FINANCIAL HEALTH AND COMMUNITY COLLEGE STUDENTS

CHOOSING AND USING QUALITY PRODUCTS AND SERVICES

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Achieving the Dream™
Community Colleges Count

CFSI Center for Financial Services Innovation

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EXECUTIVE SUMMARY

Millions of Americans are struggling financially, including more than seven million community college students. Unlike their traditional counterparts at four-year institutions, community college students often juggle family responsibilities, several jobs, and other personal demands. These students are more likely to be immigrants, underemployed, and the first generation in their families to go to college. The financial complexities of their lives can be overwhelming and may have negative consequences for achieving their academic goals.

Through formal and informal surveys of administrators, faculty, and students, as well as secondary research, Achieving the Dream (ATD), a national community college reform network, and the Center for Financial Services Innovation (CFSI), an authority on consumer financial health, have identified three prominent financial health challenges that community college students face.

- **Challenge One: Managing Cash Flow and Income Volatility** Juggling multiple income streams alongside irregular and often unexpected expenses makes money management an overwhelming task for anyone, and particularly for those who are also trying to focus on academics.
- **Challenge Two: Lacking a Financial Cushion** Without a cushion of savings, many community college students are one financial emergency away from dropping out and struggling to return to college.
- **Challenge Three: Accessing and Building Credit** Community college students, like other consumers, rely on access to credit to manage cash flows, fill short-term gaps, and pursue long-term opportunities. However many students have thin, or damaged credit files, forcing them to rely on high-cost, and sometimes predatory, loans.

Students who are struggling financially can improve their financial health and ultimately impact their academic success. In fact, financial health, defined as what comes about when daily systems help a person or family build resilience and pursue opportunities, must be seen as an integral component of student success. Through cross-sector partnerships, collective investments, and internal commitments, colleges have an opportunity to offer services that will improve their students' financial well-being. Achieving the Dream is committed to promoting and supporting efforts that improve student success based on knowledge emerging from its Working Students Success Network (WSSN), a group of 19 colleges working under ATD's leadership to help low-income students build financial stability and prepare to move up the economic ladder. The WSSN has advanced an innovative framework that strategically integrates and bundles three distinct but related services: education and employment advancement, income and work supports, and financial services and asset building.

Integrated efforts, bolstered by products and services like those described in this report, can be powerful tools for creating long-term student success. Fortunately, an increasing number of providers are innovating and designing with consumer success in mind. Yet navigating this landscape can be difficult for those without expertise in financial products. In this report, CFSI uses its Compass Principles, guidelines prepared for the U.S. financial services industry, which affirm standards of excellence in the design and delivery of basic tools that people use to manage their daily financial lives.

Because financial products and services are generally not designed uniquely for the community college student, the entire financial services ecosystem was reviewed to identify products and services that would meet students' needs. The tools are meant to be illustrative only and do not constitute an endorsement of a particular product, provider, or program. Students and colleges should ensure they understand any associated fees with any financial product they choose to use.

INTRODUCTION

Millions of Americans are struggling financially. Every day, households and individuals alike juggle income and bill payments, stretch dollars ever farther, and hope that an emergency or shock doesn't tip their precarious financial balance. These Americans work hard, often in multiple jobs. They are striving to improve their lives, ready themselves for increased opportunities, and achieve financial stability. Approximately 7.3 million of these Americans are community college students.[1]

Let's introduce Sarah Johnson, a participant in the U.S. Financial Diaries Research Project[1] whose life reflects many community college students' lives. Sarah, a mother of three, is a part-time student with both a full-time and part-time job. Her husband Sam juggles three jobs. The family has a variety of income sources, which makes it difficult to predict cash flow each month. As a student, Sarah receives tuition grants, which appear as large income spikes twice a year in September and January. Sarah manages the finances for the household, assigning each paycheck to a bill, covering all other expenses with what is left over. She only allows payment of three of her bills to be automatically withdrawn, closely monitoring the inflows and outflows of all other monies. When unexpected expenses arise, such as when her daughter's asthma flares up or their roof begins to leak, the Johnsons have very little cushion, and suffer the consequences, as when their utilities were cut off. While Sarah works hard to manage the money, she finds it hard to budget through the volatility and has growing credit card debt.

