Self-Help
Creating and Protecting Ownership and Economic Opportunity

PROVIDING A FRESH START

An analysis of Self-Help Federal Credit Union's Fresh Start product

Sarah Wolff

An analysis of Self-Help Federal Credit Union's Fresh Start product shows that the loan helps most borrowers increase their credit score. Borrowers who started out unscored or with scores below 640 were those most likely to see a meaningful increase in their credit score. Unscored borrowers built an average score of 643, and scored borrowers who increased their score saw an average gain of 47 points. If those borrowers who saw a credit score increase applied for an auto loan from the credit union, they would save $3,200 on average in interest as a result of the credit score change.

This report describes the Fresh Start product and its borrowers and analyzes the change in credit score of borrowers who received this loan. The evaluation suggests aspects of the product design and delivery that might be changed to create a more meaningful impact for a greater number of borrowers. It also adds to the body of knowledge on credit building products and suggests areas of future research.

February 2016
self-help.org

Acknowledgements

Self-Help would like to thank MetLife Foundation for their generous financial support. Without that support we would not have been able to undertake this evaluation of the Fresh Start program. Also, many people at Self-Help contributed to this project. Special thanks go to Rachel Atkinson and Brenda Garcia Lemus, interns who worked diligently on the analysis and report. Also, to Self-Help staff members Tracy Cox, Laura Benedict, Jeannine Esposito, Mark Ryan, and Esmeralda Hernandez and to Evelyn Stark of MetLife Foundation, who all provided important product information and feedback.

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Executive Summary

The Fresh Start loan provides members of Self-Help Federal Credit Union a tool for building or establishing a positive credit history. The loan functions as a savings product more than it does a traditional loan. Importantly, the borrower does not receive the loan proceeds until the loan has been paid off. At the start of the process, the proceeds are put into a locked savings account. The borrower makes monthly payments which pay down the principal plus 3% interest. Once the loan is fully repaid, Self-Help releases the hold on the savings account giving the borrower access to the loan proceeds. Throughout the loan term Self-Help reports payment history to all three major credit bureaus. In this way, the borrower builds credit history and savings by using the product.

More than 2,000 borrowers have used the product, which has been offered in various forms since the credit union began in 2008. This evaluation takes a look at the product in close detail to understand who uses it and what outcomes borrowers experience, with a particular emphasis on how the credit scores of borrowers changed.

The main findings of the evaluation are:

- More than one quarter of Fresh Start borrowers (26%) did not have a credit score before they took out a Fresh Start loan. Fresh Start borrowers are largely minorities: 56% of borrowers were Hispanic/Latino and 19% were Black.
- Seventy percent of borrowers increased their credit score after taking out a Fresh Start loan. Borrowers with starting scores below 640, those who started out unscored and younger borrowers saw the greatest and most meaningful increase in their credit score. Most borrowers (71%) with high initial credit scores (750 and above) experienced a decline in credit score.
- Borrowers who were unscored at loan origination were able to build an average score of 643, falling at the bottom of the "average" credit category. For borrowers who improved their existing score, the average gain was 47 points.
- The number of on-time payments was found to be an important driver of credit score improvements. However, more than half of Fresh Start borrowers paid off or closed their loan early, likely truncating the positive credit score benefit of the loan.
- Nearly a third (32%) of borrowers increased their credit score by enough to qualify for a lower rate on an auto loan at Self-Help. These borrowers would save, on average, $3,211 in interest over the life of a typical auto loan as a result; this amount is roughly equal to the estimated annual amount car owners spend on fuel, maintenance, and insurance.

Introduction

A strong credit score is a passport into the financial mainstream. Credit scores are used to determine the terms and eligibility for basic financial products such as affordable credit cards, mortgages, or personal and business loans. Borrowers with no credit score or a weak credit score typically pay more for loan products. Credit is also a factor that landlords, insurance companies, and even employers take into consideration when making decisions and setting prices.

Many nonprofits and credit unions have recognized credit building as a crucial first step for underbanked populations entering the financial mainstream. In 2012, the Credit Union National Association estimated that 15% of U.S. credit unions offered credit building programs (Bernard, 2012). Credit builder programs are also offered by hundreds of nonprofit organizations nationwide, including social service agencies, community development corporations, and housing providers (Credit Builders Alliance, n.d.).

Though credit builder products are common, little is known about their effectiveness at improving borrower credit scores. Few providers have published evaluations of their credit builder programs and little outside research has studied their impact.

This report investigates the impact of Self-Help Federal Credit Union's credit builder loan: Fresh Start. The loan functions as a savings product more than it does a traditional loan. Importantly, the borrower does not receive the loan proceeds until the loan has been paid off. At the start of the process, the proceeds are put into a locked savings account. The borrower makes monthly payments which pay down the principal plus 3% interest. Once the loan is fully repaid, Self-Help releases the hold on the savings account giving the borrower access to the loan proceeds. Throughout the loan term Self-Help reports payment history to all three major credit bureaus. In this way, the borrower builds credit history and savings by using the product.

Thanks to a grant from MetLife Foundation, Self-Help contracted with its nonprofit, nonpartisan research and policy affiliate, the Center for Responsible Lending, to conduct this evaluation. The primary goals were to:

- Understand who Fresh Start borrowers are
- Analyze the changes in Fresh Start borrowers' credit scores and identify contributing factors
- Make recommendations to improve the program based on findings
- Share findings and recommendations with other credit builder providers

We present this evaluation with the hope that other organizations can learn from our experience and use these findings to improve their own credit building products, as well as to conduct similar evaluations. Lenders interested in helping consumers build credit want to structure and tailor their credit building products to have the most impact and make the best use of resources. This evaluation details our research process, findings, and the challenges we faced to provide information that can be used to improve credit building programs at Self-Help and elsewhere.

Credit Building in Context

Community developers have long promoted asset building as a means of improving personal and financial wellbeing. Asset building—the process of accumulating wealth—has far-reaching benefits; in addition to increasing economic security, it is linked with improved physical health, childhood self-esteem, and women's social status (Page-Adams & Sherraden, 1997). In today's financial system, it is difficult if not impossible to accumulate wealth without first establishing a good credit history. FICO, a leading consumer analytics company, boasts that 90% of all lending decisions in the US rely on a FICO score (fico.com). That makes it hard to hide from a bad credit history. A lack of, or a low credit score, bars consumers from the loans they need to buy a home or a car, start a business, or pay for higher education.

