explanation of this lower than expected frequency is the advent and proliferation of online banking in recent years, which reduces or eliminates the need to manually reconcile checkbooks.

Figure 9. Cash-flow management practices

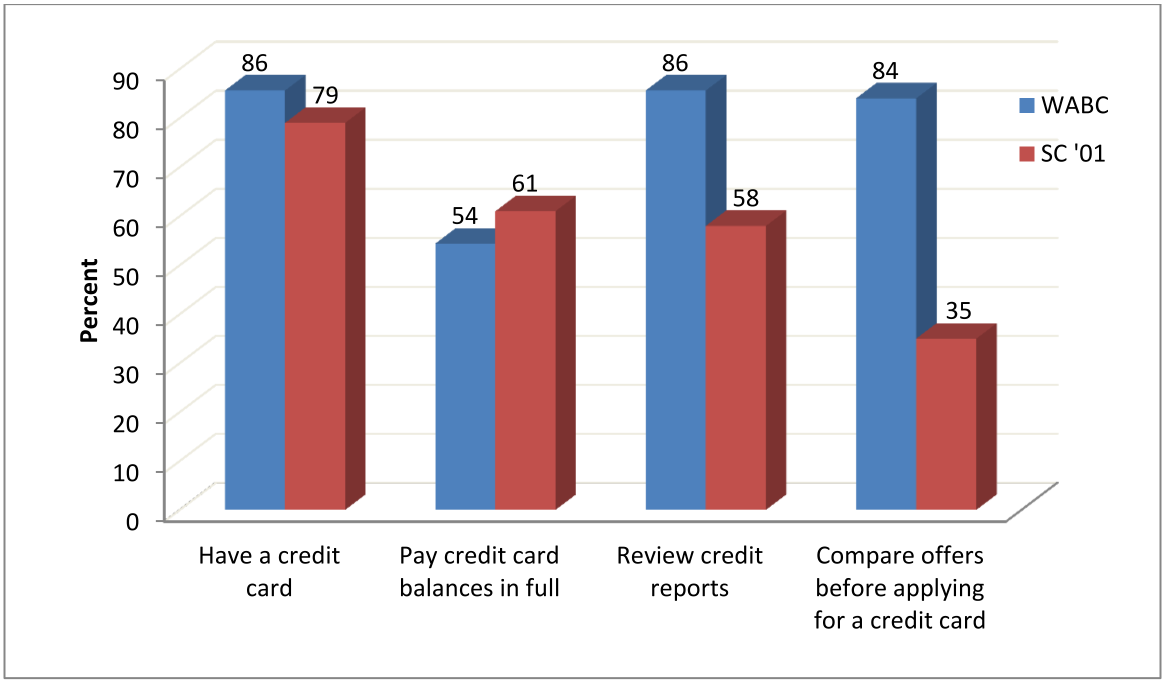


Credit management practices

Service providers in the asset-building field were also strong in terms of their credit management. Some 86% of respondents reported having credit cards, compared to 79% in the Surveys of Consumers study (Hilgert et al., 2003), and 68% of respondents in the more recent National Financial Capability Study (NFCS'09) (Applied Research & Consulting LLC, 2009). While there were more credit card holders among service providers compared to the general public, the percentage of respondents paying their credit card balances in full was about the same, at 54% among service providers, 61% in the Surveys of Consumers, and 54% in the National Financial Capability Study.

However, when it comes to comparing offers before applying for credit cards, over 8 in 10 service providers reported that they compared various offers. In comparison, other studies found that less than 4 in 10 members of the general public compared credit card offers (e.g. Applied Research & Consulting LLC, 2009; Hilgert et al., 2003). It is also encouraging to note that almost 86% of service providers reported that they reviewed their credit reports. This compares to 58% of the general public in the Surveys of Consumers study (Hilgert et al., 2003), 38% of respondents in the National Financial Capability Study (Applied Research & Consulting LLC, 2009), and 65% of Washingtonians as reported in the Survey of Financial Literacy in Washington State (SFLW'03) (Moore, 2003).

Figure 10. Credit management practices

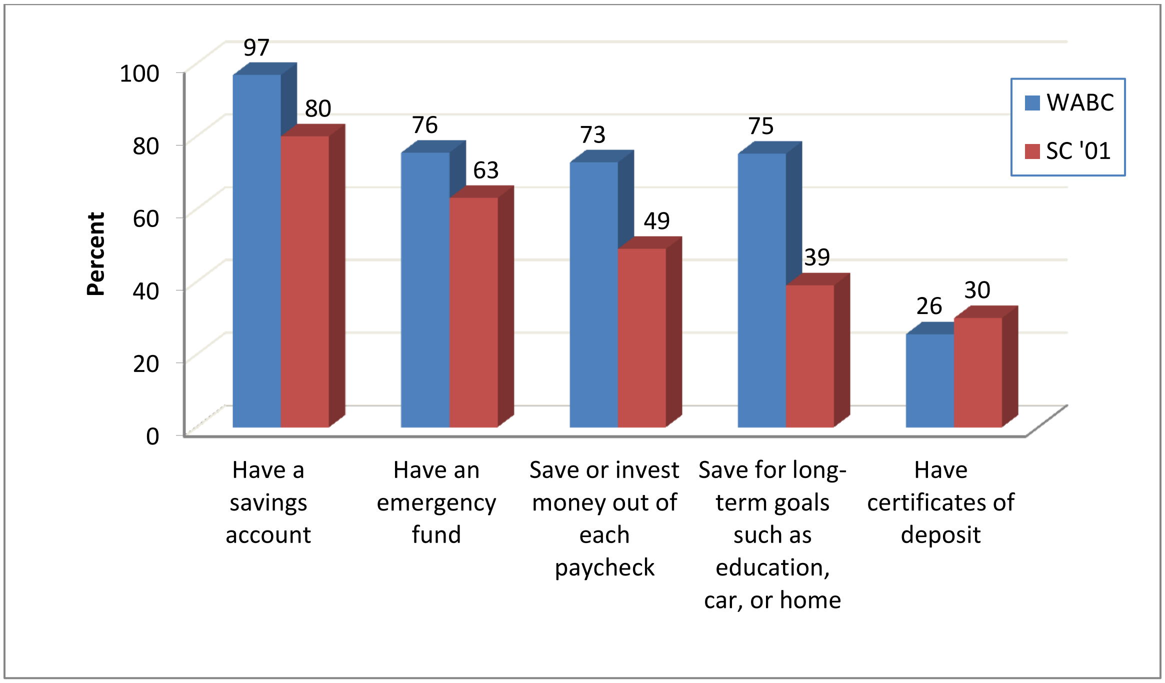


Saving practices

A high proportion of service providers also reported having good saving practices, with almost 97% reporting having a savings account. In addition, more than seven in 10 had an emergency fund, saved or invested out of every paycheck, and saved for long term goals. These practices were more prevalent among service providers compared to the respondents in the Surveys of Consumers (Hilgert et al., 2003). The proportion of service providers saving for long-term goals was also slightly higher (75.2%) than that found among the general population of Washington State (73.7%) (Moore, 2003).

It is, however, somewhat surprising that only slightly more than a quarter of service providers reported having certificates of deposit, compared to 3 in 10 among the general population (Hilgert et al., 2003). It is plausible that given the nature of the field, service providers may have lower disposable incomes, and hence may require savings to be more accessible and liquid. And while it is not known how much has been set aside in the emergency fund by these service providers, data from the National Financial Capability Study indicated that less than half of the general population has set aside sufficient funds to cover three months' worth of expenses in case of emergencies (Applied Research & Consulting LLC, 2009). With possibly lower disposable incomes, the percentage of service providers with emergency funds that meets or exceeds the three-month expenses threshold may likely be similar to that found among the general population.

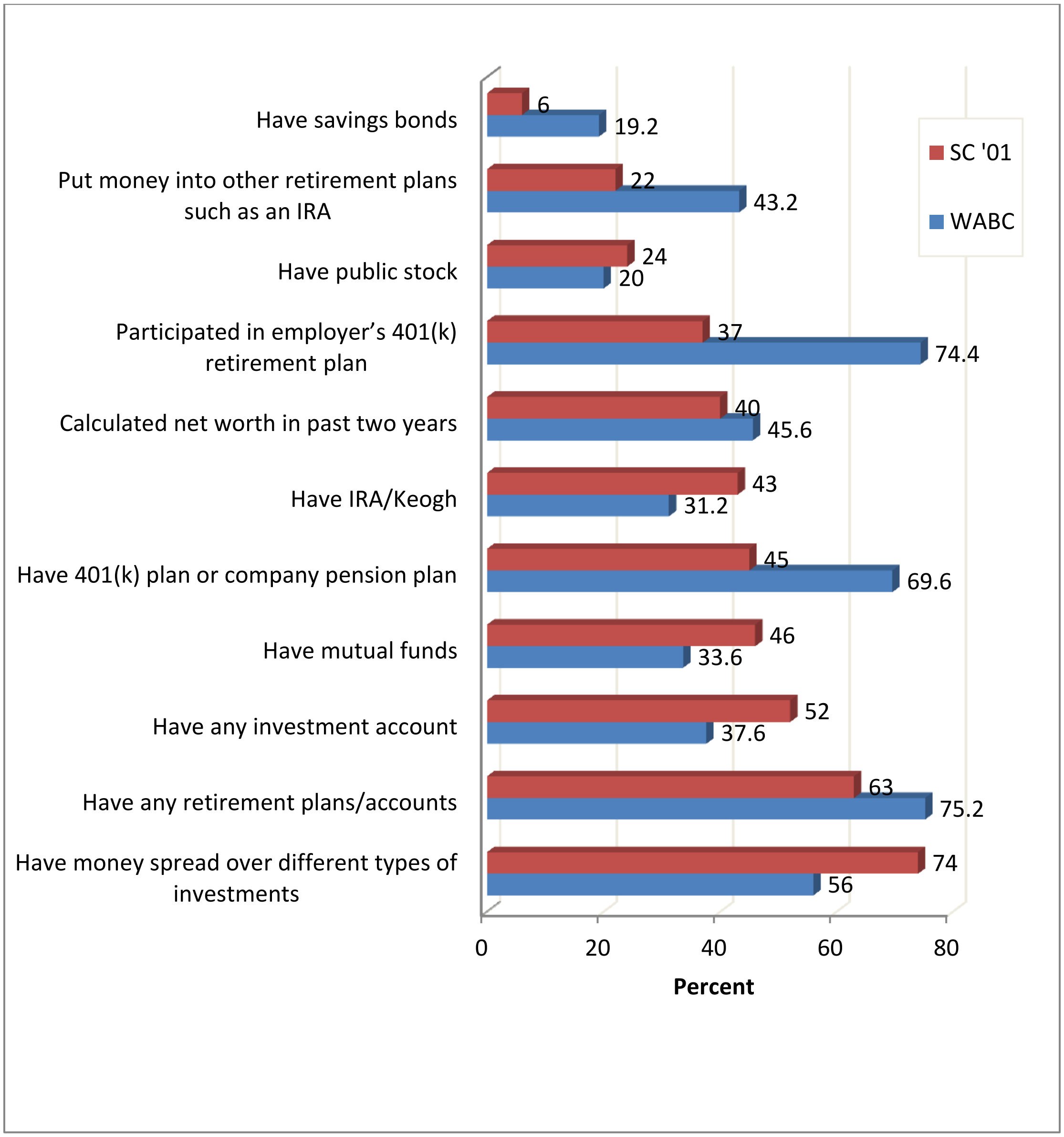
Figure 11. Saving practices



Investment practices

The possibly lower disposable incomes may also explain the mixed findings pertaining to investment practices. Just over a third of service providers reported having IRAs/Keoghs, mutual funds or some other kinds of investment accounts respectively. This compares to around half of the respondents in the Survey of Consumers (Hilgert et al., 2003). In addition, slightly over half of service providers spread their money over different types of investments, whereas almost three quarters of those in the Surveys of Consumers did so. However, ownership and participation in retirement plans/accounts is much higher among service providers compared to the general population, with 75% of respondents reporting ownership of retirement plans/accounts, and 70% participating in 401(k) or company pension plans. In addition, almost twice as many service providers (74%) put money into their retirement plans compared to the general population, and three times (19%) as many had savings bonds, compared to the general population.