Sarah's life looks much like those of community college students across the country. Community college students, unlike their traditional four-year student counterparts, often juggle family responsibilities, several jobs, and other personal demands. These students are more likely to be first generation college attendees, immigrants, and underemployed as well. The financial complexities of their lives can be overwhelming, and may have dire consequences on achieving academic goals. In one study, 71 percent of students who did not complete their program said they did not finish school because they "needed to go to work and make money."[2]

There are opportunities, however, for students who are struggling financially to improve their financial health and ultimately impact their academic success. CFSI, the nation's authority on consumer financial health that works with financial services innovators to build better consumer products and practices, defines financial health as occurring **"when your daily systems help you build resiliency and seize opportunities."**

Financial health must be seen as an integral component of student success. Through cross-sector partnerships, collective investments, and internal commitments, colleges have an opportunity to offer services that will improve their students' financial well-being. Achieving the Dream is committed to promoting and supporting efforts that improve student success, such as its Working Students Success Network (WSSN), which provides information on how colleges can strengthen services to support students in their financial lives. Since its inception, Achieving the Dream has been a catalyst for colleges to strengthen and build their capacity to ensure more students complete their education and expand their future opportunities. As colleges and their administrators begin to view financial health as a strategic imperative, these innovative and integrated efforts, bolstered by products and services like those described in this report, can be powerful tools in creating long-term student success.

1 In 2012, CFSI and the Financial Access Initiative at NYU Wagner, joined forces to create the U.S. Financial Diaries ("USFD"), a ground-breaking consumer research project that collected intimate and detailed financial data from 235 low- and moderate-income households around the country. With leadership support from the Ford Foundation and the Citi Foundation, and additional support and guidance from the Omidyar Network, the U.S. Financial Diaries presents a deeply personal view into the financial lives of hard-working American families. (Names and details have been changed to protect participants.)

Financial health comes about when daily systems help a person/family build resilience and pursue opportunities.

Day-to-day
Smooth and effective management of day-to-day financial life

Resilience
Resilience in the face of inevitable ups and downs

Opportunity
Capacity to seize opportunities that will lead to long-term financial security and mobility

ASSESSMENT METHODOLOGY

By using the Compass Principles as a lens through which to assess quality, community colleges can begin to identify high-quality financial products and services that will help students build long-term and lasting financial health. The remainder of this report presents a brief Compass Assessment of certain financial products and services that can help students address the challenges they face. A selection of provider spotlights describes products and services that follow the Compass Principles. Financial products and services are generally not designed uniquely for the community college student, so we looked across the entire financial services ecosystem to identify products and services that would meet students' needs. The provider spotlights on the following pages are meant to be illustrative only, and do not constitute an endorsement of a particular product, provider, or program. Students and colleges should ensure they understand any associated fees with any financial product they choose to use.

Financial Health and the Compass Principles

More than half of Americans — 57 percent of the country or 138 million people — lack financial health.[3] These individuals are struggling to make ends meet, pay their bills, save for emergencies, and plan for the future. Financial health is correlated with income, but individuals who are struggling financially are not just low-income. One third of those with poor financial health make more than $60,000 a year, and one third of individuals who are financially healthy make less than $60,000 a year.[4]

Financial health also depends on more than individuals' connection to banks. Simply being "unbanked" or "underbanked," meaning that an individual either has no relationship with a formal banking institution, or does, yet still uses alternative financial products and services, does not predict financial health or the lack of it. At 57 percent of the American population, the number of people who are struggling financially is larger than the number of people who are considered "unbanked" or "underbanked."[5]

In establishing financial health, positive financial behaviors and access to high-quality financial services matter. For example, CFSI found that individuals who planned for large expenses were up to ten times as likely as those who didn't to be financially healthy. For those with a savings habit, that number was four times as likely. And there are products that can help individuals build better financial habits.[6]

Therefore, the problem facing our country is not simply a question of access to financial services, but rather a question of access to the right financial services. CFSI has developed a set of principles to help social service providers and others identify high-quality financial services. The Compass Principles are guidelines for the U.S. financial services industry that affirm standards of excellence in the design and delivery of high-quality financial services. The Compass Principles are:

- **Embrace Inclusion — Responsibly Expand Access**
  Consumers, including those from traditionally underserved groups or communities, are creatively reached and well served with a relevant suite of quality, affordable financial services that promote consumer choice and are provided in a safe, dignified, and convenient manner.