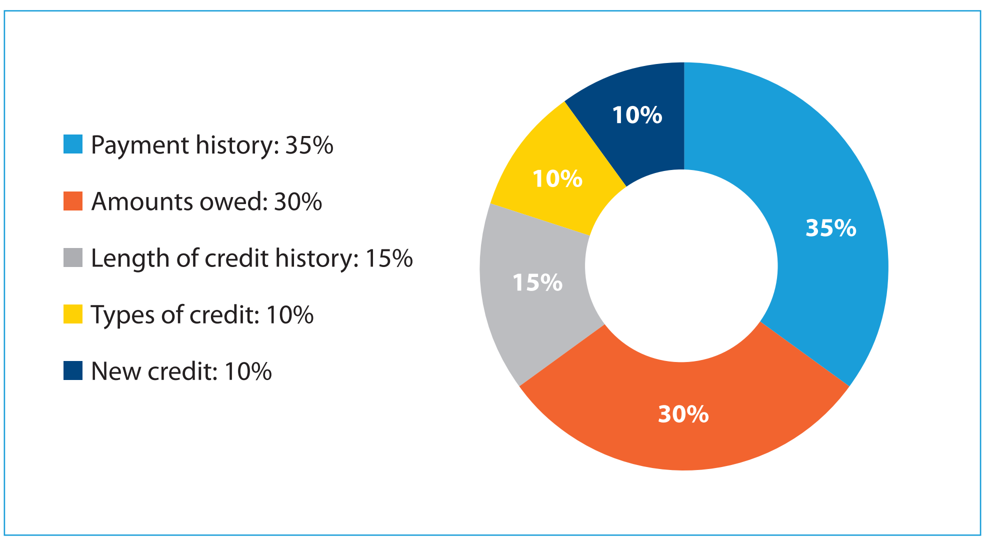
In today's financial system, it is difficult if not impossible to accumulate wealth without first establishing a good credit history.

The Credit Score: An Overview

A consumer's entire credit history is boiled down to a three-digit number before it reaches a lender's desk. Credit scores are an almost universal underwriting criterion, used to determine a borrower's eligibility for financial products and the interest rates for which they qualify.

The scores are calculated by proprietary risk-models using information from one of three nationwide credit reporting agencies: Experian, Equifax, and TransUnion (Brevoort, Grimm, & Kambara, 2015). The major three credit reporting agencies, or credit bureaus, receive information from lenders and other sources that details a borrower's performance on loans, lines of credit, and even some utility payments. Balances, payment amounts, delinquencies, and credit limits are generally reported. Using this data, the bureaus apply proprietary algorithms, for example FICO and VantageScore, which calculate a score for each consumer for whom they have data.

Figure 1: What goes into a FICO Score (myFICO, n.d.)



Lenders use credit scores as part of the underwriting process as one factor that determines which borrowers will receive a loan and at what price. Scores are often grouped into ranges that may be generally referred to as "subprime" or "excellent." Lenders set their own definitions for these ranges, and the ranges often differ for different products. At Self-Help, underwriters use A–E credit ranges for most products, and the ranges that correspond to each category differ for different products. For example, to be considered in the A tier for an auto loan, an applicant would need a score of 750 or higher, but to be considered in the A tier for a home equity line of credit, an applicant would need a score of 760 or above. In this analysis, we based our credit score ranges on those used at Self-Help to create the following categories:

Table 1: Credit Score Categories

Category	Score Range	Self-Help Tier
Excellent	750+	A
Good	695–749	B
Average	640–694	C
Subprime	580–639	D
Poor	350–579	E
Unscored	0	Unscored

Before computerized scoring algorithms, lenders used inconsistent and subjective means to evaluate a borrower's risk. Lenders relied on word-of-mouth and home visits to assess potential customers (Konsko, 2014). This led to bias, as character judgments and personal prejudice invariably entered the decision-making process. Theoretically, therefore, credit scores should reduce bias and discrimination in the financial services sector. But because the measure reflects long standing differences in wealth and opportunity for different groups of people, they also have the potential to perpetuate economic injustice, as we illustrate below.

The Need for Credit Building: Credit Inequality

American wealth and income inequality are hot topics in the media, yet credit inequality has received markedly less attention. There are both some types of people who tend to have lower credit scores and some areas and communities that, on the whole, have lower scores. Lower scores for individuals can mean higher costs and less access to certain loans. Lower scores for communities can have implications for the ability of these communities to thrive.

In 2014, the majority of American consumers had credit scores below 650 (Brooks, Wiedrich, Sims, & Medina). The benefits of improving one's credit score are significant: one hypothetical model showed how the difference in lifetime interest costs for a borrower with a score of 650 compared with a score of 750 could easily tally more than $200,000 (Weston, 2010). Yet improving one's credit score, or even establishing a score to begin with, is challenging.

The New York Federal Reserve Bank found certain places have much higher concentration of residents with low or no credit scores—especially Southern states (NY Fed CCP & Equifax, 2015). Residents of low-income neighborhoods have a significantly higher likelihood to be unbanked or without a formal credit file (also known as credit-invisible or unscored) (Belsky & Retsinas, 2005; Brevoort et al., 2015). The reasons for this are complex and varied, including supply-side and demand-side factors of accessibility, discrimination, imperfect information, and cultural or individual preferences (Belsky & Retsinas, 2005). Low earners may not have enough cash to see the benefits of a bank account, and banks are unlikely to be located where there is little demand. Alternative lenders strategically locate in low-income neighborhoods and aggressively market their services. Because of access and exposure, residents may be unaware of the options in the financial mainstream or may believe they cannot qualify.

The credit-building process is inherently paradoxical: without a strong credit score, individuals are unable to access affordable sources of credit, and without affordable sources of credit, individuals are unable to build a credit history. This obstacle is particularly difficult to overcome for those of limited means. Low-income consumers are most often targeted for high-cost credit products, clouding or hindering their ability to access credit on affordable terms. Payday lenders and other high-cost lenders exploit borrowers' moments of low liquidity to market a product as a financial buoy, when in reality it's an anvil. Annualized interest rates on payday loans and car-title loans average over 300% (Montezemolo, 2013a; Montezemolo, 2013b). The ultimate cost of rent-to-own purchases is often twice or three times the item's retail cost. Because these lenders rarely report to credit bureaus, they also deprive borrowers of the opportunity to build their credit histories, ensuring that they stay tied down by expensive debt, outside the mainstream.

The credit-building process is inherently paradoxical: without a strong credit score, individuals are unable to access affordable sources of credit, and without affordable sources of credit, individuals are unable to build a credit history.

Income is not the only factor in credit inequalities. Younger consumers have had less opportunity to establish a credit record, so unsurprisingly, most unscored and credit-invisible Americans are younger than 25 (Brevoort et al., 2015). Credit scores also display ethnic and racial inequality. A study of Chicago communities found that places with more minorities had lower average credit scores (Carrow, Hudson, & Terpstra, 2014). Hispanic and Black individuals are also more likely to be unscored or credit invisible than their White and Asian counterparts (Brevoort et al., 2015).

Credit Building

A report from the Social IMPACT Research Center aptly notes:

> "While credit disparities exist in large measure due to the same historic policies that have limited access to broader financial opportunities for minorities, credit scores are particularly important to consider because they also impact individuals' future financial opportunities. In effect, credit scores can create a trap, one that minorities are more likely to fall into, thereby feeding the continued growth of income and wealth disparities" (Carrow et al., 2014).