Figure 12. Investment practices

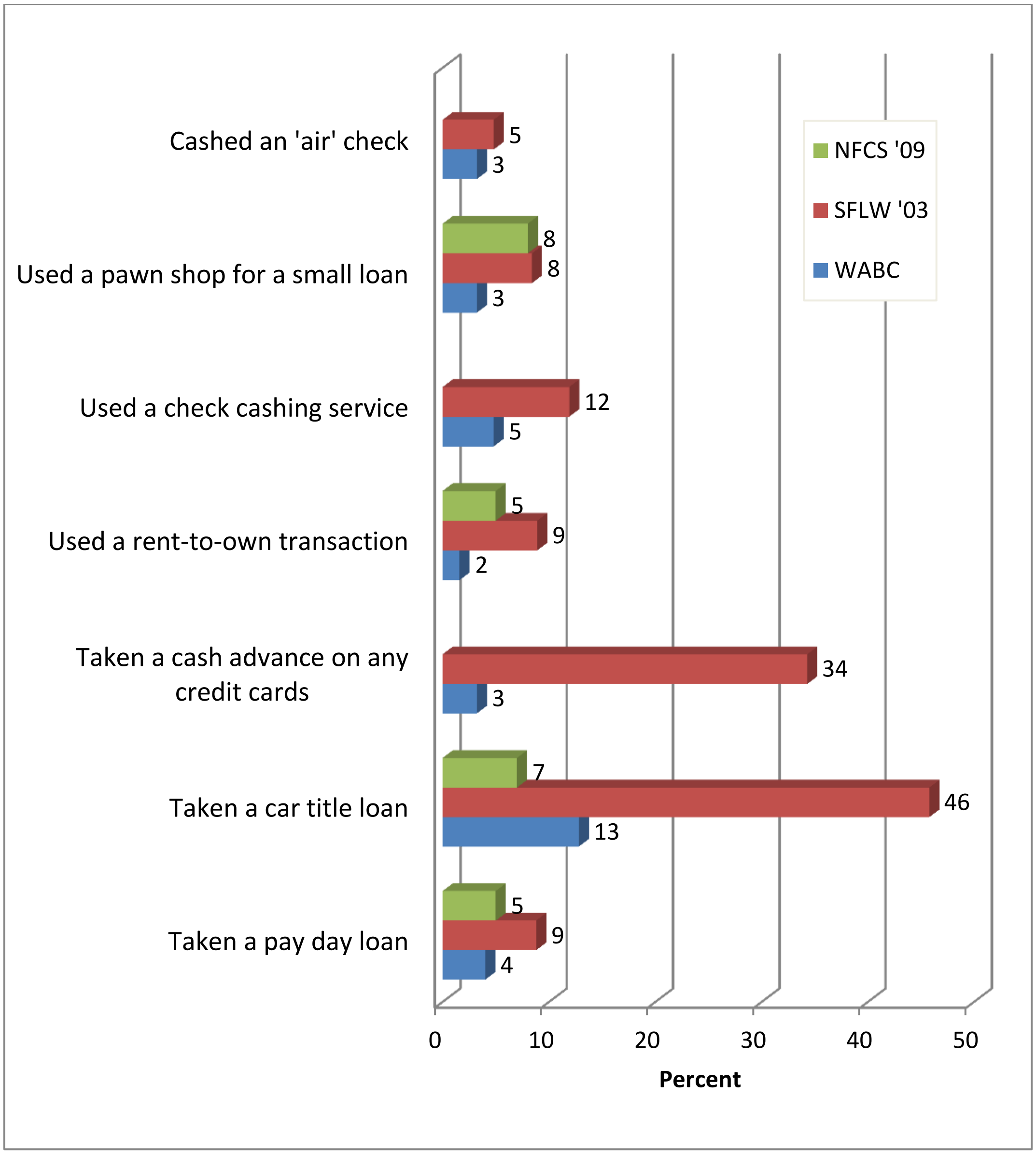


Fringe practices

In regard to engagement in the fringe or alternative financial services market, the vast majority of service providers did not engage in any fringe activities at all. Only four percent of respondents reported having taken a payday loan in the last twelve months, compared to five percent reported in the National Financial Capabilities Study (Applied Research & Consulting LLC, 2009), and nine percent among Washingtonians (Moore, 2003). In addition, five percent of service providers used check-cashing services, much lower than the rate observed among Washingtonians in general (12%) (Moore, 2003).

Among service providers, three percent reported taking cash advances from their credit cards. Three percent had also used pawn shops in the past year, and another 3% cashed blank checks from credit card companies. In comparison, over 34% of Washingtonians had taken cash advances from their credit cards, and 8% reported having used pawn shops (Moore, 2003). About 13% of service providers also reported taking a car-title loan and 2% used rent-to-own services in the last 12 months, compared to 7% and 5% in the NFCS respectively (Applied Research & Consulting LLC, 2009). Considering the fact that between 2.4% and 4% of service providers did not respond to the items mentioned above, actual engagement in the various fringe financial services may have been higher. While it is reassuring to note that engagement with the fringe market by service providers was rather limited, it nonetheless raises the question as to why these fringe activities were used at all in the first place, especially check cashing services.

Figure 13. Fringe practices

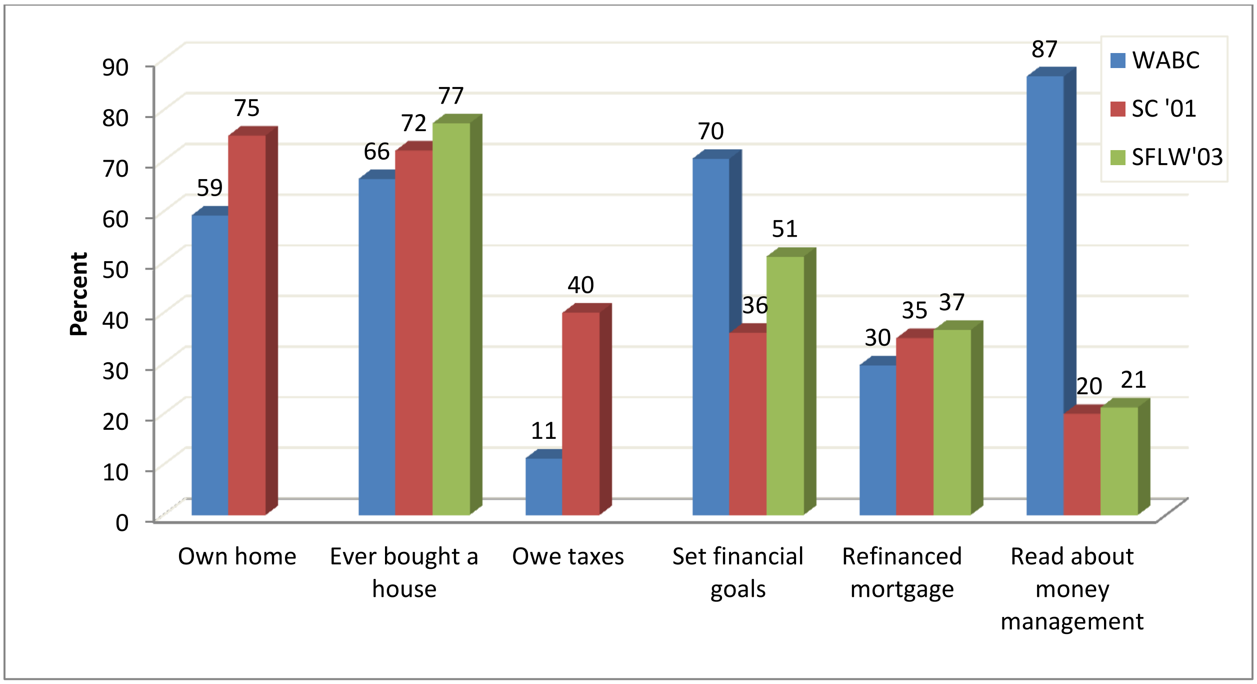


Other financial experiences

With respect to homeownership, less than 6 in 10 respondents owned their homes, compared to over 70% in the Surveys of Consumers study (Hilgert et al., 2003). In addition, fewer respondents reported ever buying a house (66%) compared to the Surveys of Consumers study (72%) and to the Washingtonian general population (77%) (Moore, 2003). Respondents also refinanced their mortgages at a lower rate, possibly due to the lower home ownership rates.

On the other hand, more respondents (70%) set goals for their financial futures than Washingtonians (51%) or the American general population (36%). Additionally, almost 9 in 10 respondents in this survey read about money management compared to about 2 in 10 among the general population (Hilgert et al., 2003; Moore, 2003).

Figure 14. Other financial experiences

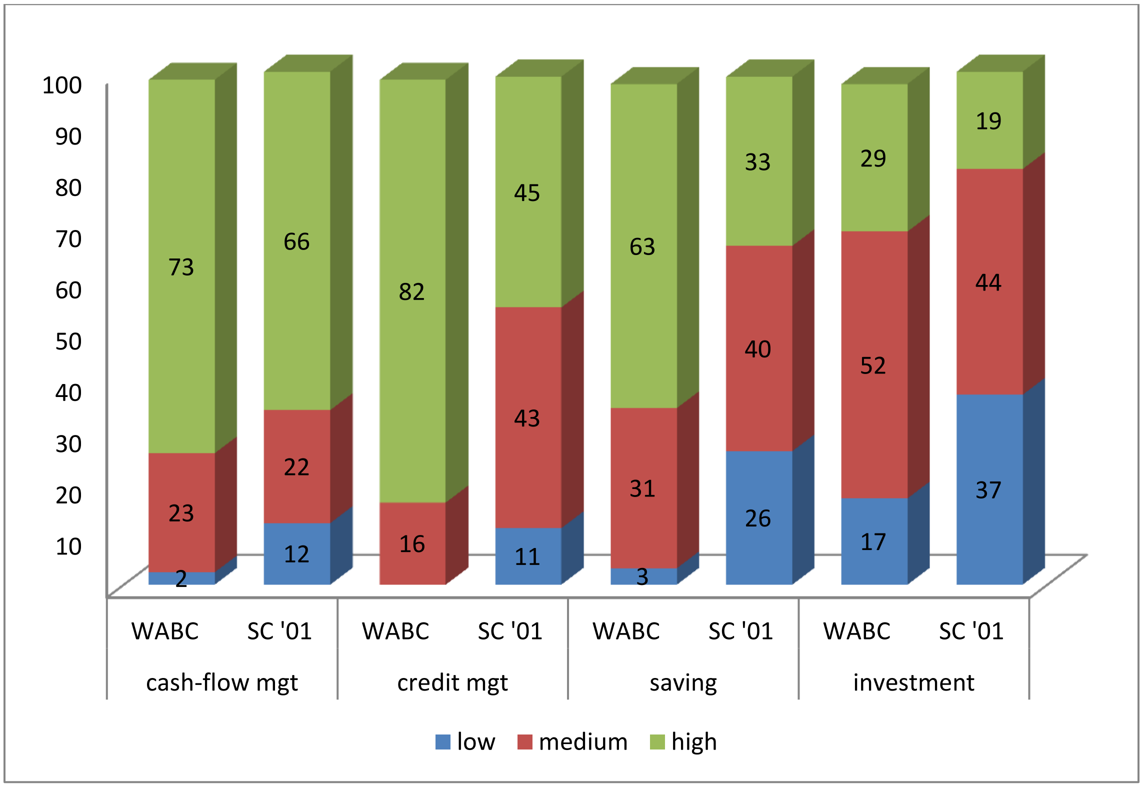


Financial Practices Index

The extent to which service providers were applying the various financial practices in their own financial lives in the areas of cash-flow management, credit management, saving, and investments, was explored by creating indices that classified their practices as low, medium, or high (Hilgert et al., 2003; Sherraden et al., 2007). If respondents reported having fewer than 25% of the practices in each index, they were classified as low; respondents reporting between 25% and 70% of the practices were classified as medium; and those reporting more than 70% of the practices were classified as high. To be consistent with the Surveys of Consumers study, respondents who reported not paying bills on time were classified as having a low level of practice in the cash-flow management index, regardless of the respondent's experience with the other measures within that index.

Overall, the majority of respondents had very positive financial practices. More than 7 in 10 respondents in the credit management index, and 8 in 10 respondents in the cash-flow management index, fell into the high classification. This indicates that the majority of respondents were practicing more than 70% of the items listed under the respective financial practice categories. In addition, fewer than three percent of respondents fell into the low classification for these respective financial categories. However, in the financial practice category of investment, almost 17% of respondents were classified as having low practice levels, while only around 29% of respondents were classified as having high practice levels. Rather, the majority of respondents (52%) fell into the medium classification. The findings suggest that service providers were embracing positive financial behaviors and practices in these areas of their financial lives, albeit with room for improvement in the area of investments.