- **Build Trust — Develop Mutually Beneficial Products that Deliver Clear and Consistent Value**
  Consumers can clearly understand and derive value, without pitfalls or unwelcome surprises, from financial products designed to align provider and consumer goals.

- **Promote Success — Drive Positive Consumer Behavior through Smart Design and Communication**
  Consumers are empowered to make wise money choices via smart product design and guidance that is relevant to their specific concerns and financial situations, coincides in a timely fashion with key life events or decisions, and is immediately actionable.

- **Create Opportunity — Provide Options for Upward Mobility**
  Consumers have appropriate options that create opportunities for increased financial prosperity, and they are encouraged to pursue those opportunities.

Barriers to Community College Students' Financial Health

More U.S. students are enrolled at two-year public colleges than four-year public or private universities. According to the National Center for Education Statistics, community college students represented 45 percent of all undergraduates as well as 62 percent of all Native American students, 57 percent of Hispanic students, 52 percent of African American students and 43 percent of Asian/Pacific Islander students.

A few characteristics differentiate community college students from students who attend four-year universities. Compared to students at public and non-profit four-year universities, community college students are more likely to be older and supporting families. In 2016, the average age of a community college student was 28.[7] Community college students are also more likely to be lower-income students than other college students.[8] In academic year 2007-08, 62 percent of community college students were from families with incomes below the median, while 43 percent of students at four-year institutions came from such families.[9] To finance their education, most community college students are enrolled in school part-time and work during the school year. Fifty-eight percent of community college students are enrolled in school part-time and 66 percent work more than 20 hours per week.[10]

Given the differences between students at community colleges and four-year institutions, it follows that community college students' financial challenges and their financial health should be examined on their own terms.

Through formal and informal surveys of administrators, faculty, and students, as well as secondary research, Achieving the Dream's WSSN identified the following challenges faced by community college students:

1. **Managing Cash Flow And Income Volatility** — Juggling multiple income streams alongside irregular and often unexpected expenses makes money management an overwhelming task for anyone, and particularly for those who are also trying to focus on academics.
2. **Lack of A Financial Cushion** — Without a cushion of savings, many community college students are one financial emergency away from dropping out and staying out of college.
3. **Ability To Access and Build Credit** — Community college students, like other consumers, rely on access to credit to manage cash flows, fill short-term gaps, and pursue long-term opportunities. However many students have thin, or damaged credit files, forcing them to rely on high-cost, and sometimes predatory, loans.

This brief examines each of these financial health challenges. A methodology is also presented by which college administrators, funders, and other stakeholders can assess the quality of products that help address the challenges. We then present a variety of financial products and services specifically designed to help address each challenge for illustrative purposes. These descriptions do not constitute an endorsement of a particular product, provider, or program.

CHALLENGE ONE: Managing Cash Flow and Income Volatility

Community college students typically manage multiple sources of income. One of the most common forms of financial aid for community college students is the Pell Grant, a Federal grant typically awarded to undergraduate students who have not earned any degree. It is based on financial need, cost of attendance, and full- or part-time student status.[11] More than three million community college students receive a Pell Grant, and of those, 78 percent are working students.[12] Because only 2 percent of those attending community colleges have their full financial needs met with grants, nearly all community college students must look elsewhere to make their financial lives work.[13]

Within the national community college student population, 62 percent of full-time students are employed, while 73 percent of part-time students are employed. At the same time, almost 60 percent of students are receiving one or more kinds of financial aid. Wages and financial aid form several distinct income streams, each with its own timing, reliability, and stipulations.[14] Having several different income sources may lead to income volatility, a financial circumstance in which income and expenses are not fixed, and often unpredictable.