With such significant social and economic justice implications, it is no surprise that community development organizations and financial institutions have sought to develop programs to help consumers build and improve credit.

Unfortunately, credit building is not always a straightforward process. The basic premise is simple: build credit by adding and maintaining well managed lines of credit (Gomez et al 2014). However, this advice comes with many caveats. Despite their widespread use, little is made public about credit scoring methodology. According to FICO's consumer-facing website, MyFICO, their scores give consideration to five aspects of a credit report: payment history, amounts owed, length of credit history, types of credit, and new credit (Figure 1, [myFICO, n.d.]).

This breakdown is far from a precise recipe for a good credit score. It does not allow consumers to estimate the impact of a single delinquency, a high balance, or one too many credit cards. For those with no credit history, the obvious first step is to open lines of credit. However, this is not the best approach for all borrowers—too many active lines of credit can lower scores. The Asset Funders Network emphasizes the distinction between credit building and "credit repair," stressing that credit building is only for those with "thin" credit profiles, and that those trying to repair existing credit histories should seek alternative programs such as credit counseling (Chenven, 2014).

Credit builder programs typically take one of three forms: a secured credit card, a lending-circle, or a credit builder loan. Secured credit cards require borrowers to put down a deposit as collateral on their revolving line of credit (Bernard, 2012). Secured credit cards have a noteworthy benefit in that they can be offered by microenterprise organizations that do not provide other financial products (Gomez, Alisultanov, & Klein, 2014). However, the deposit can make this a credit building route unattainable to cash-poor borrowers.

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Lending circles are an effort to formalize traditional social lending practices. Each individual in a lending circle makes small payments into a collective pool that is then used to provide interest-free revolving loans. This practice is not new, but it has only recently been used as a credit building tool. Mission Asset Fund pioneered this practice, helping to organize lending circles and report payment activity to credit reporting bureaus (Reyes, Lopez, Phillips, & Schroeder, 2013).

Credit builder loans, like Self-Help's Fresh Start loan, are generally small-dollar installment loans with terms ranging from 6 to 24 months. Rather than issuing the loan funds to the borrower, they are deposited into a locked savings account. Some providers have added perks like matching the savings at maturity (Chenven, 2014). Credit builder loans are designed to doubly benefit borrowers by not only building credit but also by simultaneously establishing savings.

Prior Credit Builder Evaluations

Despite their popularity, there are few published evaluations of credit builder programs. Those few existing evaluations do not share the same definition of success, so it is difficult to generalize their findings. The Credit Builders Alliance (CBA) released highlights from their 2013 member survey, showing that CBA members were helping unscored clients build scores of 610 to 620 over six- and twelve-month periods (Credit Builders Alliance, 2013). Low-scoring clients were seeing average increases of 20 to 62 points. Although providing helpful descriptive information, CBA did not include enough detail to understand how the timeframe, type of program, loan amount, or borrower's existing credit history might have affected the observed changes.

The Aspen Institute conducted a pilot program that provided a secured credit card along with financial education to help entrepreneurs build their credit and businesses (Gomez et al., 2014). After 12 months of participation, 71% of all individuals had an improved credit score; the final average FICO credit score was 677 amongst those who started with no credit score, and those who had a credit score experienced an average 13-point increase. In addition, a large number of the program participants saw greater access to credit and a reduction in their debt-to-income ratios after 12 months.

The Cesar E. Chavez Institute at San Francisco State University evaluated the efficiency of the lending circles at the Mission Asset Fund (Reyes et al., 2013). On average, those who were part of a lending circle experienced a 168 credit score point increase and opened more lines of credit compared to those who were not in one. In the analysis, both groups of individuals who joined a lending circle with and without a credit score were analyzed together, which explains the large credit score point increase. Further analysis that disaggregated the credit score increases of those who started unscored from those who started with a score would be useful to understand how these products work for those trying to repair rather than establish a credit history.

Appendix A provides a survey of evaluations of credit building products and their outcomes.

Self-Help's Fresh Start Loan

Self-Help's Fresh Start loan is the product of several mergers, acquisitions, and renamings. Self-Help Federal Credit Union inherited the Fresh Start Loan program in 2008 through a merger with People's Community Partnership Federal Credit Union ("People's") in Oakland, California. Self-Help then later merged with Mission SF Federal Credit Union, whose credit builder loan was the original inspiration for People's Fresh Start program. From 2008–2014, Self-Help reconciled the legacy loan programs and consolidated them into one loan product offered at all branches in California and Chicago.

Overview

Self-Help's Fresh Start loan allows members to take out a loan ranging from $500 to $3,000 with a term of 6 to 24 months. The funds are put into an interest-bearing savings account at the beginning of the term, rather than being released to the borrower. Once the borrower has paid off the loan, the loan funds plus interest earned on the savings account are released. The loan helps borrowers establish a payment history that is reported to the major credit bureaus and provides a lump sum amount in a savings account released at maturity. In this way, the borrower also develops a pattern of saving by making monthly payments. With consistent on-time payments for the entire loan term, we expect that the borrower should have an improved credit score and history. However, there are many other factors that might influence a borrower's score.

Loan Origination

To qualify for a Fresh Start loan, members submit a short loan application.[1] Because of the low cost of the loan and because it is fully secured by the proceeds of the loan, we have streamlined the process to make it more timely for the borrower and cost efficient for Self-Help, given our low interest rate.

About Self-Help Federal

Self-Help Federal Credit Union was chartered in 2008 to preserve and expand financial services in predominantly low-income communities, building on the experience of Self-Help Credit Union (a North Carolina state credit union chartered in 1984).

Self-Help Federal has grown through a series of mergers, acquisitions, and new branch launches in California and Illinois. Self-Help Federal branches operates under the name Second Federal in Chicago.

Self-Help Federal now has 24 branches, more than $600 million in assets, and serves over 80,000 people. Like Self-Help Credit Union, Self-Help Federal provides fair and affordable financial products and services to the working class.

1 Self-Help Federal Credit Union membership is open to those who live, work, worship, or attend school in select areas, as well as to all those who are members of the nonprofit Center for Community Self-Help. Non-members interested in a Fresh Start loan must first join the credit union.

Figure 2: Fresh Start Advertisement on www.self-help/cu.org

Members seek out a Fresh Start loan for lots of reasons. The loans are advertised in Self-Help Federal branches, on Self-Help Federal's website, and in mailings to members (Figure 2). Some members participate in financial coaching or wellness programs that may recommend a Fresh Start loan. In the West Oakland branch, members can receive financial coaching in-branch during tax time at our Volunteer Income Tax Assistance (VITA) site. Similarly, the San Francisco branch has partnered with MyPath[2] to offer a program of financial and credit coaching to youth ages 18–24 who are participating in a job readiness program. In Chicago, Self-Help works in partnership with The Resurrection Project, which offers community financial wellness programs including one called "Fixing Credit."[3] Still other members may be encouraged to open a Fresh Start loan if they are denied a loan by Self-Help. Unfortunately, Self-Help does not track the reason a member applied for a Fresh Start loan. As a result, we cannot assess if the different reasons a borrower applied for a loan, for example participating in MyPath or being denied a loan, may have contributed to their ultimate success.