Figure 15. Distribution of levels of index scores (%), by type of financial practice

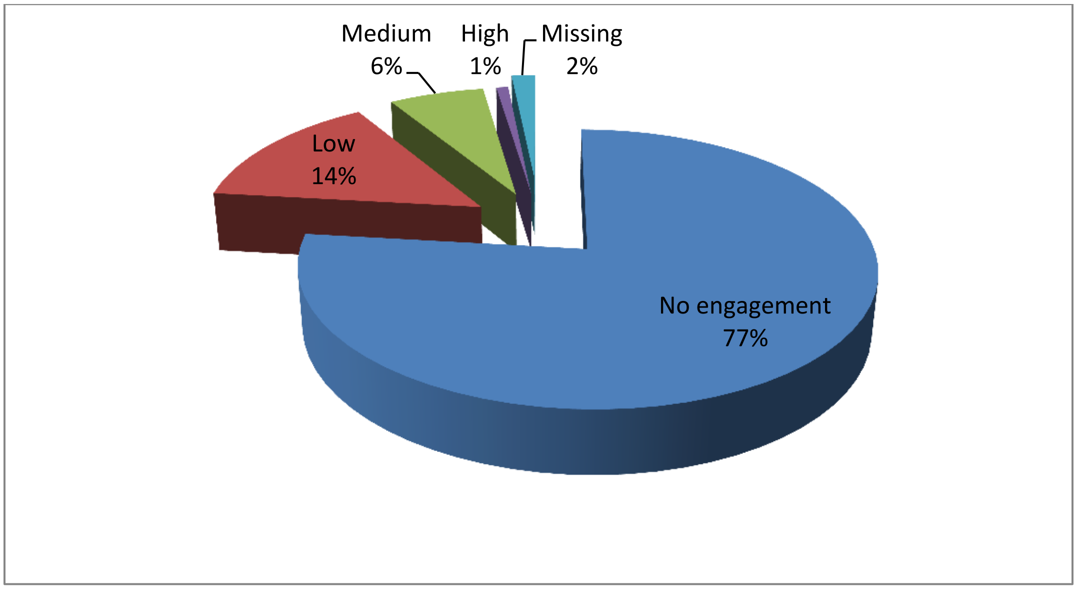


Chi-square goodness-of-fit tests further indicate that the respondents were statistically different (at the .01 alpha level) from the general population as described in the Surveys of Consumers study (Hilgert et al., 2003) with regards to their financial practices. As can be seen in figure 15, more respondents were classified as high in the various financial practice categories compared to the general population, while at the same time, far fewer respondents were classified as scoring low on the various financial practice indices. This finding suggests that service providers in the asset-building field had significantly more positive financial practices than the general population.

In terms of engagement with the fringe financial services market, the results indicate that the majority of respondents had no engagement with the fringe market in the past twelve months, while

14% of respondents had low levels of engagement, 6% had a medium level of engagement, and 1% had a high level of engagement in fringe financial practices.

Figure 16. Fringe services engagement index



While it is encouraging to note that 77% of respondents did not engage with the fringe market, it is surprising to find that potentially up to 23% of respondents did. Engagement in the fringe financial services market is generally considered as a negative or non-protective financial practice (Moore, 2003). This is because these fringe financial products frequently have higher costs associated with their use, and coupled with a higher risk of financial loss, result in a greater likelihood of wealth reduction. As a general practice, service providers in the asset-building field typically steer their clients away from fringe financial products.

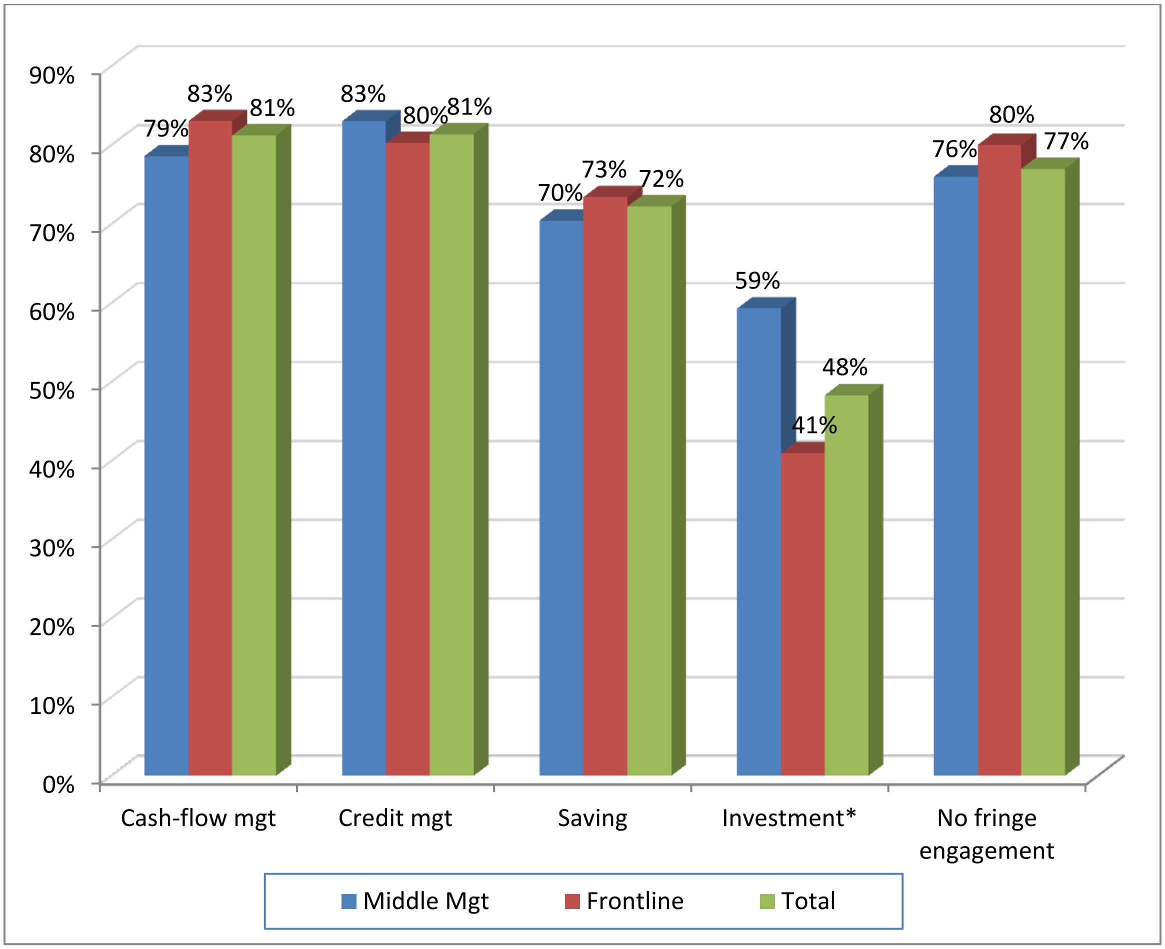
It can be argued that it may require some financial savvy to successfully navigate the fringe financial market, hence, engagement with the fringe market may not necessarily be a bad thing. However, the analysis of financial literacy levels indicates that respondents who used fringe financial products were not significantly more financially literate than those who did not. Even if such engagement suggests financial savvy on the part of respondents, if service providers were supposed to be directing their clients to lower cost and lower risks options, it begs the question why these respondents were not using the more positive options themselves. A more plausible interpretation of the findings is that it indicates a knowledge and training gap, that respondents did not know where and how to access the more protective products.

Comparison of Financial Practice Categories

Comparing the various financial practices, the data indicate that respondents were strongest in cash-flow and credit management, with respondents, on average, self-reporting engagement in about 81% of the financial behaviors in each practice category. This is followed by financial practices related to saving with respondents practicing, on average, 72% of the behaviors measured in the index. Respondents were weakest, however, in practices related to investment, with respondents engaged in, on average, only 48% of the behaviors.

The data further indicate that middle management and frontline staff had generally the same levels of financial practice, with no statistical difference found in financial practices related to cash-flow and credit management, and saving. However, regarding financial practices pertaining to investments, respondents at the middle management level (mean = 59%) were statistically more engaged ($t = 3.86$, $p < .001$) compared to the frontline staff (mean = 41%).

Figure 17. Mean practices by financial practice categories and designation



* Middle management and frontline staff have significantly different means at the $p < .05$ level

There is also no statistical difference between middle management and frontline staff with regard to whether they engaged in fringe services in the past year ($\chi^2 = .21$, n.s.). Of those in middle management, 24% had used at least one fringe service in the past 12 months, compared to 20.5% of frontline staff members.

Similarly, no statistical differences were found between respondents across the different lengths of service in the asset-building field with respect to financial practices in the areas of cash-flow and credit management, saving, and engagement in fringe services. However, with regard to investment practices, respondents were significantly different by length of service ($F = 7.97$, $p < .01$). Not surprisingly, those with less than two years of service (mean = 35%) had significantly lower levels of practice compared to respondents with two to five years of practice experience (mean = 54%), and to those with more than five years of experience (58%). Respondents with more than two years of service were similar with respect to their investment practices.

Respondents were also similar in their levels of financial practices across all practice categories regardless of whether they perceived themselves as having received adequate training to deliver asset-building services or not. In addition, no statistical difference was observed when comparing those who agreed that they needed more training to effectively deliver asset-building services with respondents who disagreed that they needed more training.

Table 5. Level of financial practice by length of service, and by perceptions of training

	Length of service (%)			Received adequate training (%)		Need more training (%)	
Financial Practice	Less than 2 years	2 - 5 years	5 or more years	Disagreed or neutral	Agreed	Disagreed or neutral	Agreed
Cash-flow mgt	81	79	85	79	86	81	82
Credit mgt	78	83	83	81	83	83	81
Saving	71	74	70	72	74	75	71
Investment	35	54	58	47	50	49	49
No fringe engagement	81	78	77	78	79	82	77

Financial and Debt Literacy

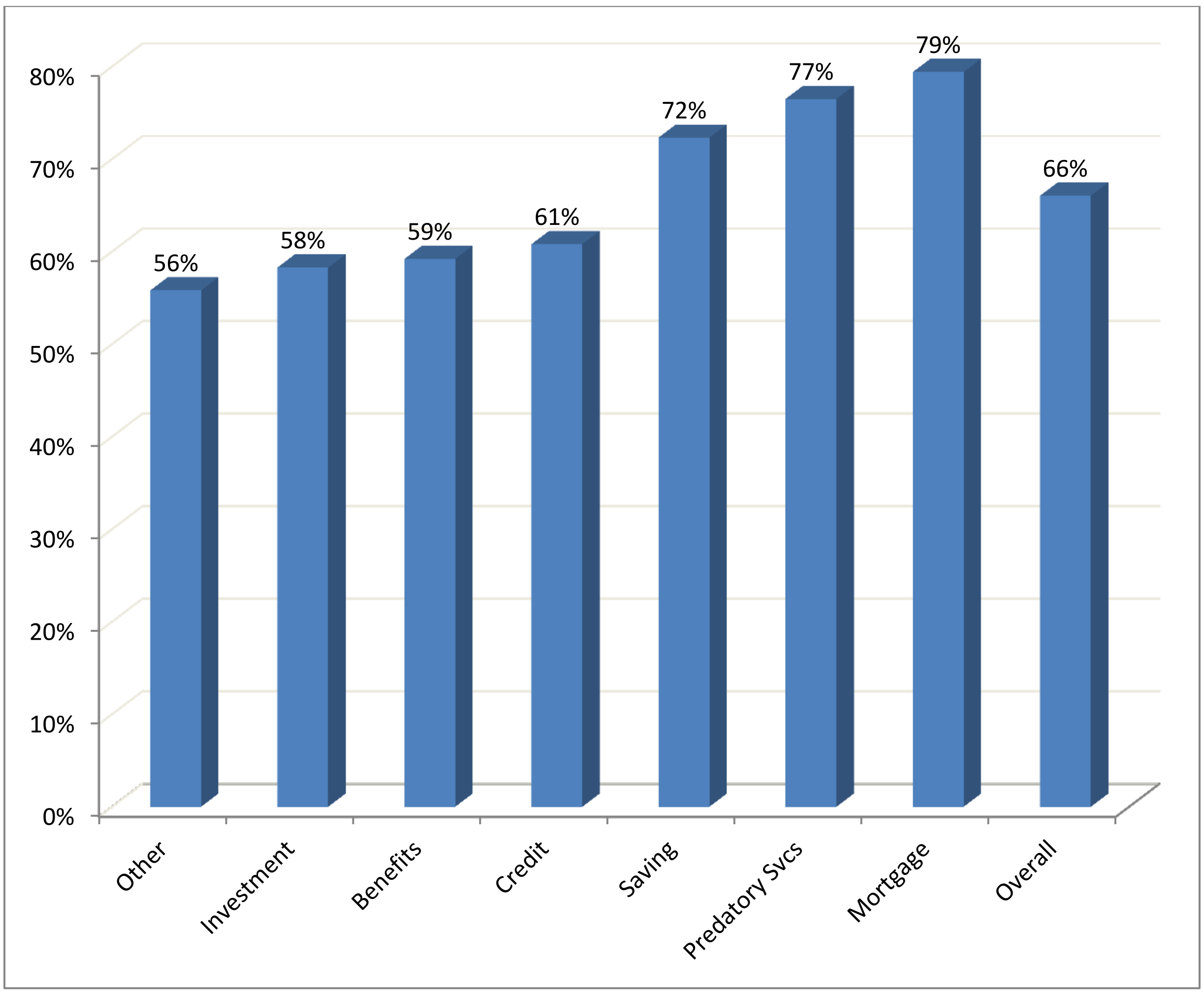
To assess the financial literacy of respondents, a 41-item true-false quiz comprising subscales on credit, saving, investments, mortgages, predatory services, public benefits, and a broad category of other financial management topics, was administered. Other than the subscales on predatory services and public benefits, which are adapted from the Financial Links for Low-Income People (FLLIP) Program (Anderson et al., 2004), the other subscales are based on the Surveys of Consumers study in 2001 (Hilgert et al., 2003). In addition, respondents' debt literacy levels were assessed through a three-item instrument used by Lusardi and Tufano (2009) in their study on debt literacy. The various studies mentioned above provide a comparison against which the literacy levels of respondents in this study could be benchmarked.