Income volatility can have a dramatic impact on one's financial health. This challenge is especially acute among students. According to research by CFSI, 65 percent of part-time students, many of whom attend community colleges, find it "very or somewhat" easy to predict their incomes for the next month, compared to 76 percent of the general population.[15] Being able to plan, budget, or save becomes especially difficult when income and expenses are unpredictable. In fact, for many households, predictable cash flows can be more important than actual incomes. Seventy-seven percent of participants in CFSI and New York University's U.S. Financial Diaries claimed that financial stability was more important than moving up the income ladder.[16]

Exacerbating the issue of income volatility is a misalignment between income and expenses. Large unexpected expenses rarely occur at the same time as with large income injections. The timing of lump sum payments, such as tax refunds or financial aid disbursements, does not typically align with expense cycles. Take financial aid disbursement for example. After covering tuition and books, lump sum payments are made to students at the beginning of the term. Research conducted by MDRC, a nonprofit, nonpartisan education and social policy research organization, suggests that lump sum payments do not tend to last over the course of the semester and make budgeting difficult.[17] Trying to budget and manage volatile cash flows can take already limited resources away from students trying to stay focused on academics.

COMPASS PRINCIPLES ASSESSMENT AND PROVIDER SPOTLIGHT

Juggling multiple income streams alongside irregular and often unexpected expenses makes money management an overwhelming task for anyone, and particularly for those who are also trying to focus on academics. Several financial services providers have designed products to help consumers budget, save, plan, and manage their financial lives, even in the midst of volatility.

To help address this challenge, consider products aligned with CFSI's Compass Principles:

- **Embrace Inclusion:** Consider products that are accessible and available to students outside of the financial mainstream. Many students may not want, or be eligible for, a traditional bank account, so be sure that eligibility requirements are flexible. Community college students are incredibly busy, so look for products that have virtual, or "traveling" sign-up options. Additionally, seek products with no (or very low) active balance or direct deposit requirements.
- **Build Trust:** Ensure that students are aware of any fees associated with the product (i.e. while there may be no monthly fee, there might be an ATM fee over three withdrawals). There should be no surprises from the student perspective. Additionally, "real time" messages and balances must truly be real time and responsive, so over time the student feels safe in relying on the information provided by the product.
- **Promote Success:** Look for high-quality, comprehensive money management tools that collect all necessary information about upcoming expenses and income, and integrate it into the budget models. Tools must prompt users for information rather than assume they will remember to include all necessary budget items. In addition, predictive technology can be immensely effective in helping students anticipate and prepare for upcoming income or expenses. Over time, as expenses are tracked, suggestions and alerts can be customized to help keep students engaged and on track.
- **Create Opportunity:** Seek products with personalized and intelligent monitoring of spending and income patterns that may help students build new savings and take advantage of cost-savings opportunities. By tracking cash flows, and creating budgets, students can begin thinking in the longer-term and spending or saving their dollars more intentionally. Planning, which has been shown to have a 10x impact on increased financial health,[18] can help position students to take advantage of cost-savings payment structures, which often require more upfront, for savings over time.

Transactional Accounts

Many community college students may find themselves without a traditional bank account, perhaps due to mistrust or previous negative experiences. However, these students are still in great need of tools to track, hold, save, and help budget their money. New digital accounts mirror bank accounts in many ways, while also offering new features, tailored to a mobile and digital population. Students can set goals, such as for a new laptop, and track progress towards those goals. They can also set budgets on things like entertainment or food, in order to better manage bills and other required expenses.

- **Bee** is a virtual bank account, combining a Visa prepaid card and a mobile app which can be used to deposit funds, track spending and make payments. Depositing funds can be done via direct deposit, mobile remote deposit capture ("MRDC", allowing students to deposit checks remotely, through taking a photo with their phones), and at a variety of retailers including CVS, 7-11, and Walgreens. Bee travels to neighborhoods, where their customers live, using a "pop up" model, so that students can sign up in person.
- **CFR Focus Card** — As an alternative to traditional bank accounts, Community Financial Resources ("CFR") partnered with US Bank to develop the Focus Card, which has many of the desired features of a bank account, with less restrictions. There are no monthly fees, no minimum balances, and no holds on deposits. The Focus Card has an accompanying savings account and students can use any ATM without a fee.
- **Simple** is a digital checking account designed to be used primarily via a smartphone. It is free, and comes with a Visa debit card, as well as numerous mobile banking tools, such as goal-setting and tracking, digital "envelopes" for different savings goals, and a "safe-to-spend" feature updated in real time.

Income Smoothing Products

Managing volatile incomes consumes an incredible amount of mental energy to track when bills are due, against when checks are coming in, all while maintaining minimum account balances and everyday expenses. Compounding the stress of mental accounting, community college students juggle class schedules, homework assignments and general study. Innovative financial service providers are building products that can help consumers smooth their income, making it easier to predict, budget and plan, both critical components of financial health.