To undertake this study, starting in April 2014, credit scores at origination were recorded on all Fresh Start loans.

Potential Risk and Program Cost

The Fresh Start loan is not risky for Self-Help since the loan funds are not actually given to the borrower until they have been repaid. Because of this low risk, the interest rate is low: 3% on top of the savings rate. The biggest financial risk to Self-Help is the operational cost, particularly in light of the product's very low interest rates and no accompanying fees. This is one reason the origination process is so streamlined and such little data is collected in that process.

The loan is also low-risk for borrowers. The borrower faces no financial repercussions if they want to stop making monthly payments, as Self-Help will simply close the loan before its maturity date. If the loan is closed early, it shows as a paid loan on the borrower's credit report. Most borrowers close the loan early rather than miss a payment. Very few of the loans we analyzed experienced delinquency. Only 99 loans (3.6%) became 30 days delinquent one or more times, and only two loans ever became 60 or 90 days delinquent (0.07%).

2 See http://www.cdcu.coop/the-bridge-6/ for more information about this program and the partnership.
3 See http://resurrectionproject.org/programs-and-services/financial-wellness/ for more information about this program.

Evaluation Results

More than five years after adopting the Fresh Start loan, Self-Help could quantify very little about the benefits of this popular product. In 2013, thanks to a grant from MetLife Foundation, a plan was put in place to track the outcomes of the Fresh Start program. The evaluation explored five questions:

1. Who uses the Fresh Start loan product?
2. How many borrowers meet key interim outcomes (get a loan, make on-time payments, and complete the loan term)?
3. Do borrowers who take out a Fresh Start loan experience a change in credit score?
4. Do borrowers who take out a Fresh Start loan take out additional loans with the credit union?
5. What is known about other programs like this across the county?

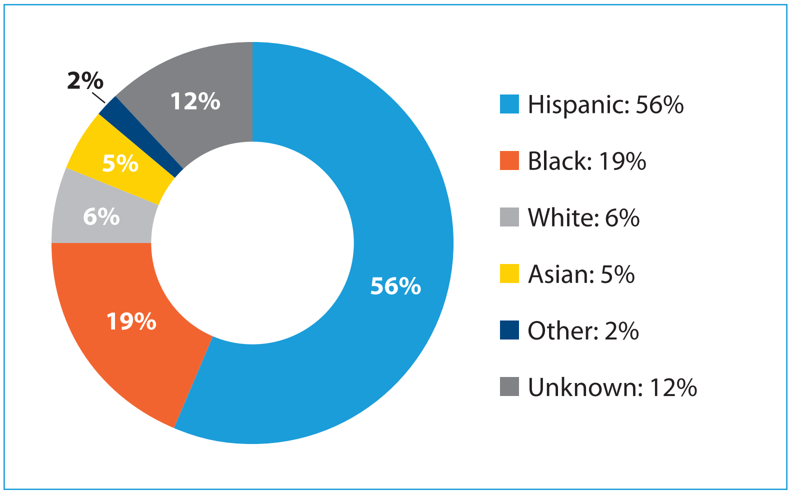
While the last question was addressed in the previous section, the bulk of the analysis is discussed in the sections to follow. We begin with a brief analysis of the Fresh Start loans to date, considering the loan amounts, interest rates, and terms of the loans. Next, we examine the demographic and financial characteristics of Fresh Start borrowers to better understand who is using the product. We then discuss the Fresh Start program outcomes: completion of the loan term, increase in credit scores, and likelihood of taking on additional loans.

Loan Analysis

To date, Self-Help Federal Credit Union has made 2,747 Fresh Start loans to 2,187 borrowers. Most of these loans have been for $500—the minimum loan amount—although amounts can be as much as $3,000.

Fresh Start loan terms can be as long as 24 months, but the most common term lengths are 12 months (63% of loans) and 18 months (24% of loans). The average term length is 14 months. It should be noted, however, that many borrowers do not complete the planned term length. This will be discussed later in this section.

Figure 3: Borrower Race/Ethnicity



Fresh Start Borrower Profile

Research has shown that thin credit profiles and poor credit scores are more common among specific demographic groups. Credit strength is also associated with age, since younger consumers have shorter credit histories. Given these considerations, it is important to track whether the Fresh Start loan is reaching the populations who could benefit most. This analysis considered the 2,187 borrowers who opened Fresh Start loans at Self-Help Federal Credit Union branches between 2008 and 2015. With the exception of credit score data, all information came from member and loan records. Member demographic information is primarily collected through a questionnaire completed when a member joins Self-Help.[4]

Demographic Profile

The vast majority of Fresh Start borrowers (82%) are minorities. Hispanic borrowers hold the greatest share with 56%. African American borrowers make up the second largest group with 19%. Only 6% of Fresh Start borrowers identify as non-Hispanic white (Figure 3). Race and ethnicity is unknown for 12% of Fresh Start borrowers.

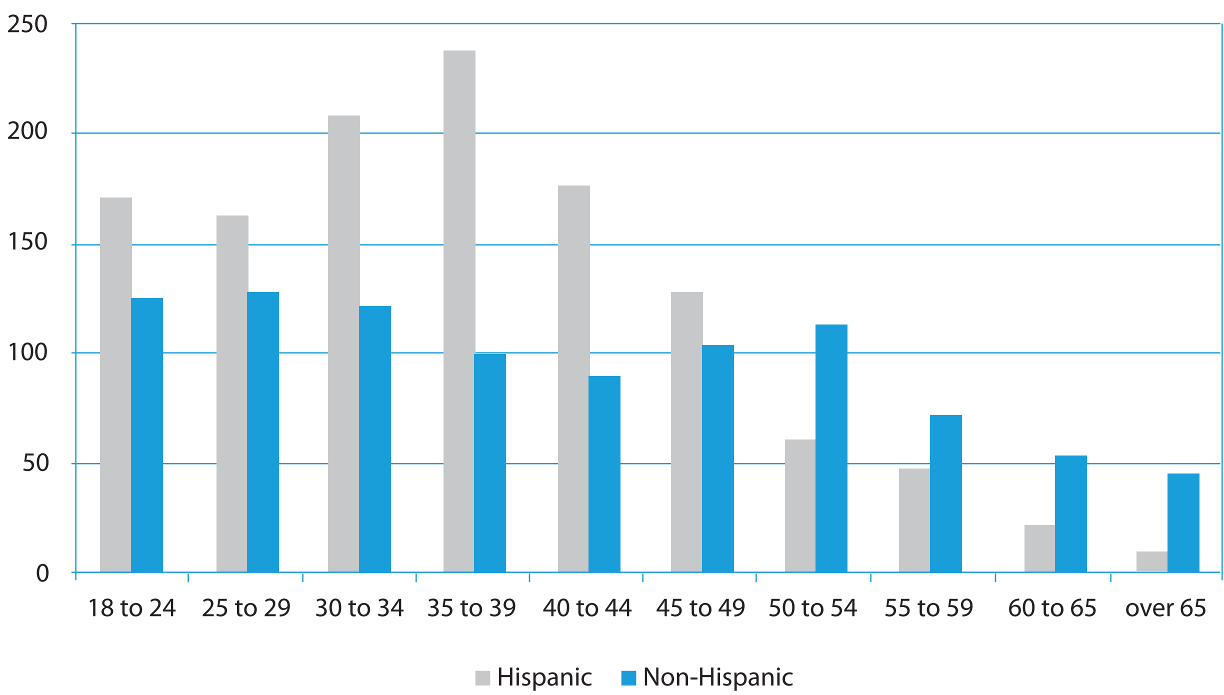
4 Self-Help aligned data systems and collection practices after each merger. New members and existing members applying for new loans are given a demographic questionnaire if their demographic information is incomplete. These questionnaire responses have inherent limitations. Self-reporting may lead to inaccuracies, particularly regarding household income estimates. Questions regarding ethnicity and race as separate can be confusing. Additionally, the new questionnaire replaced legacy systems, one of which collected race and ethnicity collectively. This fractured data collection process may explain the high rates of "unknown" and "other" responses.