On average, respondents answered 66% of the items on the financial literacy quiz correctly. Respondents appeared to be most knowledgeable on matters pertaining to mortgages, with a mean of 79% of items in the mortgages subscale correctly answered. This is followed by knowledge of predatory services (mean = 77%), saving (mean = 72%), and credit (mean = 61%). Respondents are least knowledgeable about public benefits (mean = 59%), investment (mean = 58%), and other financial management issues (mean = 56%).

Further analysis found that the financial literacy levels of middle management and frontline staff were statistically similar on all subscales. No significant differences were observed when comparing those who perceived that they received adequate training to deliver asset-building services and those who did not, and between those who perceived and those who did not perceive a need for additional training.

However, the length of service in the asset-building field was found to be significantly associated with knowledge levels of respondents. Respondents with fewer than two years of service had significantly lower levels of knowledge compared to those with five or more years of service on the subscales that pertain to credit (mean difference = 14%); saving (mean difference = 20%); investment (mean difference = 20%); and on the overall scale (mean difference = 12%). Respondents with between two and five years of service were statistically similar to those with five or more years of service in their level of financial knowledge.

Figure 18. Mean percent of correct answers by financial domain



Mortgages

With the current mortgage crisis where many service providers are actively providing assistance to clients on mortgage-related matters, it is not surprising that respondents were most knowledgeable on matters pertaining to mortgages. However, when compared to the general population based on the Surveys of Consumers study in 2001 (Hilgert et al., 2003), the data indicate that respondents had about the same, or slightly lower, levels of knowledge in this area.

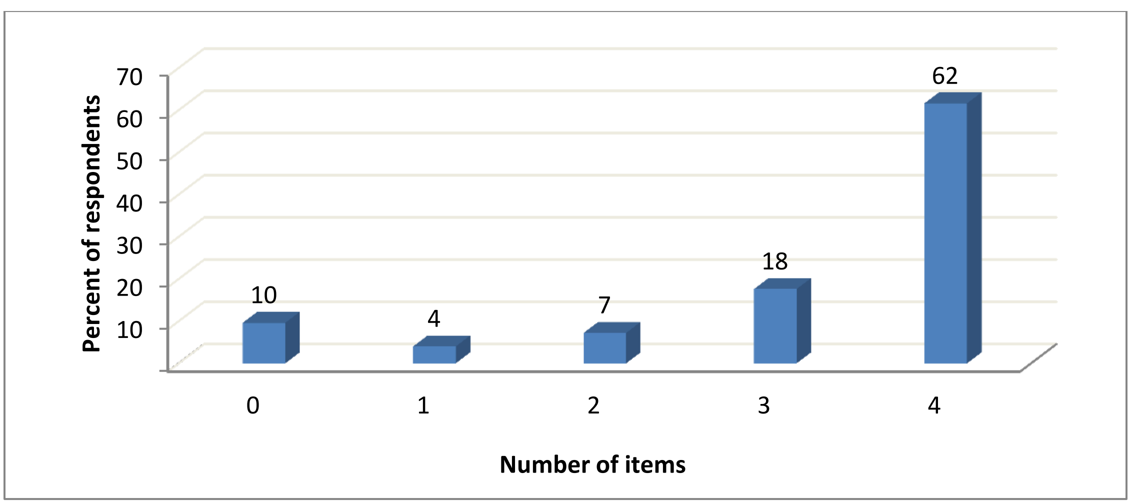
Table 6. Percent correctly answered in the mortgage subscale

	Percent correctly answered (%)	
	WABC	SC'01*
Mortgage subscale total	79	81
If you use your home as collateral for a loan, there is no chance of losing your home. (F)	84	91
You could save thousands of dollars in interest costs by choosing a 15-year rather than a 30-year mortgage. (T)	84	84
If the interest rate on an adjustable-rate mortgage loan goes up, your monthly mortgage payments will also go up. (T)	78	77
Repeatedly refinancing your home mortgage over a short period of time results in added fees and points that further increase your debt. (T)	72	72

* Source: Surveys of Consumers, 2001. (Hilgert, Hogarth, & Beverly, 2003)

In addition, the data indicate that even though 62% of respondents were able to correctly answer all four questions in the mortgage subscale, 10% were not able to answer any of the questions correctly at all. Furthermore, another 11% of respondents were only able to answer one or two of the questions correctly.

Figure 19. Number of correctly answered items in the mortgage subscale



These findings are of concern as one would expect service providers to be more knowledgeable about mortgage-related matters, especially given the magnitude of mortgage problems in the current economic environment, and the attention they have received in the media. If low-to-moderate-income clients are going to asset-building service providers for assistance with their mortgage issues, it is imperative that service providers be better equipped to help them. The fact that over 20% of respondents were able to correctly answer only half or fewer of the items in the subscale needs to be addressed.

Predatory services

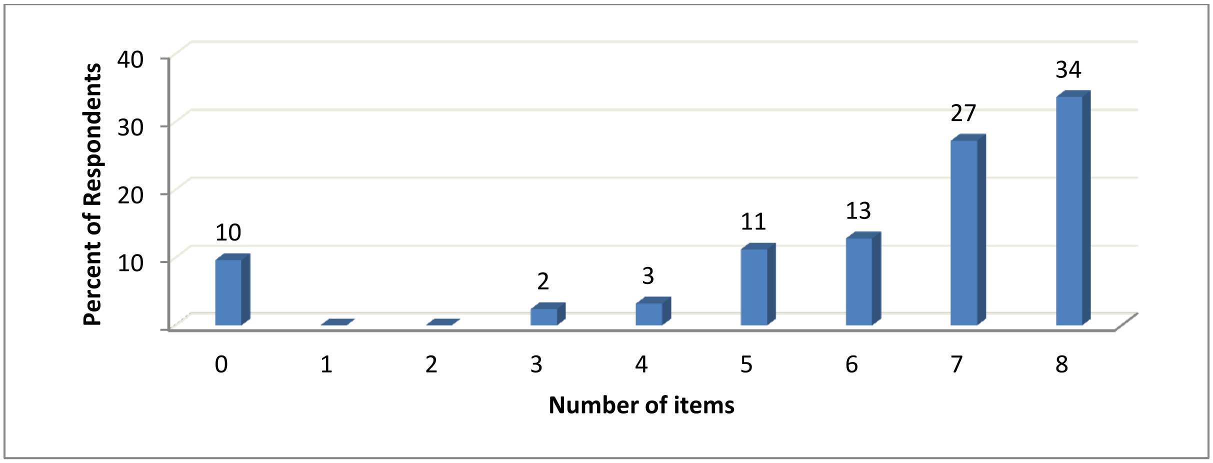
On the eight-item predatory services subscale, respondents were able to answer, on average, 77% of the questions correctly. This is slightly lower than the mean of 79% of items correctly answered as reported among low-income individuals who went through the Financial Links for Low-Income People (FLLIP) program in Illinois (Anderson et al., 2004), a financial education program on which this subscale is based.

Table 7. Percent correctly answered in the predatory services subscale

	Percent correctly answered (%)
Predatory Services subscale total	76.5
Payday loans usually have low interest rates. (F)	88.0
Predatory lending means taking unfair advantage of consumers who need to borrow money. (T)	84.8
Rapid refund services usually charge a higher fee for preparing your tax returns than government and community programs do. (T)	80.0
Door-to-door salesmen have the best deals on insurance. (F)	76.8
Rapid refund services usually charge a higher fee. (T)	76.0
Buying an item through rent-to-own plans usually costs less overall than buying the same item with a bank loan. (F)	76.0
Loans that allow no interest for a certain period often have very high interest rates later. (T)	75.2
Nonbank currency exchanges usually charge less than banks for cashing checks and other financial services. (F)	55.2

While data for comparison on the individual items of the predatory services subscale are not available, respondents appeared to be reasonably knowledgeable about predatory services overall, with almost all items on the subscale having at least three quarters of respondents correctly answering them. Respondents were most knowledgeable about payday loans, with 88% of respondents correctly answering that the statement "payday loans usually have low interest rates" was false. On the other end, respondents were least knowledgeable about non-bank currency exchanges, with only 55% of respondents correctly answering that the statement "non-bank currency exchanges usually charge less than banks for cashing checks and other financial services" was false. This was the only question on the subscale where less than 75% of respondents were able to provide a correct answer.

Figure 20. Number of items correctly answered in the predatory services subscale



In terms of the total number of items correctly answered on the predatory services subscale, only 15% of respondents were not able to answer more than half of the items correctly. On the other hand, 34% of respondents answered all questions on the subscale correctly, while another 27% managed to answer seven out of the eight questions correctly.

While respondents had a reasonable level of knowledge of predatory services overall, there is still room for improvement. The questions asked in this subscale cover very rudimentary aspects of the predatory market. Ideally, a higher proportion of respondents should have been able to answer each question correctly. As it stands now, only a third of respondents were able to answer all the questions correctly.

Saving

On the five-item saving subscale, respondents were able to answer, on average, 72% of the questions correctly. The question on the need to have an emergency fund had the most respondents correctly answering it, with almost 93% of respondents getting the question correct. However, less than half of the respondents were aware of the difference between whole-life and term insurance in regard to saving.

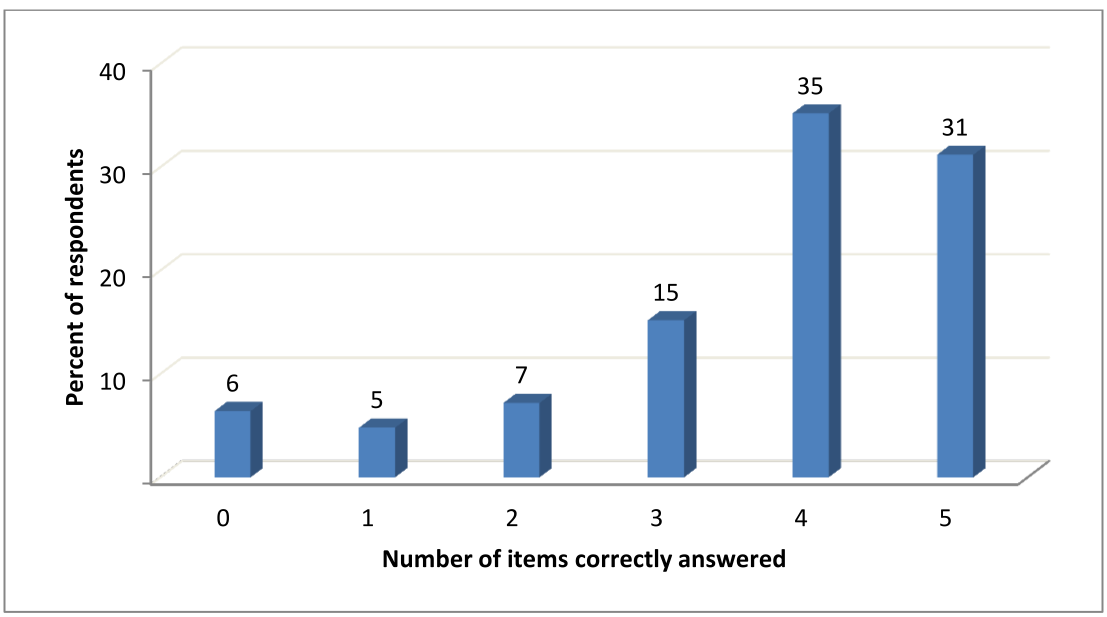
Overall, respondents in this survey had answered fewer questions correctly compared to the general population who, on average, had 77% of the questions correctly answered (Hilgert et al., 2003). In fact, on every item on the saving subscale, slightly fewer respondents answered the questions correctly compared to the general population.

