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# STARTING STRONG

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Credit Building for Youth Transitioning from Foster Care

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## Credit Building for Youth Transitioning from Foster Care

### AUTHORS

Ola Wadibia, Ariel Sankar-Bergmann, Jennifer Medina

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**I**n May 2017, Prosperity Now launched a credit-building fellowship to engage senior-level leaders at five organizations to add credit-building products and services to their existing programs and services. The organizations included Children's Home Society of Florida, DePelchin Children's Center, First Place for Youth, Nebraska Children and Families Foundation and The RightWay Foundation. Each organization focused on programs that support youth transitioning from foster care to independence. All five are critical for providing young people with a trusted adult, as well as equipping young people with the tools and resources to thrive on their own.

For this particularly vulnerable population, a positive credit history and good credit score can support a path to independence and long-term financial stability. With more than 26,000 youth transitioning from foster care every year, there is a significant opportunity to equip young people with resources to engage in beneficial life activities, such as renting a car, having a bank account and securing student loans. Integrating credit-building products and services into programs they currently use provides an opportunity for organizations to engage young people at relevant moments. In turn, these young people can gain confidence in planning for their financial future, access safe and affordable housing, capitalize on their workforce readiness training and build critical life skills.

Over the course of 11 months, Prosperity Now led the participating organizations through an integration planning process. First, technical assistance providers supported the organizations to engage in a discovery process to assess clients' (foster youth) financial strengths and challenges, analyze the organization's target program and infrastructure, and establish project goals. Second, organizations took part in a design process to learn more about the selected credit-build-

ing services and products, conducted a community scan to identify potential service providers and determined the relevant point in time to deliver the services. Finally, the organizations started to recruit clients, implement their integration plan and develop strategies for tracking program outputs and outcomes. In some situations, credit repair was the focus for young people who already had poor credit due to identity theft, fraud or lack of understanding of the safest ways to build credit.

This brief will highlight key lessons based on the experiences of organizations participating in the credit-building fellowship. It is aimed at organizations serving vulnerable youth, particularly those transitioning from the foster care system. It was designed especially for managers and staff who are responsible for planning and executing new programs and services. This brief's lessons and considerations could be helpful for any organization seeking to understand the impact of services and products on vulnerable youth. The brief is rooted in real-life examples from the field, including anecdotes, lessons learned and promising practices from organizations that previously embarked on the process. Part one explains why credit building is important. Part two shares lessons learned from the five fellows and their organizations. Part three includes specific recommendations for organizations serving youth transitioning from care and how they can best partner with state and local policymakers, financial institutions and funders. Part four provides additional information about the participating organizations. There is also a note to the reader that contextualizes credit building for foster youth under the lens of racial wealth inequality.

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# 1

## PART ONE

# The Importance of Credit Building

Credit has a significant impact on Americans' financial security. As highlighted in Prosperity Now's 2018 Scorecard report, a strong credit history is not only used to determine eligibility for financial products, but also for gaining employment and renting a home.<sup>1</sup> Inversely, a poor credit history can create barriers to employment, housing and increase financial hardship to people who are forced to pay higher rates on auto loans, mortgage loans and small business financing. Poor credit is not the only issue—people with no credit are also at a significant disadvantage in the marketplace because lenders are less likely to extend credit to them. Nearly one in five consumers have no credit history or credit score and are considered “credit invisible.” According to a report from the Bureau of Consumer Financial Protection,<sup>2</sup> “30 percent of consumers in low-income neighborhoods are credit invisible and an additional 15 percent are unscored, inhibiting the ability for these households to gain access to affordable, mainstream credit.” The correlation is clear: having poor or no credit creates barriers to building wealth.

## What Is Credit Building?

Credit building,<sup>3</sup> defined as access to products or programs that help people build or rebuild credit, is a strategy to address a lack of credit history. To build credit, an individual must have at least one trade line, or credit account, on their credit report and be making payments toward it for at least six months. A trade line might be opened when a person requests a loan or applies for (and is granted) a credit card. Payments or lack of payments toward the balances on the loan and credit card are reported to the three major credit bureaus. On-time payment is one of several factors that influence a person's credit score. This process illustrates that to build credit, one must take on a certain amount of debt. Ideally, this amount should be sustainable so that people can reliably make on-time payments and maintain a healthy credit utilization rate, two of the most important factors in maintaining a positive credit history.