Table 2: Borrower Gender by Race and Ethnicity

	Male		Female		Unknown	
Hispanic	767	(62%)	454	(37%)	10	(1%)
Non-Hispanic (all)	404	(42%)	496	(52%)	56	(6%)
Black	159	(38%)	241	(58%)	14	(3%)
White	68	(50%)	66	(49%)	2	(1%)
Asian	44	(42%)	56	(53%)	5	(5%)
Unknown	117	(44%)	113	(43%)	34	(13%)

Overall, men make up a slight majority of Fresh Start borrowers (54%). However, the gender ratio varies widely across different ethnic groups (Table 2). There is an extreme gender divide among Hispanic borrowers, with women holding only 37% of loans. Among Black borrowers, however, women actually made up a majority with 58%.

Figure 4: Borrower Age by Ethnicity



Fresh Start borrowers range from 18 to 86 years of age. The average age is 39 and the median is 37. Only 27% of Fresh Start borrowers are younger than 30 and 31% are in their thirties. As with gender, age distribution among Hispanic borrowers is quite unlike that of non-Hispanic borrowers. This disparity is greatest among middle-aged borrowers, and is best illustrated by the histogram in Figure 4. While the age distribution of Hispanic borrowers has a distinct peak in the 35–39 year old age group, the age distribution of non-Hispanic borrowers has a valley in this range. Roughly half of Hispanic borrowers are aged 30–44, but less than a third of non-Hispanic borrowers fall into this age range.

Table 3: Comparison with all Self-Help Federal members

Variable	Fresh Start Borrowers	Self-Help Federal Members
Average Age	37 Years	47 Years
Percent Female	43%	41%
Percent Minority Race/Ethnicity	82%	85%
Hispanic	56%	69%
Black	19%	10%
Asian	5%	4%
Other	2%	2%

Table 3 shows how Fresh Start borrowers compare to the overall Self-Help Federal membership base on key demographic variables. The average Fresh Start borrower is significantly younger than the average member. Fresh Start borrowers have a more diverse minority composition than the overall membership base—Hispanics still make up the majority, but there are larger shares of Black and Asian individuals.

Financial Profile

Of course, the most important factor in determining whether an individual is a good candidate for a credit builder loan is their financial background. Among the 1,846 Fresh Start borrowers who reported household income at loan origination (84%), more than 40% earned less than $25,000 a year. The average annual income among borrowers was $37,101, but this figure is skewed by high-income outliers (Figure 5). The median borrower income was only $30,000, and most frequently, borrowers reported income below $25,000.

Credit scores were only consistently recorded for Fresh Start borrowers after April 2014, so the remainder of the analysis will consider only borrowers who opened loans after that date. Among these 655 borrowers, 154 (26%) were unscored at origination. The share of unscored individuals was much higher among the youngest borrowers: 42% of 18- to 24-year-old borrowers were unscored.

Most of those that did have credit scores at origination had below average credit scores (below 650). With 54% of scores below 620, most could not have qualified for a conventional mortgage (Fannie Mae, 2015). A surprising number, however, had good credit scores at the time of loan origination: 86 borrowers had scores of 695 or higher, and 28 of those scores were 750 or higher.

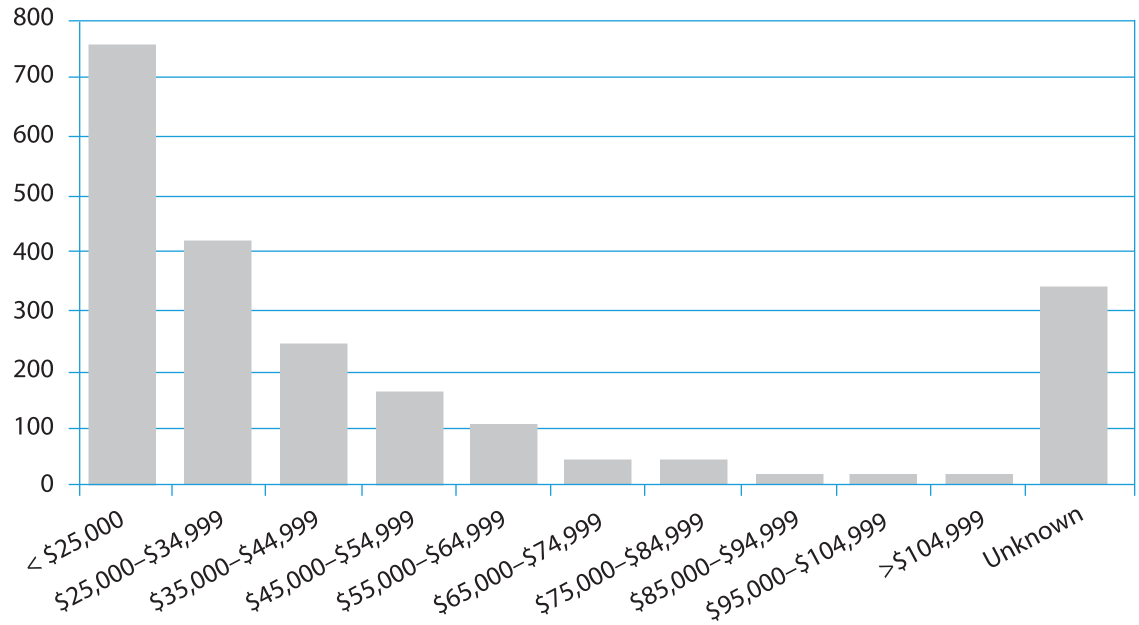
Table 4: Initial Credit Scores [5]

Credit Score	Borrowers (%)	
750+	28	(4%)
695–749	58	(9%)
640–694	109	(17%)
580–639	134	(20%)
350–579	172	(24%)
Unscored	154	(26%)

Note: N=655

5 These categories match those described in Table 1, which are based on Self-Help's underwriting guidelines.

Figure 5: Borrower Household Income



Outcome Analysis

This evaluation identified several ideal outcomes for Fresh Start borrowers: completing the loan term, improving credit score, and getting a subsequent loan from Self-Help Federal. Our analysis found mixed results on these fronts. While the majority of borrowers do improve their credit scores, a number of borrowers pay off their loans early rather than complete the full loan term. Twenty-four percent of Fresh Start borrowers have taken out at least one additional loan with Self-Help, most commonly a secured credit card. Our findings are detailed below.