- **Aid Like a Paycheck** is an innovative service being evaluated by MDRC, whereby student aid is disbursed incrementally over the semester rather than all in one lump sum. Colleges first apply students' financial aid towards tuition, fees, and books at the beginning of the year. The remainder is disbursed to students every two weeks, to help students "smooth" their income, increasing their ability to budget and manage their money. This initiative is in a rigorous pilot phase, with interim results forthcoming in 2017, and final results slated for 2018.
- **Even** is designed for students who have irregular pay schedules, helping to smooth income by first identifying what an "average" pay period looks like, and then automatically saving when pay cycles are above average in order to create a cushion for below average cycles. Even has also created "Pay Protection" to cover its students in the event of a low pay-check and no available cushion. (This feature costs $3/month, it's often covered by employers, and there is no time limit on repayment). There are no additional fees. Even also offers savings and bill-payment planning features.

CHALLENGE TWO: Lacking a Financial Cushion

Because community college students often juggle multiple financial responsibilities, many of them struggle to accumulate an adequate reserve of savings to draw upon in case of an emergency. Compared to students enrolled in college full-time, students enrolled in college part-time are less likely to save on a regular basis: only 34 percent of part-time students have a planned savings habit, compared to 42 percent of full-time students.[19]

Without a financial cushion or savings reserves, a significant proportion of students would be vulnerable in the face of an emergency. A third of part-time students reported that they could only make ends meet for three months or less if they were to face a sudden drop in income. Nearly a quarter of students said they did not know how long they could make ends meet if faced with a sudden drop in income.[20]

According to research from the Pew Foundation, 60 percent of U.S. households have experienced a financial shock in the past year, and more than half of households struggled to "make ends meet" after experiencing this shock.[21] Data are not available on the percentage of community college students who have experienced financial shocks, but the number is likely to be comparable, if not higher, given how many students balance academic responsibilities with family and employment obligations.

In the absence of savings, many individuals turn to high-cost, small-dollar credit to weather a financial shock. But these costly products, which include payday loans and pawn shops, often lead borrowers into a cycle of repeat usage and mounting debt, undermining their ability to build long-term and lasting financial health. For community college students, this problem is especially acute because they must continue working, rather than return to school, in order to pay off the money they have borrowed. According to a study funded by the Bill and Melinda Gates Foundation, 56 percent of students who dropped out of school said a major reason they could not return to school was that they needed to continue working to make ends meet.[22]

COMPASS PRINCIPLES ASSESSMENT AND PROVIDER SPOTLIGHT

Without a cushion of savings, many community college students are one financial emergency away from dropping out of college. Community colleges can help students establish a savings habit and build a financial cushion by offering them access to high-quality products and services that can help them build savings. Access to credit is also an important solution to this challenge, and is addressed in the following section.

To help address this challenge, consider products aligned with CFSI's Compass Principles:

- **Embrace Inclusion:** Consider savings apps or products that students without bank accounts can use to accumulate savings reserves. Many of the programs described below can be used alongside a prepaid card, in addition to a bank account. Likewise, consider products that do not require a large amount of cash to begin. Each program identified is designed for beginning savers and do not require a large cash infusion to begin using.
- **Build Trust:** Ensure that savings products build trust with their users, especially students, who may be just beginning their financial journey. When selecting products, consider programs that show users their savings balances through an online dashboard or reliable messaging. For example, regularly texting balance updates and responding immediately to balance inquiries can help build trust with customers.
- **Promote Success:** Seek out savings products that allow users to accumulate savings seamlessly and automatically. Programs that offer automatic goal tracking features and alert users when they have reached a milestone or fallen below a desired target. Products that also make savings fun and exciting, for example by offering the chance to win prizes, and incorporating gifs into messages, may be particularly effective in encouraging students to save.
- **Create Opportunity:** Look for products that provide students with graduation opportunities to access other products that may help them build financial health. Even savings apps that are designed for a specific "single use" purpose may refer users to other beneficial products and services.