Considering that mainstream financial products are more costly or difficult to access for people with no credit, thin credit and poor credit, several products have been designed to help people safely and affordably build their credit history, including: credit builder loans, secured cards, lending circles, rent reporting and Twin Accounts. **These products**, when delivered via a social service program, are often paired with financial capability services such as credit education and credit counseling, which provide additional knowledge and skill-building support to the participant.<sup>4</sup>

**F**inancial capability is defined as “the capacity, based on knowledge, skills, and access, to manage financial resources effectively.” Financial capability is a critical step towards financial security, and many people (regardless of socioeconomic background) may lack one or more factors of the financial capability equation. Read more about the ten key financial capability services at the Office of Community Services [website](#).

## Young People and Credit

Most people who are credit invisible are between the ages of 18 and 24, which should not be particularly surprising since credit history is something that is established over time. Access, or lack thereof, to certain financial products can be a contributing factor. For example, 35% of young adults do not have credit cards, compared to 21% of the general public.<sup>5</sup> Americans aged 18 to 24 make up nearly a third of payday loan consumers.<sup>6</sup> Furthermore, young people tend to be particularly vulnerable when it comes to credit. Youth are 35 times more likely than adults to be victims of identity theft.<sup>7</sup>

The implications for wealth building are important to consider in a larger context that demonstrates that young people currently do not fare as well as their predecessors of previous generations. Millennials (born roughly between the early 1980s and mid-1990s) in 2013 had accumulated half the wealth of Baby Boomers at their same age. Millennials have additionally experienced negative trends in income and homeownership. Furthermore, disparities exist across racial lines. For example, in 2013 the average African American Millennial owned just 23% of the total assets that the average White young people possessed.<sup>8</sup> Supporting young people in navigating the credit system and establishing and protecting their credit early on may improve their opportunities for building wealth in the future.

## Youth Transitioning from Foster Care

Young people transitioning from foster care could benefit from increased access to credit-building services and products. Young people who transition from the foster care system at the legal age of adulthood, which ranges from 18 to 21 depending on the state, lack a permanent legal relationship with a parent or guardian at emancipation.<sup>9</sup> While many transitioning young people are optimistic about their future, they often exit the system without a physical home, a consistent or trusted adult in their life, or financial resources. This combination of factors can leave young people particularly susceptible to homelessness, unemployment, health and mental health problems, substance abuse and poverty.<sup>10</sup>



There are a lot of things I want to learn. I want to become a Certified Nursing Assistant and get an Associate's Degree. I want to learn how to drive and how to cook. I want to make money and be able to pay for the things I need. I want to help old people and I want to have confidence.

YOUNG PERSON FROM **DEPELCHIN CHILDREN'S CENTER**

Moreover, the uneven distribution of financial education and common, negative experiences with financial institutions (from feeling unwelcome in a branch office, to accruing significant fees that have forced them to close accounts, to being sued by creditors) means that these young people might be unfamiliar, uncomfortable or validly distrustful of financial institutions and have limited knowledge about the financial system. While some young people in participating programs had used credit products before or had some basic knowledge about how credit and debt functions, others shared that they were uncomfortable walking into a financial institution by themselves and had never heard of products like a secured card or credit-building loan. For example, during in-person interviews and focus groups, young people expressed the desire to be financially knowledgeable and stable. Several lamented that there were not more opportunities to learn about their personal finances and credit through the school system or other supportive programs they have previously participated in.



Credit was never on my mind before; I just was focused on school. No one ever told me how important credit was. No social worker ever showed me a credit report or brought this up while I was in the system.