Completion of the Loan Term

At the time of this analysis, only 40% of our sample (the 655 borrowers for whom we had initial credit data) had paid off their loans. A majority of those closed loans were paid off early—at least two months before the planned maturity date. Not surprisingly, shortening the loan term appears to mute the positive effect of a Fresh Start loan on a borrower's credit score.

As Table 5 shows, borrowers who completed the full term of their loans were more likely to increase their scores than those who paid their loans off early. Borrowers who completed the full loan term also saw larger average score increases than early borrowers (17 points more among borrowers with initial credit scores; 7 points more among initially unscored borrowers).

Table 5: Effects of Early Pay-Offs

Initial Score	Paid off	Borrowers	% Increased Score	Average score increase
Scored at Origination	Early	117	61%	+51
	On-Time	86	76%	+68
Unscored at Origination	Early	27	100%	+626
	On-Time	31	100%	+633

Note: N=261 (borrowers for whom we had initial and final credit data and had paid off their loan)

One of the benefits of the Fresh Start loan is that rather than defaulting or missing payments, a borrower may choose to end the loan early without penalty and access the funds paid up before that time. Although closing the loan early does not hurt a borrower's credit score, it does deprive them of the full potential benefit of their Fresh Start loan. We do not know why borrowers choose to close the loan early. However, there are a number of possible reasons which could be the subject of future study.

Changes in Credit Score

Although Self-Help branch staff began collecting Fresh Start borrowers' initial credit scores in spring 2014, there is no system in place to check a borrower's score at the time that they pay off the loan. Since we did not have each borrower's credit score "at payoff," we purchased all of their scores in bulk for this analysis.

This technique has a significant shortcoming: on the date when the scores were pulled, the loans were at varying stages of maturity. For this reason, the outcome analysis only considers a subset of Fresh Start loans. The subset is composed of loans for which we had "before" and "after" credit scores and where a payment had been within six months of the date when final credit scores were purchased: July 18, 2015. This subset consists of 548 loans originated from February 26, 2014 to April 30, 2015. Most of the loans (392 of 548) were still active at the time we analyzed the credit score change. This reality may understate our overall impact, as many borrowers are still paying on their loans and building credit history. The demographic characteristics of the subset mirror those of the full set of loans described in the previous section.

Seventy percent of this sample were able to increase their credit score. Borrowers who were unscored at loan origination were able to build an average score of 643, falling at the bottom of the "average" credit category. Borrowers with existing scores gained 14 points on average (including the 39% of scored borrowers whose scores decreased). For borrowers who improved their existing score, the average gain was 47 points.

Borrowers who were unscored at loan origination were able to build an average score of 643.

Table 6: Credit Score Increases by Initial Credit Score

Initial Score	# Borrowers	% Increased Score (Avg. Increase)		% Decreased Score (Avg. Decrease)		Average Change
750+	28	29%	(+15)	71%	(-51)	-32
695–749	51	45%	(+21)	55%	(-39)	-12
640–694	96	48%	(+29)	52%	(-34)	-3
580–639	115	70%	(+38)	30%	(-34)	17
350–579	131	76%	(+70)	24%	(-35)	45
Unscored	127	100%	(+643)	0%	-	643
All Borrowers	**548**	**70%**	**(+244)**	**30%**	**(-37)**	**160**

Note: N=548

We more closely analyzed the available programmatic and credit score data to better understand what factors contributed to a borrower increasing their credit score. Using linear regression, we identified a number of factors that had a statistically significant effect on a borrower's change in credit score measured categorically, as shown in Table 7. In constructing this model, we limited the set of 548 loans as described above. Of these, 124 borrowers were missing some piece of data analyzed in the model (primarily borrower demographic data). The final model is based on the remaining 424 observations.

Table 7: Regression Results

Variable	Effect (Parameter Estimate)
Intercept	0.876
Number of initial open trade lines	-0.064 ***
Number of on-time payments	0.087 ***
Age	0.022 **
Hispanic	-0.163
Black	-0.651 **
Female	-0.143
Initial category (for initially scored only)	-0.366 ***
Initially unscored	0.942 ***
Days between credit pull date and last payment date	-0.002

Note:

*** Significant at the 1% level, ** Significant at the 5% level. No variables were significant at the 10% level.

The adjusted r-squared value for this model is 0.4530.

N=424

Credit scores are challenging to model, since scores range between 0 and 850 but do not linearly increase from 0 to 850. For example, it is not possible to have a score of 100. We used Self-Help's risk rating framework to collapse scores into nine credit score categories for analysis: 0, 350–579, 580–609, 610–639, 640–669, 670–694, 695–719, 720–749, 750–850.[6] We then analyzed the numeric change in category in the regression model. For example, a borrower who started with a score of 550 and ended with a score of 700 experienced a category change of +5.

We combined the lowest two categories (0 and 350–579) in analyzing category change. There are two reasons for this. First, universally, borrowers who started with a 0 score increased their score by at least one category (0 to something) and borrowers cannot move from having a score to a score of 0. By analyzing category change in the way we constructed the model, we assume that it is equally easy to move between each category; however, this was clearly not the case for borrowers moving between the lowest two categories. Second, from a risk rating perspective, borrowers need to increase their score to at least 580 to be eligible for most Self-Help loans. We decided collapsing the lowest two categories more accurately measured borrower "success" than analyzing them as two separate categories. We included the initial credit category as an input to the model and distinguished between 0 and 350–579 in this use.

The results indicate that six of the variables we studied explained the change in credit score with statistical significance. These are: the number of initial open trade lines, the number of on-time payments, the borrower's initial score (modeled in two variables), and two demographic characteristics.

The number of on-time payments was statistically associated with greater success. For each additional on-time payment a borrower made, credit score category increased by 0.087. So, by making 12 on-time payments, borrowers experienced an increase in one credit score category (0.087 x 12 = 1.044). This positive finding indicates that positive performance in a Fresh Start loan helps borrowers meaningfully increase their credit score.

Positive performance in a Fresh Start loan helps borrowers meaningfully increase their credit score.

The results also indicate that where the borrower starts is associated with their likelihood of meaningful success. Borrowers who were initially unscored saw the greatest increase in credit score category—nearly one category increase. Increases in initial category for borrowers who started with a score, however, were associated with a less positive change. This indicates that borrowers with a high initial credit score may not be able to increase their score in a meaningful way by using this product. Similarly, borrowers with a higher number of initial open trade lines (credit products) also did not have as much success as those with fewer initial open trade lines.