Goal-Based Savings

Social science research shows that people are motivated to act when they set realistic, attainable goals and identify concrete steps they can take to reach those goals. Goal-based savings products leverage this by encouraging users to set goals for themselves, such as building a reserve of emergency savings or saving to start a small business, and encouraging them to reach those goals by providing positive reinforcement along the way. Community college students might find goal-based savings products to be especially suitable and attractive to their lifestyles.

- **Earn** is the nation's leading microsavings provider, offering an online matched savings program designed to help low-income Americans regularly set aside savings. With a goal-based approach, Earn matches students' savings: for every $20 saved, $10 in cash rewards is provided.
- **Opportunity Fund** creates microsavings accounts to help students pay for college and families save for a rainy day. Coupled with financial education classes, students and their families save up to $20/month, which is then matched 2:1

Automated Savings

Automated savings products allow users to save without even realizing it. By automatically deducting small increments of money from a user's account and transferring it into a separate account, these products allow users to build a reserve of savings without even noticing they are doing so. For community college students, many of whom are balancing multiple responsibilities, an automated approach to savings may the key to building, and maintaining, a financial cushion.

- **Acorns** makes investing easy by investing spare change in a diverse portfolio. Similar to Bank of America's Keep the Change program, Acorns rounds up users' expenses to the nearest dollar and invests the balance. Students can also deposit or withdraw specified amounts at any time and the app is free for students to use.
- **Bank of America's** Keep the Change program rounds up purchases on Bank of America sponsored debit cards to the nearest dollar and transfers the difference to their savings account. Users can track their savings in Online Banking to see their savings seamlessly. Because the amounts are so low, users save with noticing large adjustments to their spending.
- **Digit** is an app that analyzes students' income and expense patterns to find small amounts of money that can be set aside in a savings reserve. Digit makes savings automatic and easy by automatically deducting money from a user's bank account every few days. When the user wants to access that money, he or she can simply send a text request that the money be transferred. In this way, Digit has helped users collectively save more than $230 million since the app was launched in 2015.[23]
- **Qapital** helps students save by using rules, or more specifically IFTTT (if this then that) formulas. When one of the rules or goals students have set gets triggered by the formula they have created, money is automatically saved. Students can also have money taken away when they break rules they have set for themselves, like overspending in a certain budget category.

Prize-Linked Savings

Products and services that employ a "prize-linked savings" approach are designed to help students save by making the act of saving fun. By appealing to the exciting and addictive nature of lotteries and other games that offer a chance to win prizes, these products motivate users to save in exchange for an opportunity to earn additional money or other rewards. These types of products may be particularly appealing to community college students, who are younger than the general population and are more likely to be familiar and comfortable with prize-linked games.

- **SaveUp** is an online tool that rewards students for saving money and paying down debt in their existing financial accounts. Save-Up applies the concept of prize-linked savings and gamification to encourage users to adopt better financial habits. Students can win cars, vacations, and more. As of January 2014, SaveUp had helped Americans deposit over $1Billion to savings and rewarded over $750M in debt payments.

CHALLENGE THREE: Accessing and Building Credit

Access to safe and affordable credit is a lynchpin in any individual's financial health. Whether for short-term cash flow needs, or to pursue longer term opportunities, high-quality credit can decrease the ill-effects of income volatility and allow for access to wealth-building purchases and investments, such as buying a home, starting a business, or pursuing higher education.

Although an affordable price tag is often ranked among the most important benefits of attending community college, students may not be able to pay the full cost of attending college out of pocket. Community college students typically have lower incomes than their counterparts at four-year institutions and contend with more family and personal expense. And, while federal aid and loans are typically the safest and most accessible of all student supports, there are some colleges that choose not to participate in the federal loan program, for various cost reasons, and thus prevent their students from accessing these funds. Nearly one million community college students are enrolled in schools that block all of their students' access to federal student loans.[24]

Students who must borrow money to pay for college have limited options if they have low or no credit scores. These students often turn to high-priced forms or credit or loans that can have a detrimental impact on their financial health. Both are riskier, more expensive, and lack the flexible repayment options and protections of federal loans. Community college students with limited and volatile incomes may not be able to adhere to strict repayment terms. Should they find themselves unable to make a monthly payment, they lack any recourse to adjust or modify the terms, and face damage to their credit report. A damaged credit report not only impacts students' access to future credit, but it is also expensive. According to the Annie E. Casey Foundation, a damaged credit score can cost a borrower up to $250,000 more in fees and interest over their lifetime.[25]

Despite both the short-term and long-term consequences, community college students often find themselves in the position of relying on costly credit to get by. Access to high-quality credit, as well as consumer-friendly credit rebuilding tools, can go a long way in paving a smoother path to graduation for financially struggling students.