Table 8. Respondents' performance on the saving subscale

	Percent correctly answered (%)	
	WABC	SC'01
Saving subscale total	72.3	77
You should have an emergency fund that covers two to six months of your expenses. (T)	92.8	94
If you have a savings account at a bank, you may have to pay taxes on the interest you earn. (T)	80.0	86
If you buy certificates of deposit, savings bonds, or Treasury bills, you can earn higher returns than on a savings account, with little or no added risk. (T)	73.6	74
With compound interest, you earn interest on your interest, as well as on your principal. (T)	69.6	72
Whole life insurance has a savings feature while term life insurance does not. (T)	45.6	60

On the number of questions each respondent was able to correctly answer, the data indicate that 30% of respondents managed to answer all the questions correctly, and another third of respondents managed to get four out of the five questions correct. However, almost a fifth of all respondents had less than half of the questions correctly answered. Again, the findings suggest that there is room for improvement in both the breadth and depth of knowledge with respect to saving.

Figure 21. Number of items correctly answered in the saving subscale



Credit

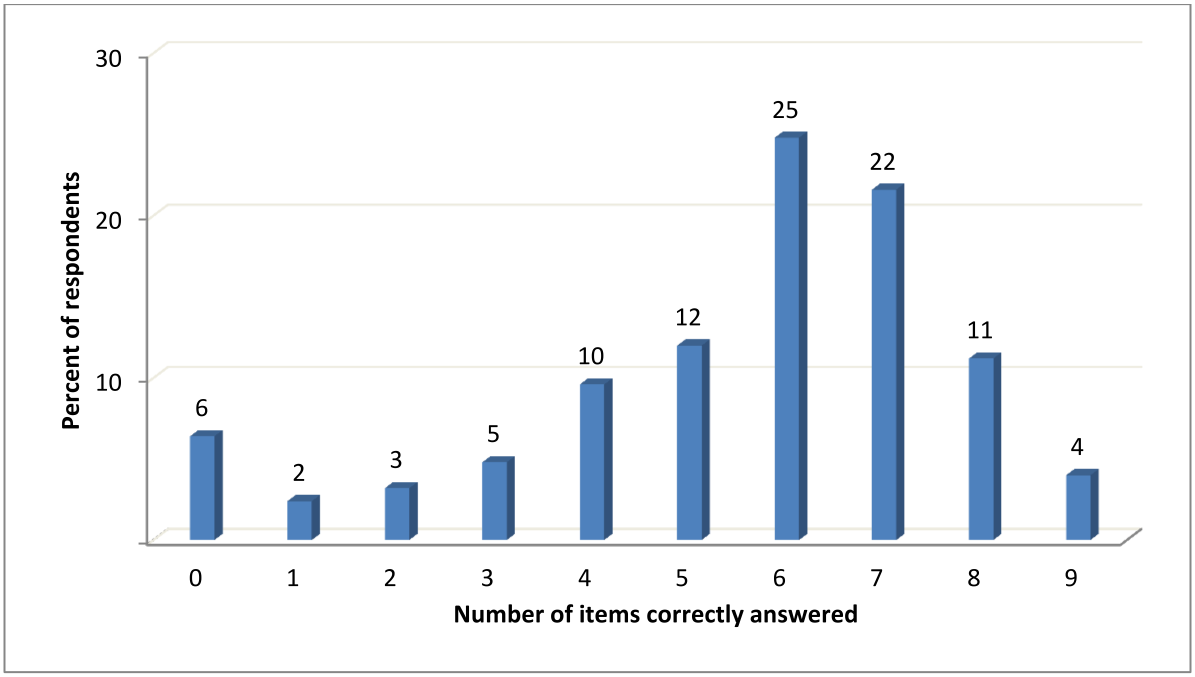
There are nine items in the credit subscale, and on average, respondents were able to correctly answer 61% of the questions in the subscale. This is slightly lower than the general population who had answered, on average, 62% of the items correctly. Unlike the other subscales, respondents had a very varied range of knowledge on the different aspects of credit, from a high of 81% of respondents knowing that one's credit rating is affected by how much one charges on their credit cards, to a low of just 22% of respondents being aware that there is a limit on the liability for charges on lost credit cards. The data further suggest that respondents were not as knowledgeable in the areas of credit repairs, with less than half of respondents getting the credit repair and credit counseling items correct.

Table 9. Performance on the credit subscale

	Percent correctly answered (%)	
	WABC	SC'01
Credit subscale total	60.8	62
Your credit rating is not affected by how much you charge on your credit cards. (F)	80.8	60
Creditors are required to tell you the APR that you will pay when you get a loan. (T)	77.6	92
Your credit report includes employment data, your payment history, any inquiries made by creditors, and any public record information. (T)	75.2	81
If you expect to carry a balance on your credit card, the APR is the most important thing to look at when comparing credit card offers. (T)	72.0	84
Using extra money in a bank savings account to pay off high interest rate credit card debt is a good idea. (T)	71.2	68
The finance charge on your credit card statement is what you pay to use credit. (T)	68.8	69
If you have any negative information on your credit report, a credit repair agency can help you remove that information. (F)	48.0	30
If you are behind on debt payments and go to a credit counseling service, they can get the federal government to apply your income tax refund to pay off your debts. (F)	31.2	22
If your credit card is stolen and someone uses it before you report it missing, you are only responsible for $50, no matter how much they charge on it. (T)	22.4	50

On the total number of items on the credit subscale that were correctly answered, 26% of respondents answered half or more of the items incorrectly. Only 15% of respondents managed to answer eight or more of the questions correctly, while another 47% managed to get six or seven of the questions right. Again, the findings suggest that there is a great variance in the knowledge levels of service providers with regard to credit issues, and that there is still much room for improvement in order to ensure a consistent level of knowledge for all service providers.

Figure 22. Number of items correctly answered in the credit subscale



Benefits

The benefits subscale comprises five items that tests respondents' knowledge of public benefits that most low-to-moderate-income families would be eligible for, viz., Child Tax Credits, Earned Income Tax Credit (EITC), Medicaid, and the Temporary Assistance for Needy Families (TANF) program. On average, respondents were able to answer 59% of the questions on this subscale correctly. This is below the mean of 67% of correctly answered questions observed among low-income individuals who went through the FLLIP program (Anderson et al., 2004).

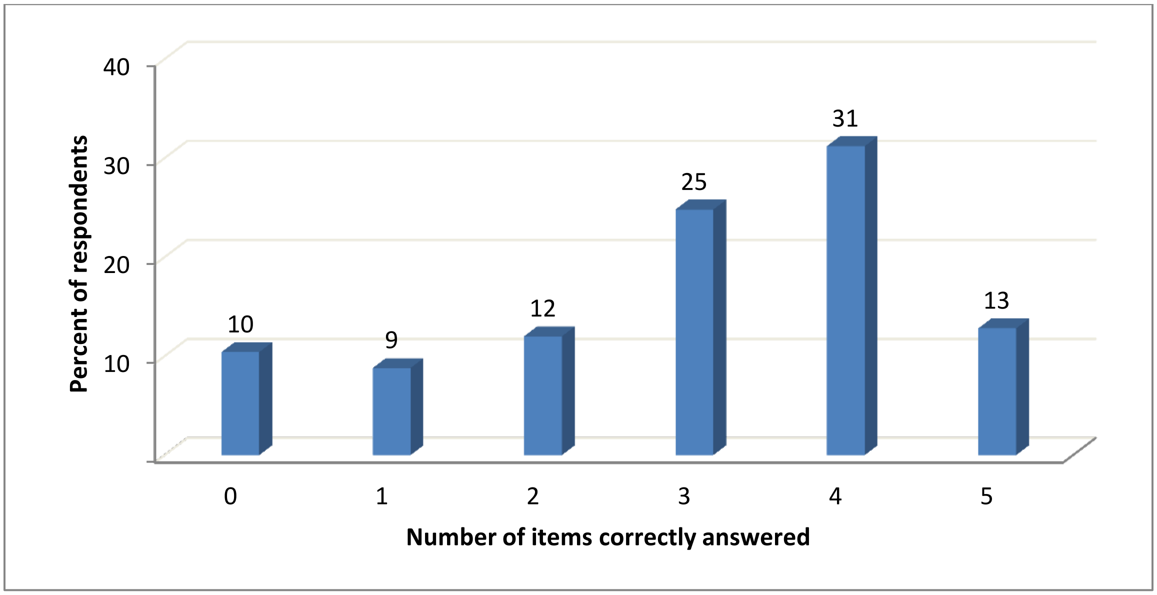
Table 10. Performance on the benefits subscale

	Percent correctly answered (%)
Benefits subscale total	59.2
The Earned Income Tax Credit (EITC) is a government payment that rewards people for working. (T)	70.4
You must owe income taxes in order to receive the Earned Income Tax Credit (EITC). (F)	68.8
You only can receive Medicaid if you also receive Temporary Assistance for Needy Families (TANF) benefits. (F)	65.6
You can lose TANF (Temporary Assistance for Needy Families) benefits if you receive the Earned Income Tax Credit (EITC). (F)	64.0
The Child Tax Credit is a government benefit you can receive if you have a child under 13. (F)	27.2

The data indicate that around 68% to 70% of respondents were familiar with benefits such as EITC and TANF as standalone policies. However, this percentage dropped when respondents were asked how the various policies interface with one another. In addition, it is somewhat surprising that only about 27% of respondents were familiar with the Child Tax Credit. With tax preparation services being an important component of the asset-building field, it is imperative that service providers be conversant with the various tax-related benefits in order to maximize the tax refunds of their clients.

Examining the total number of items correctly answered by each respondent in the subscale, the results indicate that a third of respondents answered less than half of the items correctly. Only 13% of respondents managed to correctly answer all five questions, while 31% managed to get four questions right. Again, the findings suggest that more needs to be done to increase the knowledge of service providers in the area of public benefits. If service providers are themselves ignorant about the public benefits that are available, or about how the various policies interact with one another, they will not be able to effectively connect their clients to these resources.

Figure 23. Percent of correctly answered items in the benefits subscale



Investment

On the six-item investment subscale, respondents answered, on average, 58% of the items correctly. This compares to 63% on average in the general population (Hilgert et al., 2003). There is also a wide range in the knowledge of respondents, with the percentage of respondents correctly answering the items ranging from 36% to 86%. On the whole, respondents in this study tended to be less knowledgeable than the general population. On most of the items, the number of respondents who were able to correctly answer those items was lower than the general population by between 6% and 20%.