Two demographic characteristics were also found to be significant predictors of success. A one-year increase in borrower age was associated with a 0.02 increase in credit score category. While statistically significant, this is a small result—an additional 50 years of age is associated with an increase in 1 category. Black borrowers were associated with less positive results: being Black decreased category change by 0.65. Being Hispanic or female was not significant. It is not clear why Black borrowers experienced less positive

6 As shown in Table 1, Self-Help places credit scores in categories A–E. We added categories by splitting these roughly evenly to create 9 categories. This allowed us to collapse the data (while retaining more of the variation in the raw scores) and to create an economically meaningful metric to evaluate.

results. The significance might disappear if we were able to model other variables for which we did not have information (such as participation in a credit building program). It also might reflect persistent racial disparities in wealth, income, and employment that have long existed for this population.

As Tables 6 and 7 show, a borrower's original credit score is an important factor in their success. Borrowers with low initial credit scores were not only more likely to increase their score, but also saw larger increases than those with high initial scores. Seventy-six percent of borrowers with initial scores between 350 and 580 increased their score, with an average increase of 70 points. Borrowers with initial scores of 640 and higher saw significantly less benefit; although some scores increased, the overall average change for these higher-scored borrowers was negative.

It is important to note that we only looked at the borrower's credit score and their performance on their Fresh Start loan. We did not observe performance on other loans, information that may reasonably affect the resulting score. For example, if a borrower made all payments on their Fresh Start loan, but was delinquent on a student loan, we only observed the positive performance of the Fresh Start loan. Similarly, there are many other factors for which we didn't collect data, which could have affected a borrower's circumstances, such as employment, income, and family changes.

Additional Loans

One goal of this evaluation was to understand whether Fresh Start borrowers are more likely to take out additional loans with Self-Help Federal to assess longer-term impact of the Fresh Start loans. It was beyond our scope to investigate if borrowers took out loans elsewhere, so the look at this impact is incomplete. Twenty-four percent of all Fresh Start borrowers took out subsequent loans following their Fresh Start loan. The majority of new loans have been secured credit cards. Given that 36% of all Self-Help Federal members had at least one loan in 2014, it appears that Fresh Start borrowers are not accessing additional financial products as frequently as other members. However, since many of these loans were recently originated (more than 70% were originated in 2014 or 2015) and many are still active, more time may need to pass before assessing this impact.

This analysis did not investigate whether borrowers opened their subsequent loans during or after their Fresh Start term, but the data shows that unscored and low-scored borrowers who take out additional loans improved their credit scores more than those with only a Fresh Start loan (Table 8). The data cannot tell us whether these borrowers improved their scores because they had multiple loans, or whether they took out additional loans because of the benefits of their higher scores. Borrowers who opened their Fresh Start loan with a high credit score, however, did not see the same benefit.

Table 8: Credit Score Changes with Additional Loans

Initial Score	Benefit of Additional Loans on Score
750+	+ 4
695–749	+1
640–694	- 1
580–639	+ 12
350–579	+ 27
Unscored	+ 35

Note: N=548

Implications of Findings

To best understand the impact of the Fresh Start loan, the credit score changes need to be given real-world meaning. On a typical auto loan of $20,000 over 60 months[7], a borrower with a credit score below 580 would pay approximately $10,000 in interest over the course of the loan. Of the 131 borrowers in our sample with initial scores in the lowest category, 47% improved their score enough to improve their rating on Self-Help's credit scales, with an average potential savings of $4,154 in interest payments. Some borrowers improved their scores enough to see savings of nearly $8,000 over the course of a car loan.

Table 9: Potential Borrower Savings on Auto Loan

Tier	Interest Rate	# of Borrowers in Tier Initially	% Moved to Higher Tier	Average Interest Savings on Typical Auto Loan*
750+	4.00%	28	-	-
695–749	4.50%	51	16%	$272
640–694	7.75%	96	23%	$1,854
580–639	12.50%	115	37%	$3,112
350–579	17.25%	131	47%	$4,154
All Tiers:[8]		**421**	**32%**	**$3,211**

Note: Assumes a $20,000 loan with a 60-month term. Savings are calculated for the life of the loan.

Interest rates are from Self-Help Federal Credit Union's May 2015 rate sheet.

* For borrowers who moved to a higher tier.

Table 9 shows how Fresh Start borrowers ranked on the credit scales used by Self-Help to determine eligibility and rates for its auto loan product. After at least three months of payments on a Fresh Start loan, 32% of borrowers increased their credit scores enough to move to a higher credit tier. Those borrowers could save an average of $3,211 in interest over the course of a typical auto loan. This amount is approximately equal to the annual estimated amount car owners spend on fuel, insurance, and maintenance. (Stepp, 2015).

7 We chose conservative and typical terms for this hypothetical auto loan based on data released by Experian (available here: https://www.experian.com/assets/automotive/white-papers/experian-auto-2015-q2.pdf?WT.srch=Auto_Q12015FinanceTrends_PDF). Borrowing a larger amount or for a longer time period, which the Experian report shows that many borrowers do, increases the total estimated savings.

8 We calculated savings only for borrowers who started with a credit score. Unscored borrowers are underwritten for auto loans based on a variety of factors. As a result, we cannot easily predict what interest rate an unscored borrower would have received on a hypothetical auto loan. Unlike Self-Help, many lenders simply will not make loans to borrowers without a credit score.

Discussion

Our analysis identified many reasons for Self-Help to take pride in its Fresh Start program, but it also identified areas with room for improvement. While most Fresh Start borrowers have benefitted from their loans, many appear to have limited their benefits by paying their loans off early. Some actually ended with a lower credit score than they had at origination. But, again, this analysis wasn't able to consider all possible factors the affected a borrower's credit score.

Some of the less optimal outcomes could likely have been prevented. Our data cannot tell us why borrowers with credit scores of 750+ chose to take out a credit-builder loan, but it does tell us that the majority of them *may have been better off without the loans.* Borrowers may not be fully aware of the intent of the Fresh Start loan or of other products that may better suit their needs. Similarly, borrowers may not understand the benefits they pass up when they pay their loans off early.