COMPASS PRINCIPLES ASSESSMENT AND PROVIDER SPOTLIGHT

Community college students rely on access to credit to manage cash flows, fill short-term gaps, and pursue long-term opportunities. The cost of their education, alongside their other life expenses, often exceeds their income and aid. Students find themselves relying on high-cost credit if they lack access to lower-priced credit. Accessing and building good credit are essential components of a financially healthy student's life.

To help address this challenge, consider products aligned with CFSI's Compass Principles:

- **Embrace Inclusion:** Providers of credit-building products should not rely solely on past behaviors and traditional data. Providers can assess a consumer's likelihood to repay by a broad data, alternative data set, including rental and telco payments, for example. Several bureaus are expanding their underwriting to be more inclusive in this way. Also, for some students, especially immigrants, there may be thin or no credit files to assess, in which case, underwriting should use additional types of data.
- **Build Trust:** High-quality, small-dollar loans should offer transparent and easily understandable terms and fees. The full cost of the loan should be shown to borrowers in simple, clear and easy-to-understand language, with no hidden fees, industry jargon, misleading information or fine print. Look for products that ensure that borrowers can obtain customer support easily and offer reasonable and fair dispute resolution and collection practices.
- **Promote Success:** Loans should be structured in a way to encourage successful on-time repayment rather than trap borrowers in a cycle of debt. Meaningful guardrails can prevent harmful misuse of the product and support should be provided to borrowers when they have trouble repaying.
- **Create Opportunity:** Include products that provide consumers information on the terms and types of credit available to them as their scores improve. Product features such as real-time interest rate reductions for on-time repayment behavior incentivize consumers to continue this financially healthy behavior.

See additional guidelines for high-quality small-dollar loans in CFSI's *Compass Guide to Small Dollar Credit*.

Access to Flexible Small Dollar Credit

The ability to secure small amounts of credit quickly and safely is a critical element to student financial health. Community college students in particular, many of whom lack a financial cushion and are juggling volatile incomes, often rely on credit to fill temporary financial gaps. Through creative use of data, an increase in use of alternative underwriting criteria, and leveraging of social networks, new lenders (primarily online) are expanding access to credit for those that need it most.

- **Ascend** provides students with access to low-cost credit along with a path to lower rates by demonstrating financial responsibility. By incenting reduced debt, increased savings, and limited credit card spending, Ascend reduces risk on current loans and rewards the student by lowering interest payments over time.
- **Oportun** uses advanced data analytics to provide responsible, affordable, credit-building loans to underserved Hispanic communities. The company offers loans ranging from $300 "starter" loans to $7,000 for returning customers, as well as bilingual (English/Spanish) servicing and documentation via telephone, web, mobile, or in-person.
- **Puddle** is an online lending site that leverages students' social networks to provide them with quick access to affordable credit. Contributing a small amount of money to a pool and inviting members to your "trust network" unlocks a larger pool of money. For example, a $10 contribution unlocks $20 in credit right away. As students contribute more funds, grow their network, and make repayments, they are able to borrow larger sums of money.

Credit Building and Repair

For those consumers who have thin, no, or damaged credit files, it can be difficult, if not impossible, to find affordable credit. Community college students focused on their school work and personal lives may be hard pressed to find the time to identify pathways to improved credit. In fact, some may not even be aware of what their credit report looks like, or if it is accurate, let alone feel as though they have the resources or know-how to dispute any errors. New products in the market have combined access to credit and savings, helping consumers build, or repair, their credits.