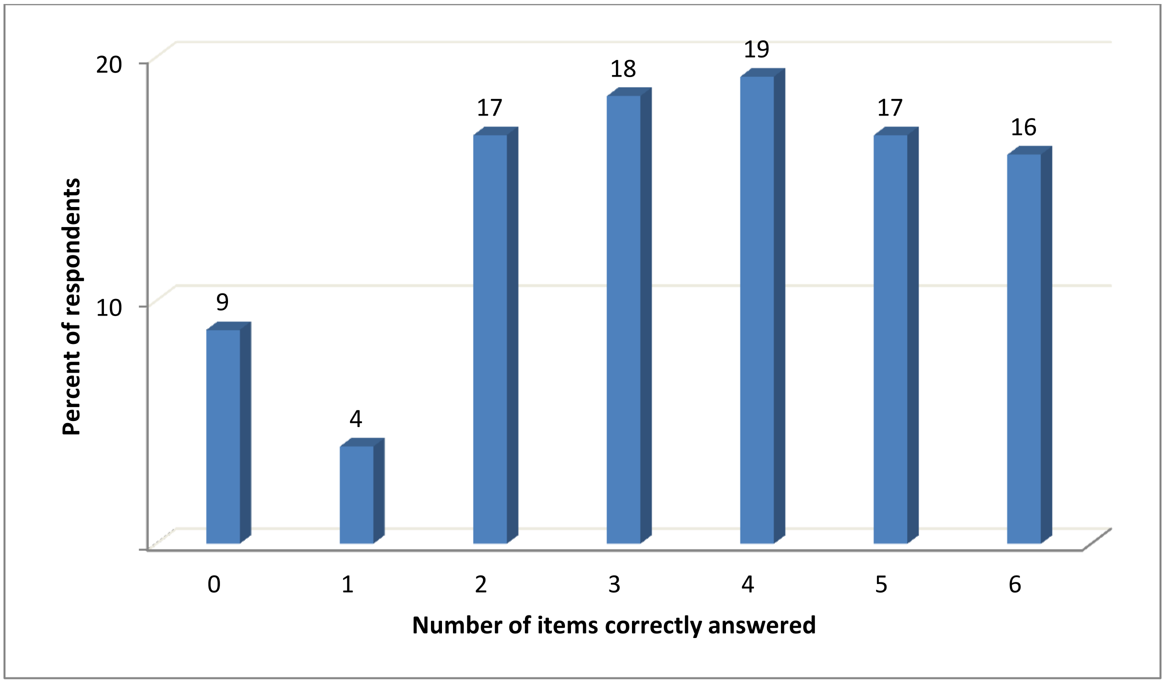
With respect to the number of items that respondents correctly answered in the subscale, almost half of the respondents answered three or fewer questions correctly. While the other half was able to answer four or more questions correctly, only 16% managed to get all of the questions right.

One of the key objectives of the asset-building field is the creation of wealth for lower-income families, and a principal vehicle for wealth creation is through helping clients invest and grow their monies. Knowledge of how to navigate the various investment tools and products available in the marketplace is therefore crucial if service providers are to be effective in achieving the goal of helping their clients create wealth. Findings from this study suggest that service providers may require a greater emphasis on acquiring additional knowledge in the area of investments in order to better serve their clients.

Table 11. Performance on the investment subscale

	Percent correctly answered (%)	
	WABC	SC'01
Investment subscale total	58.3	63
The earlier you start saving for retirement, the more money you will have because the effects of compounding interest increase over time. (T)	85.6	92
Employers are responsible for providing the majority of funds that you will need for retirement. (F)	81.6	72
A stock mutual fund combines the money of many investors to buy a variety of stocks. (T)	64.8	75
Mutual funds pay a guaranteed rate of return. (F)	42.4	52
All investment products bought at your bank are covered by FDIC insurance. (F)	39.2	33
Over the long term, stocks have the highest rate of return on money invested. (T)	36.0	56

Figure 24. Number of items correctly answered in the investment subscale



Other financial matters

In the final subscale comprising items from various broad financial areas, respondents in this study again performed similarly or at a slightly lower level compared to the general population. On average, respondents answered 56% of the items correctly compared to 57% in the general population (Hilgert et al., 2003). More members of the general population were aware of the impact of late payments on taking out future loans and on the cash value of life insurance policies, compared to respondents from the asset-building field. With respect to the statement that “after signing a contract to buy a new car, you have three days to change your mind,” it was surprising that respondents did no better than the general population, with only 18% of both groups correctly answering that the statement is false.

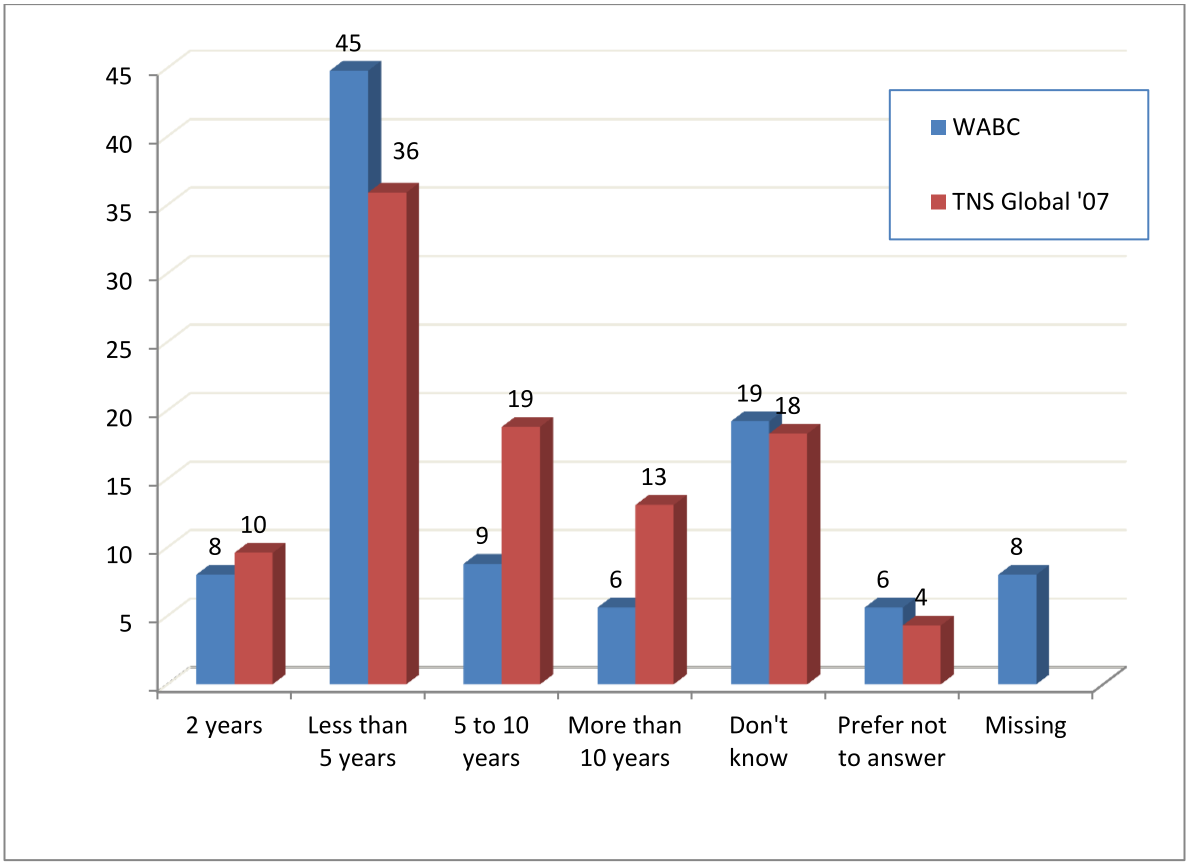
Table 12. Performance on the other financial matters subscale

	Percent correctly answered (%)	
	WABC	SC’01
Other financial matters subscale total	55.8	57
Making payments late on your bills can make it more difficult to take out a loan. (T)	84.8	94
Your bank will usually call to warn you if you write a check that would overdraw your account. (F)	84.0	62
The cash value of a life insurance policy is the amount available if you surrender your life insurance policy while you’re still alive. (T)	36.8	56
After signing a contract to buy a new car, you have three days to change your mind. (F)	17.6	18%

Debt literacy

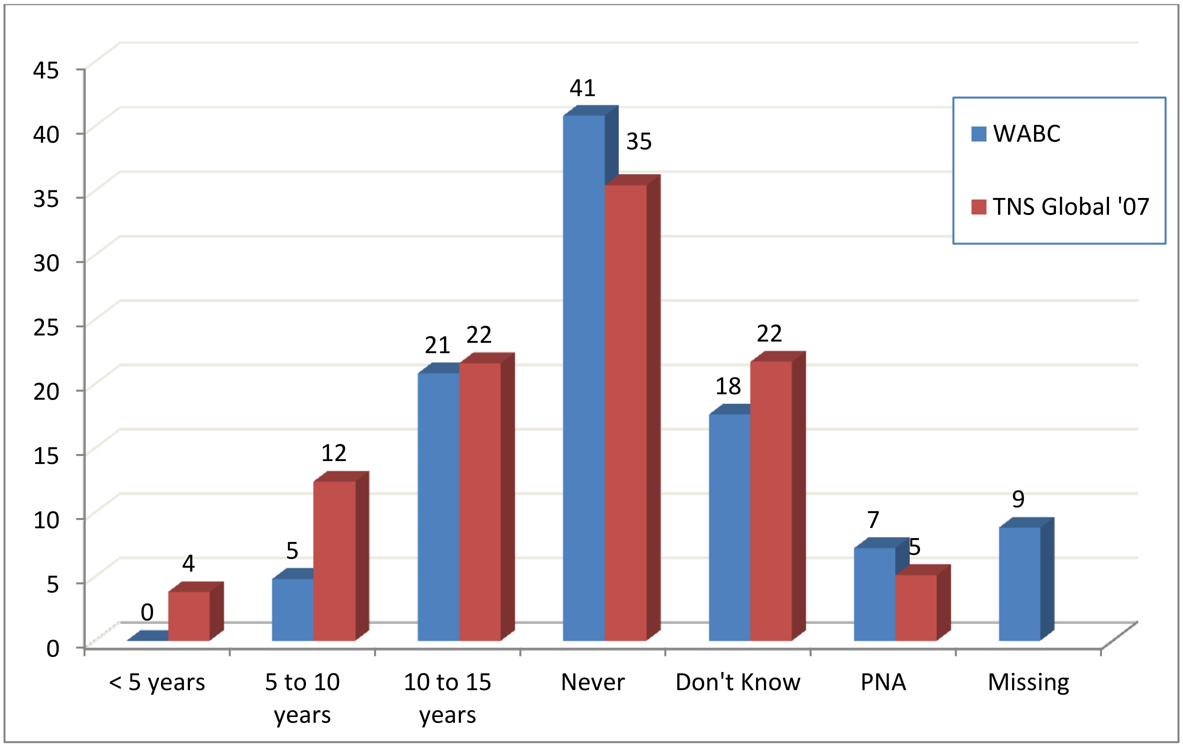
Respondents’ understanding of compound interest and its impact on repayment was assessed with the question “Suppose you owe $1,000 on your credit card and the interest rate you are charged is 20% per year compounded annually. If you didn’t pay anything off, at this interest rate, how many years would it take for the amount you owe to double?” The data indicate that 45% of respondents answered the question correctly compared to 36% of the general population as found in the TNS Global study conducted in collaboration with Lusardi and Tufano (2009).

Figure 25. Distribution of answers on compound interest question



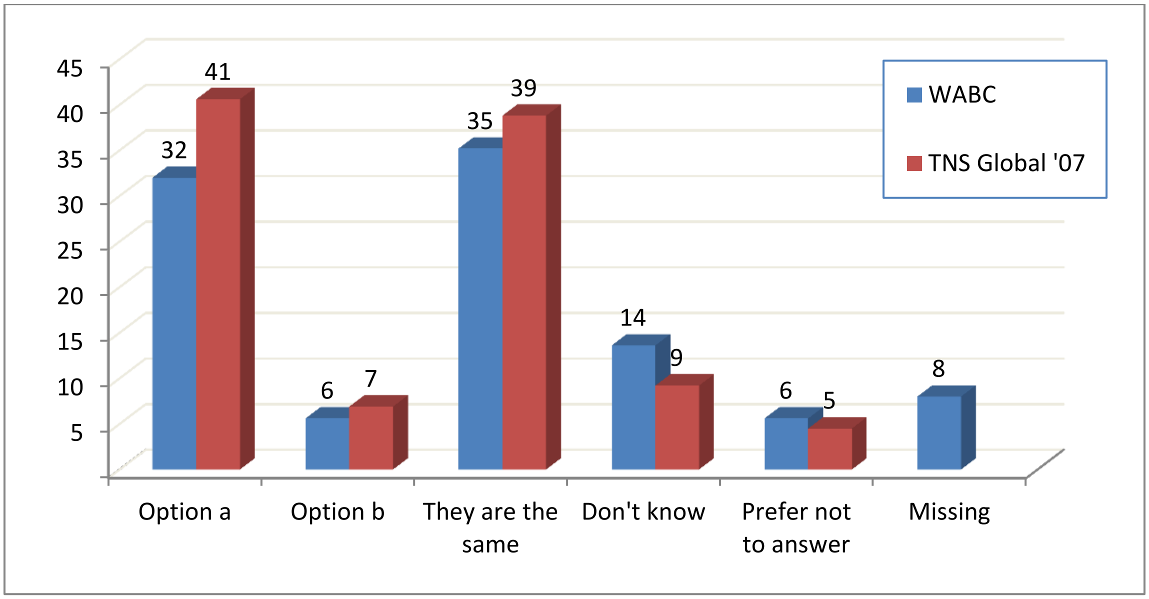
Knowledge of credit card repayment was assessed with the question "You owe $3,000 on your credit card. You pay a minimum payment of $30 each month. At an Annual Percentage Rate of 12% (or 1% per month), how many years would it take to eliminate your credit card debt if you made no additional new charges?" As before, slightly more respondents were able to correctly answer this question (41%) compared to the general population (35%) (Lusardi & Tufano, 2009).