These findings challenge the credit union to examine important aspects of the Fresh Start loan and work to design a product and communication plan that has the greatest degree of benefit for the greatest number of borrowers. The following areas deserve attention and consideration based on this analysis:

- Staff Training: Well-informed staff members can lead to well-informed borrowers. Self-Help should consider how to ensure that the front-line branch staff have a clear understanding of how the Fresh Start loan works and who it can most benefit. Such training might include teaching branch staff about how to make clear to borrowers the difference between credit building and credit repair and which Self-Help Federal products are the most appropriate for such needs.
- Underwriting: The Fresh Start loan has very few borrower requirements. This was meant to ensure that the loan was accessible to everyone that needs it and to minimize the cost of origination on such a low-margin loan, but it unfortunately made the loan accessible to those who did not benefit from it. This evaluation suggests that Self-Help should explore instituting underwriting based on credit score. For example, institute a maximum score. Branch staff could also review a borrower's full credit history before approving a Fresh Start loan to make sure the borrower is likely to benefit from the loan. Number of initial trade lines was also found to be significant in the model and a full credit history review would provide this information in addition to the applicant's initial score, though this would add operational cost to the origination process.
- Reduce early withdrawal: This data clearly shows that borrowers who make more on-time payments experience greater credit score improvement. Self-Help should consider how to discourage borrowers from ending the loan early. For example, Self-Help could release a portion of the funds at some point during the loan term, allowing members access to some funds without ending the loan. Communication about credit score changes and the effect of early withdrawal might also motivate borrowers to continue paying their loan until maturity.

- Post-Loan Follow-up: There are logistical reasons why branch staff do not collect a Fresh Start borrower's credit score at loan maturity. Most importantly, there is no occasion to do so. Initial credit scores are now collected as part of the process of opening the loan, but there is no similar in-person process at the end of the loan term. Unfortunately, this prevents the borrowers from knowing the results of their credit-building efforts. Self-Help could enhance the member's experience with the loan by providing this information. Such communication might be through an optional, post-loan credit consultation or an automated post-pay-off communication generated by Self-Help and sent via text or email.

These findings also challenge Self-Help to continue to undertake evaluations such as this one. While these considerations may seem obvious, collecting and analyzing this data is expensive and demanding of employee time. The Credit Builders Alliance found that their members' biggest roadblocks in evaluating their programs were limited staff time and limited funds (Bernard, 2012). There are a number of ways that this evaluation could be improved upon for the future:

- Consistent collection of credit scores: Future evaluations—both by Self-Help and by other providers—would benefit from diligent credit score collection, at origination and also either as a loan matures or for all borrowers at regular intervals.

- Create and analyze a control group: This evaluation compared Fresh Start borrowers to each other, not to borrowers who did not receive a loan. The analyses would have more meaning if credit data was pulled for a control group during the same time frame as that would allow evaluation of similar borrowers who did and did not receive a loan.

- Analyze the full credit history: This evaluation looked at credit scores and not at the full amount of credit information in a borrower's credit file. Pulling and analyzing the full credit report, not just the score, could provide a more complete understanding of the impact of the Fresh Start loan specifically.

- Interview borrowers: A number of interesting questions identified in this evaluation could be posed to borrowers. For example, why do borrowers take out a Fresh Start loan and why do borrowers pay off the loans before the maturity date. As part of this evaluation we attempted to reach a small number of borrowers to explore such questions, but it became clear that to properly survey borrowers would take more time and resources. Future evaluations could incorporate borrower perspectives by designing and deploying an effective survey.

Conclusion

Many Americans are excluded from the financial mainstream because they struggled to overcome the initial hurdle of establishing good credit. Many credit unions and nonprofit organizations have recognized credit building as an essential first step to building wealth. As a result, credit building products like secured loans, secured credit cards, and lending circles are becoming increasingly common. Although credit builder products are widely offered, few providers have evaluated their impact.

Thanks to a grant from MetLife Foundation, Self-Help was able to conduct an evaluation of Self-Help Federal Credit Union's Fresh Start loan. The analysis identified many indicators of success. Most Fresh Start borrowers increase their credit scores during their loan term. After six months or more, borrowers who were unscored at loan origination had an average score of 643. Those with existing scores saw an average 14-point gain. Individual outcomes, however, varied widely. The loan appears to be less effective for those that already had strong credit at the time of loan origination.

These mixed outcomes beg further study. Our evaluation was limited by data availability, and thus could not identify many key factors of borrower success. Although branch staff members collect credit scores at loan origination, they have no process to collect scores when borrowers pay off their loans. As a result, Self-Help is limited in its ability to measure impact, and borrowers never know if their efforts succeeded.

With so many organizations offering credit building programs, it is important that providers study their program outcomes. Yet given the resources required for a comprehensive evaluation, it's unlikely that many providers will be able to self-evaluate. This makes it all the more important for those that do take on the research to share their findings with other providers. We hope that this evaluation will be useful to others as part of the small, but growing, body of knowledge on the impacts of credit building.

Appendix A: Comparison of Credit Building Evaluations

Product & Provider	Type	Period	Outcomes for Scored	Increase for Unscored	Sample	Source (see references)
Fresh Start Self-Help Federal Credit Union	Credit building loan paired with savings account	At least 6 mo	61% increase scores. Average increase = 47 pts. Average overall change = 14 pts.	100% increase scores. Average increase = 643 pts.	548	(This report)
Twin Accounts Local Initiatives Support Corporation	Credit building loan, paired savings account w/ matching funds	6 mo	Average increase: 30–60 pts	Scores in the "high 600s"	n/a	Chenven 2014
Economic Justice Project Kentucky Domestic Violence Association	No-interest microloan	n/a	"Many" increase 50–100 pts	n/a	n/a	Chenven 2014
Pathways Mission SF Community Financial Center	Financial counseling	6 mo	"Move from subprime to prime"	Scores in the "high 600s"	n/a	Chenven 2014
Product name not given Innovative Changes	Small-dollar, short-term consumer loans	6 mo	Average increase: 42 pts	Average score: 670	n/a	Chenven 2014
Asset Building through Credit FIELD at the Aspen Institute	Secured credit card and financial coaching	12 mo	Average change: 12 pts, average increase: 48 pts	Median score: 677	385	Gomez et al 2014
Family Self-Sufficiency Program Compass Working Capital	Financial coaching and escrow funds with account management	6 mo 12 mo 18 mo	Average change: 22 pts Average change: 21 pts Average change: 34 pts	n/a n/a n/a	81 54 15	Kimbrel 2013

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About Self-Help

Self-Help is a family of member-owned, mission-driven credit unions, a nonprofit loan fund, and a policy advocacy organization. We work every day to expand ownership and economic opportunities for all. The mission is large, but we believe that much of it is accomplished by small acts: a member's first bank account. A loan for a small business. Helping families buy their first car or first home or reduce high-cost debt. Together with 130,000 members around the country, we are increasing ownership, creating jobs, revitalizing neighborhoods and building stronger communities.

Self-Help Federal Credit Union is a community development credit union serving working class families and communities in California and Chicago. Self-Help Federal has more than $600 million in assets and 24 branches serving over 80,000 people. The credit union provides fair and affordable basic financial services, as well as home loans; community facility loans; and personal loans including auto, citizenship and small-dollar loans.

The Center for Responsible Lending, a Self-Help affiliate, is a national nonprofit, nonpartisan research and policy affiliate. CRL is dedicated to protecting homeownership and family wealth by working to eliminate abusive financial practices. Our focus is on consumer lending, including home loans, payday loans, credit cards, bank overdrafts, auto loans and student loans.

Visit our website at **www.self-help.org.**