- **Community Financial Resources (CFR) Secured Card** A secured card is an innovative product that combines both access to credit, and savings, all while rebuilding or establishing credit. A security deposit is required, and then used as the full or partial credit limit for the student. While there is an upfront cost of this product (the security deposit), there is also immediate access to a pre-arranged amount of credit. As the product is used, credit is repaired and there is a built-in savings component. CFR has partnered with Cooperative Center Federal Credit Union to offer a Visa Credit-Builder. This product has no annual fee, a clear graduation strategy, and reports to all three credit bureaus (See Lessons Learned Brief for more information).
- **eCredit Hero** acts as more of service than a product, designed for students who want a closer look at what is on their credit reports, an objective review of negative items, and professional support in dispute resolution of any erroneous items. The service is consumer friendly and free of charge.
- **Self-Lender** is a fully digital lending product for students looking to improve, establish, or rebuild their credit while also saving money. No credit check is required, nor upfront fees, unlike secured cards. However, there is also no immediate credit line, making this product very specific to building savings and credit history.

Financial Coaching as a Complementary Support

While the products and services highlighted above can help community college students manage specific financial challenges, financial coaching can help students build financially healthy behaviors and achieve their goals. Financial coaching is a relationship-based, consumer-centric method of helping consumers cultivate financial health.

Research has shown that financial literacy and education programs alone do not create long-lasting behavior change. These programs, which often take the form of prescriptive sessions on a predetermined financial subject, can feel removed from the reality of a consumer's needs. They are often passive and unidirectional flows of information and are typically administered without any actionable tools on which to practice and use the new information. Financial counseling, another type of complementary service, is often conducted in one or two session spurts, catalyzed by some kind of emergency or crisis that needs immediate attention.

Unlike either of these approaches, financial coaching allows the consumer to direct the course of study and build a relationship over time. These client-led sessions aim to change behaviors and enable clients to achieve financial goals. The field of financial coaching is developing, and the delivery of services is beginning to change. Providers and coaches use technology and remote service provision to maintain relationships while creating efficiencies and scale.

Qualities of high-impact financial coaching

- **Actionable** Pairing resources with opportunities to demonstrate financial capability is instrumental in helping consumes establish positive habits and behavior
- **Ongoing** Programs that develop long-term relationships are able to provide ongoing support as consumers to through the process of behavior change
- **Relevant** Focusing subject matter to address participants' specific concerns and financial situations helps to capture attention and drive motivation for change
- **Timely** Timing the delivery of information to coincide with decision points helps consumers better understand the consequences of their behavior[26]

Combining financial coaching with any of the products described above would create a powerful combination of knowledge and engagement with tools that could have a deep and lasting impact on the financial lives of community college students.

Examples of financial coaching tools

- **Albert** is a financial coaching app that looks at a student's entire financial pictures to recommend actionable improvements like repaying credit card debt, purchasing renter's insurance, lowering credit card fees, or setting up the right retirement plan. In addition to offering financial advice, Albert partners with financial institutions so users get a loan with a few taps, save automatically each week, or seamlessly purchase insurance.
- **My Budget Coach** is an online platform that connects working families and individuals with trained financial coach to help develop healthy financial habits and make well-informed financial decisions. During regular coaching sessions, coaches deliver financial education combined with a suite of intuitive budgeting, financial management, and goal tracking tools.
- **Your Money Your Goals** is a financial empowerment toolkit offered by the Consumer Financial Protection Bureau (CFPB), designed to be used by social service and community organizations. The toolkit, along with training and implementation guides, is designed for coaches and other front line staff to help students on a variety of financial health issues, such as debt management, savings, credit and asset building, and budgeting.

CONCLUSION

By attending community college, students have made an investment in their future. However, many community college students face financial challenges that can make the realization of those goals overwhelming. They must manage unpredictable income and expenses and weather financial shocks without the aid of financial cushions. Many lack access to affordable, high-quality credit that could help them manage short-term financial emergencies and pursue long-term opportunities.

Fortunately, there is great opportunity for community colleges to help their students improve their financial health, and in turn, their academic futures. Through the integration of high-quality financial services, such as those presented in this report, community colleges can take great steps towards improving students' financial health. Further, drawing upon the Compass Principles, colleges have a framework for identifying products that embrace inclusion, build trust, promote success, and create opportunity for students, beyond those highlighted in this report.

Acknowledging that students at these colleges often balance competing priorities, many forward-thinking colleges have started offering auxiliary services for their students, such as child care, food pantries, and even tax services, in an effort to increase retention and graduation rates. Removing non-academic challenges through the use of high-quality financial services and products can have great positive impacts on students' academic achievement and completion.

ENDNOTES

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