Figure 26. Distribution of responses on credit card repayment



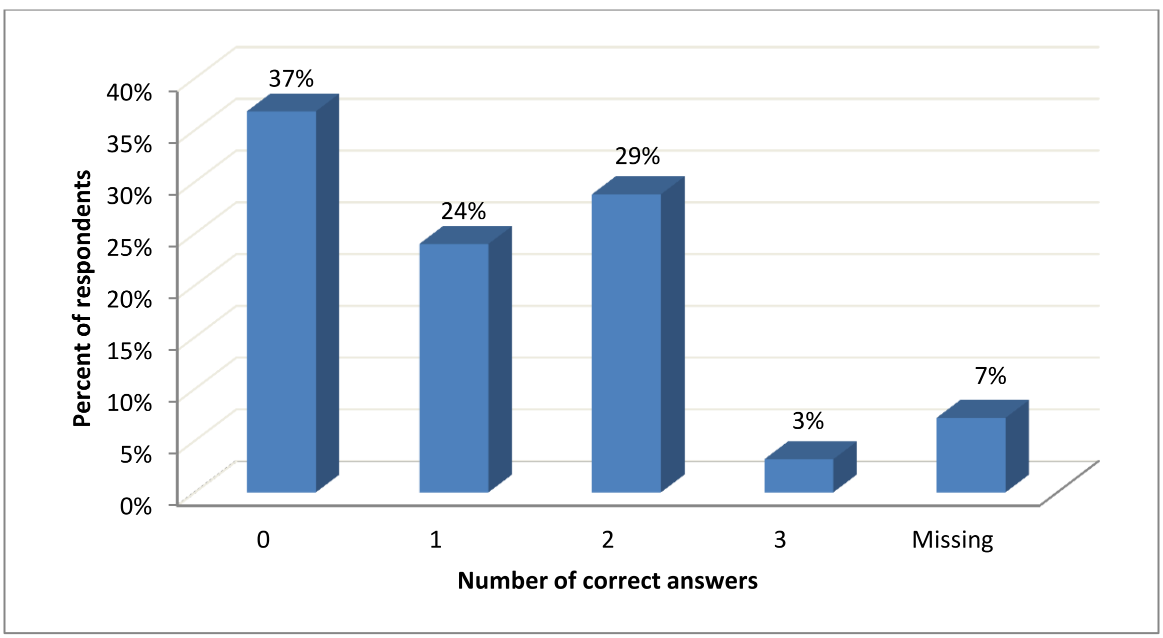
Finally, understanding the time value of money was assessed through the question "You purchase an appliance which costs $1,000. To pay for this appliance, you are given the following two options: a) pay 12 monthly installments of $100 each; b) borrow at a 20% annual interest rate and pay back $1,200 a year from now. Which is the more advantageous offer?" Only 6% of respondents were able to correctly answer the question, compared to 7% in the general population (Lusardi & Tufano, 2009).

Figure 27. Distribution of responses on the time value of money



While respondents in the asset-building field had a similar level of debt literacy as the general population, it has to be noted that less than half of all respondents were able to correctly answer the questions pertaining to compound interest and credit card repayment, and only a small handful were able to understand the time value of money. In addition, 37% of the respondents (44% if missing responses are included) failed to answer a single question correctly, while close to a quarter of respondents only answered one out of the three items correctly. The data clearly indicate that the debt literacy levels of service providers were rather low, and that more attention to increasing knowledge in this area is needed.

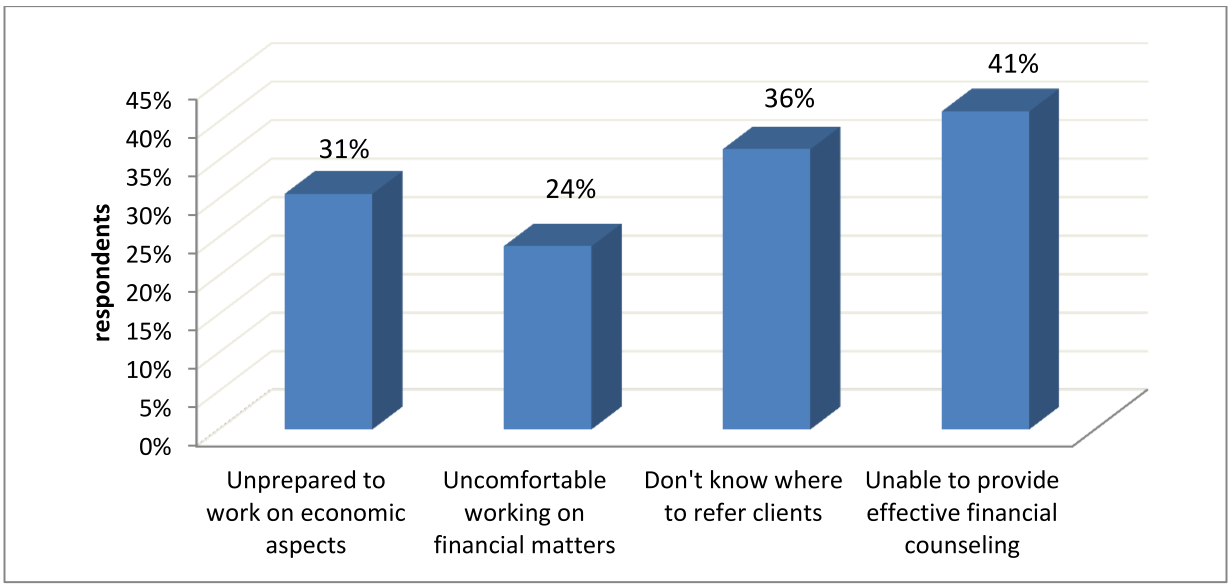
Figure 28. Number of debt questions correctly answered



Perceived Level of Comfort and Preparedness to deliver Asset-Building Services

A series of questions were asked of respondents to assess their perceived level of comfort and preparedness to work on the financial matters of their clients' lives. When asked to what extent they agreed with the statement "I feel prepared to work on the economic aspects of my clients' lives," about 31% of respondents reported that they were not able to agree with that statement. In addition, another 24% of respondents failed to agree with the statement "I feel comfortable working with clients on their financial matters." It is also surprising to find that 41% of respondents were not able to agree with the statement "I am able to provide effective financial counseling to my clients" and that 36% did not agree with the statement "I know where to refer clients for asset-building services that are not available at my agency." Together, these findings suggest that between 25% and 40% of service providers do not feel sufficiently equipped to work in the main areas of asset-building – that of working on the financial lives of their clients either directly through financial counseling, or by referring clients to external resources.

Figure 29. Perceived comfort and preparedness to deliver asset-building services



V. Implications and Recommendations

The data from this study indicate that respondents from the asset-building field generally had very positive assessments of their own financial knowledge and abilities, more so than the general population. While this finding may reflect service providers' confidence in their ability to deliver asset-building services, it may also mask underlying gaps if objective measures of knowledge and behaviors do not align with these positive self-assessments. Results of the analysis suggest that there may in fact be such a gap between self-perceptions and the objective measures of financial capabilities of service providers.

Regarding the financial practices of service providers, the majority of respondents exhibited the various desired financial behaviors and engagement with key financial products such as saving and checking accounts, and most were classified as having high levels of functioning in the various financial practice domains. However, there remains much room for improvement. For instance, 30% of respondents did not use a budget or track their expenses, while around 25% did not have any emergency funds, did not save or invest regularly, and did not have long-term saving goals. In addition, respondents' engagement in various investment practices could be further strengthened as fewer than half of respondents had investments outside of their employment-related retirement plans. Engagement with the alternative financial services market could also be further reduced from the present levels where potentially close to a quarter of respondents had interacted with fringe financial products in the past year.

In terms of financial literacy levels, the results of this study suggest a disconnect between self-perceptions and objective reality. Even though respondents from the asset-building field had more positive perceptions of their financial knowledge compared to the general population, the findings indicate that they had similar or slightly lower levels of financial knowledge as the general population on the subscales pertaining to credit, saving, investments, mortgages, and other financial matters. On average, service providers were able to answer 64% of the questions correctly compared to 67% in the general population (Hilgert et al., 2003). They also had similar levels of debt literacy compared to the general population. In addition, respondents were similar to low-income individuals who completed a financial education program with respect to their knowledge of predatory services and public benefits.

Figure 30. Mean percent correctly answered by domain

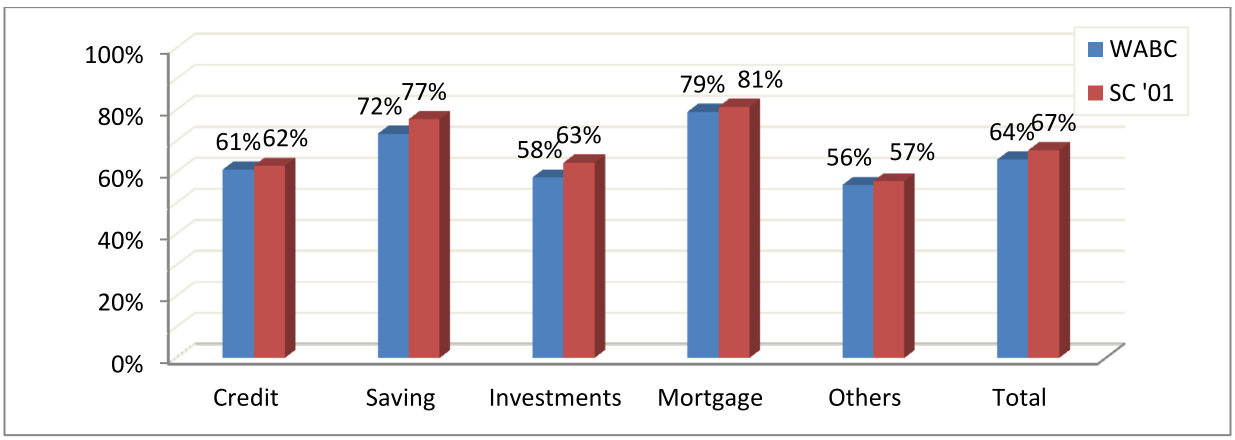
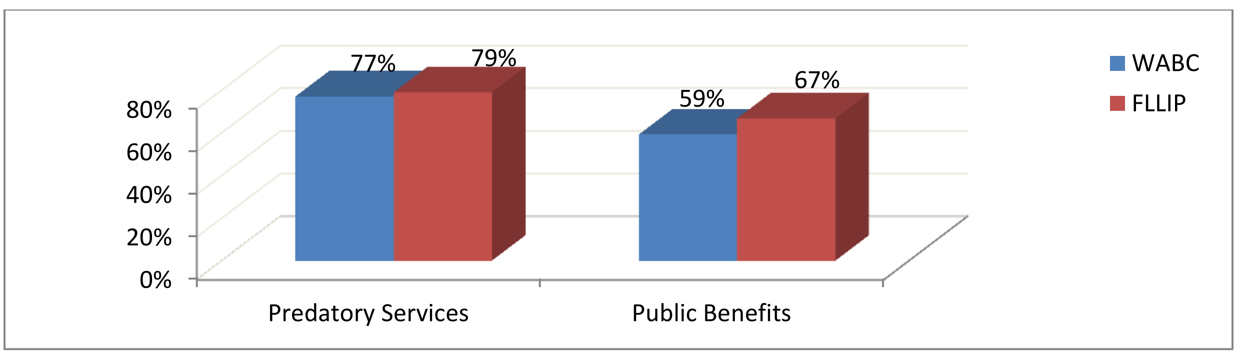
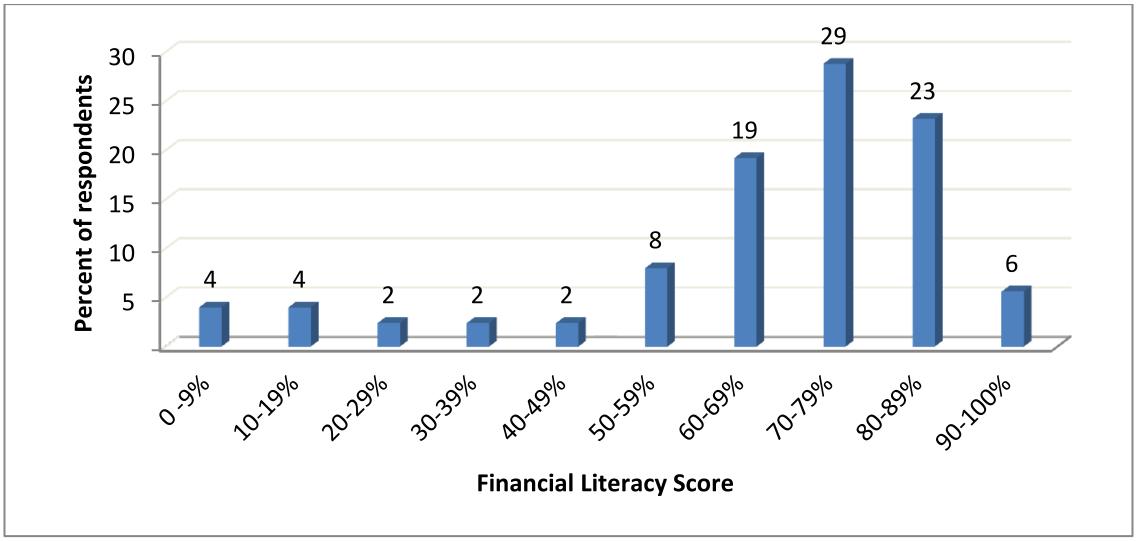


Figure 31. Performance on the predatory service and public benefits subscales



When respondents were classified based on the number of items correctly answered, the data indicate that almost half the respondents answered between 60% and 80% of the questions correctly, while slightly less than a quarter of the respondents answered less than 60% of the items correctly. Only three in ten correctly answered 80% of the items or more.

Figure 32. Percent of financial literacy items correctly answered



These findings suggest that, while service providers had a reasonable level of financial literacy that is comparable to the general population, this level of literacy may be less than ideal for the asset-building field. Furthermore, respondents did not know anywhere between 21% and 44% of questions across the various financial domains, and up to 42% of respondents may actually have known less than the general population. Much remains to be done to increase the financial literacy of service providers.

The level of comfort and preparedness to deliver asset-building services should also be strengthened. While the majority of respondents reported that they feel sufficiently comfortable and prepared to work on the financial aspects of their clients' lives, a sizable proportion felt otherwise. In addition, close to 4 in 10 respondents felt that they were not able to provide effective financial counseling, nor did they know where to refer clients for additional services outside their respective agencies.

To address the gap between service providers' self assessments of their financial capabilities and what they actually know and practice, periodic objective assessments of the strengths and gaps in knowledge, skills, and practices are recommended. Several respondents indicated anecdotally that their financial capabilities had been assessed for the very first time as a result of this study. With periodic objective assessments, service providers will be able to pin-point the areas that need to be addressed in their own personal lives, as well as identify areas of success that could be further strengthened. The results from such periodic assessments could also be used to customize trainings for service providers at the agency levels.

There is also a need for the establishment of a training curriculum that systematically addresses the various aspects of service delivery in the asset-building field, from enhancing service providers' financial knowledge and practices, to equipping them with the skills to work effectively on the financial aspects of their client's lives. Such training programs should have the dual focus of enhancing the financial capabilities of service providers and equipping them with the skills and knowledge to increase the financial capabilities of their clients.

Finally, there needs to be an establishment of a set of core competencies and standards with respect to service providers' financial capabilities. While it is not adequate that service providers have the same level of financial knowledge as the general population, how much more would service providers need to know before being 'certified' as being sufficiently prepared for the field? In addition, what are the core practices that all service providers are expected to have? On the part of the lower-income clients, are there certain core competencies, knowledge, and behaviors that they should have as a result of receiving asset-building services? Discussions on these questions need to begin for service providers to be more effective, and for the asset-building field to advance further.

VI. Conclusion

In conclusion, this study has found that respondents in the asset-building field had very positive self-assessments of their financial capabilities. For many respondents, this positive self-assessment was justified, with the vast majority reporting high levels of functioning across the different financial practice domains, and with some 30% of respondents being able to answer more than 80% of the financial literacy questions correctly. In fact, on the whole, respondents had reasonable levels of financial literacy that are similar to those found in the general population. That said, there is still much that could be done to improve the financial capabilities of service providers. It would not be unreasonable to expect and require all service providers to have a higher level of competence and expertise when compared to the general population. If service providers are to be effective in assisting clients with their financial issues, it is imperative that they are well-trained. This study has established the need for additional training, and has identified possible areas of focus for the training. With periodic and objective assessments of financial capabilities, as well as a comprehensive training plan, service providers can be even more effective in helping low-to-modest-income families break out of the cycle of poverty and get onto the path of wealth creation.

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Appendix 1. Financial practices and financial product ownership

	Percent of WABC respondents reporting (%)	Percent of general population [1] reporting (%)
Cash-flow management		
Have checking account	97.6	89
Pay bills on time	96	88
Track expenses	82.4	79
Reconcile checkbook at the end of the month	48.8	75
Use a spending plan or budget	69.6	46
Credit management		
Have a credit card	85.6	79
Pay credit card balances in full	54.4	61
Review credit reports	85.6	58
Compare offers before applying for a credit card	84	35
Saving		
Have a savings account	96.8	80
Have an emergency fund	75.5	63
Save or invest money out of each paycheck	72.8	49
Save for long-term goals such as education, car, or home	75.2	39
Have certificates of deposit	25.6	30
Investment		
Have money spread over different types of investments	56.0	74
Have any retirement plans/accounts	75.2	63
Have any investment account	37.6	52
Have mutual funds	33.6	46
Have 401(k) plan or company pension plan	69.6	45
Have IRA/Keogh	31.2	43
Calculated net worth in past two years	45.6	40
Participated in employer's 401(k) retirement plan	74.4	37
Have public stock	20.0	24
Put money into other retirement plans such as an IRA	43.2	22
Have savings bonds	19.2	6

[1] Unless other indicated, the comparative figures are based on the findings from the Surveys of Consumers conducted in November and December, 2001 (Hilgert et al., 2003).

Appendix 1. Financial practices and financial product ownership (continued)

	Percent of WABC respondents reporting (%)	Percent of general population reporting (%)
Other financial experience		
Own home	59.2	75
Bought a house	66.4	72
Do owe taxes each year	11.2	40
Often or always plan and set goals for financial future	70.4	36
Refinanced mortgage or loan for home improvements	29.6	35
Read about money management	86.6	20
Fringe services engagement in past 12 months		
Taken a pay day loan	4.0	5[2]
Taken a car title loan where the lender holds the title to your car until the loan is repaid	12.8	7[2]
Taken a cash advance on any credit cards	3.2	34[3]
Used a rent-to-own transaction as a way to buy an appliance or furniture	1.6	5[2]
Used a check cashing service	4.8	12[3]
Used a pawn shop for a small loan while the shop holds items of yours as collateral until the loan is repaid	3.2	8[2]
Cashed a blank check from a credit card company or a printed check from a finance company offering credit if the check is completed	3.2	5[3]

[2] Comparative data from the National Financial Capability Study (Applied Research & Consulting LLC, 2009)
[3] Comparative data from the Survey of Financial Literacy in Washington State (Moore, 2003)

Appendix 2. Results of the financial literacy items

	Percent of WABC respondents reporting (%)	Percent of general population reporting[4] (%)
Credit		
Creditors are required to tell you the APR that you will pay when you get a loan.	77.6	92
If you expect to carry a balance on your credit card, the APR is the most important thing to look at when comparing credit card offers.	72.0	84
Your credit report includes employment data, your payment history, any inquiries made by creditors, and any public record information.	75.2	81
The finance charge on your credit card statement is what you pay to use credit.	68.8	69
Using extra money in a bank savings account to pay off high interest rate credit card debt is a good idea.	71.2	68
Your credit rating is not affected by how much you charge on your credit cards.	80.8	60
If your credit card is stolen and someone uses it before you report it missing, you are only responsible for $50, no matter how much they charge on it.	22.4	50
If you have any negative information on your credit report, a credit repair agency can help you remove that information.	48.0	30
If you are behind on debt payments and go to a credit counseling service, they can get the federal government to apply your income tax refund to pay off your debts.	31.2	22
Saving		
You should have an emergency fund that covers two to six months of your expenses.	92.8	94
If you have a savings account at a bank, you may have to pay taxes on the interest you earn.	80.0	86
If you buy certificates of deposit, savings bonds, or Treasury bills, you can earn higher returns than on a savings account, with little or no added risk.	73.6	74
With compound interest, you earn interest on your interest, as well as on your principal.	69.6	72
Whole life insurance has a savings feature while term life insurance does not.	45.6	60

[4] Comparative figures are based on the findings from the Surveys of Consumers conducted in November and December, 2001 (Hilgert et al., 2003).

Appendix 2. Results of the financial literacy items (continued)

	Percent of WABC respondents reporting (%)	Percent of general population reporting[5] (%)
Investment		
The earlier you start saving for retirement, the more money you will have because the effects of compounding interest increase over time.	85.6	92
A stock mutual fund combines the money of many investors to buy a variety of stocks.	64.8	75
Employers are responsible for providing the majority of funds that you will need for retirement.	81.6	72
Over the long term, stocks have the highest rate of return on money invested.	36.0	56
Mutual funds pay a guaranteed rate of return.	42.4	52
All investment products bought at your bank are covered by FDIC insurance.	39.2	33
Mortgage		
If you use your home as collateral for a loan, there is no chance of losing your home.	84.0	91
You could save thousands of dollars in interest costs by choosing a 15-year rather than a 30-year mortgage.	84.0	84
If the interest rate on an adjustable-rate mortgage loan goes up, your monthly mortgage payments will also go up.	77.6	77
Repeatedly refinancing your home mortgage over a short period of time results in added fees and points that further increase your debt.	72.0	72
Other		
Making payments late on your bills can make it more difficult to take out a loan.	84.8	94
Your bank will usually call to warn you if you write a check that would overdraw your account.	84.0	62
The cash value of a life insurance policy is the amount available if you surrender your life insurance policy while you're still alive.	36.8	56
After signing a contract to buy a new car, you have three days to change your mind.	17.6	18

[5] Comparative figures are based on the findings from the Surveys of Consumers conducted in November and December, 2001 (Hilgert et al., 2003).

Appendix 2. Results of the financial literacy items (continued)

	Percent of WABC respondents reporting (%)	Percent of general population reporting[6] (%)
Predatory Services		
Rapid refund services usually charge a higher fee.	76.0	Not available
Nonbank currency exchanges usually charge less than banks for cashing checking and other financial services.	55.2	Not available
Rapid refund services usually charge a higher fee for preparing your tax returns than government and community programs do.	80.0	Not available
Buying an item through rent-to-own plans usually costs less overall than buying the same item with a bank loan.	76.0	Not available
Predatory lending means taking unfair advantage of consumers who need to borrow money.	84.8	Not available
Payday loans usually have low interest rates.	88.0	Not available
Door-to-door salesmen have the best deals on insurance.	76.8	Not available
Loans that allow no interest for a certain period often have very high interest rates later.	75.2	Not available
Public Benefits		
The Child Tax Credit is a government benefit you can receive if you have a child under 13.	27.2	Not available
The Earned Income Tax Credit (EITC) is a government payment that rewards people for working.	70.4	Not available
You must owe income taxes in order to receive the Earned Income Tax Credit (EITC).	68.8	Not available
You can lose TANF (Temporary Assistance for Needy Families) benefits if you receive the Earned Income Tax Credit (EITC).	64.0	Not available
You only can receive Medicaid if you also receive Temporary Assistance for Needy Families (TANF) benefits.	65.6	Not available

[6] Comparative figures are based on the findings from the Surveys of Consumers conducted in November and December, 2001 (Hilgert et al., 2003).