YOUNG PERSON FROM **THE RIGHTWAY FOUNDATION**

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Since youth may move from foster home to foster home, where many adults have access to their personal information, they are particularly susceptible to identity theft and other predatory practices. While there are no national statistics on the rate of identity theft for these youth, some estimates suggest that about five percent of the foster youth population ages 16 or older have some form of bad credit.<sup>11</sup>

During interviews, many young people talked about their determination to attain a job with an income that can sustain their needs and some wants, acquire their first apartment, learn where they can find reputable resources to guide their future financial decisions and build a financial “cushion” so they are not constantly stressed about money. Calculations show that people with no or low credit scores could pay \$200,000 or more over the course of their lifetime for financial services and products.<sup>12</sup> Given that young people transitioning from foster care are economically vulnerable, supporting them in establishing credit history and maintaining strong scores is important for short-term housing and employment goals, long term savings and overall financial security. With this understanding, Prosperity Now decided to work with five organizations that serve transition-age youth to integrate credit-building services and products into their programs.



## PART TWO

# Key Lessons Learned on How to Effectively Integrate Credit Building into Transition Aged Youth Programs

Throughout this project, five lessons emerged as common themes among the participating organizations. They included:

1. Center youth voices in the program design process.
2. Build the capacity of staff to provide resources to clients with credit and debt goals or challenges.
3. Identify partners and build relationships to deliver services.
4. Bring the products and services to youth.
5. Incorporate support and safety measures into product use.

## LESSON 1 | Center Youth Voice in the Program Design Process

To develop a program that effectively responds to the needs of its clients, it is critical to incorporate the clients' input throughout the design process. The featured organizations used a combination of approaches to center youth voice. **First Place for Youth (FPFY)** disseminated an assessment survey early in the project to learn more about their clients' financial lives. It realized that it wasn't consistently assessing young people on financial issues as they entered the program. Staff (called advocates) wanted to track this information throughout clients' time in the program to see if they were helping clients meet their needs. They developed an assessment form that they tested with young people to get their reactions to the language and format before formally integrating it into their program process.

In addition, FPFY leveraged concept testing during a site visit with Prosperity Now to get feedback on the potential credit-building services the organization could offer. During a brainstorming session, frontline staff used the information from the survey and their experiences with young people to develop several flyers to test with a group of young people. The young people in the focus group were clear that they would prefer a secured credit card instead of a credit-building loan. Some shared that they had previously had negative experiences with loans and others struggled to understand how they would use the loan. Generally, young people felt that the secured card was less intimidating and more user friendly. Young people were also clear that they

**C**oncept testing includes creating a one-page flyer on a service or product that includes a tagline (i.e., a sentence that grabs the reader), value proposition (i.e., two to three sentences or bullets that explain the value of the service to the user), and main program features (i.e., three to five bullets that explain the what, where, and when of the new service). Staff can present these one-pagers to prospective clients and ask them what they like, dislike or would change about the new service or product. Concept testing is a great way to get feedback from clients before organizations invest time and energy in developing new services.

did not want their advocates to provide in-depth financial services or support to them because they felt that this was not their area of expertise. This, along with staffing constraints, led FPFY to form partnerships with MyPath (a national nonprofit based in San Francisco that provides technical assistance and consulting services to organizations interested in building financial capability pathways for youth) and Pacific Service Credit Union to provide credit education, counseling services and a secured credit card product.

The **RightWay Foundation's** (RightWay) program leadership also surveyed its young people because they had the impression that their program clients ran the gamut of credit and debt needs. Unlike some of the other programs in the cohort, RightWay does not have a formal exit process for its program. Young people may continue to receive mental health services and employment placement and retention support for years. RightWay developed a survey to assess young people's current financial knowledge, strengths and credit utilization. It distributed the survey to a range of new and alumni program clients and learned that there are young people in the program with no credit, prime credit and damaged credit. It also learned that many of the young people are concerned about housing opportunities due to limited and expensive housing available in Los Angeles County. Based on the survey results, RightWay determined that a financial education course, with a focus on credit, would be helpful to all its program clients and that a credit-building product would be critical to impact young people's ability to secure affordable and safe housing.

To better select the best credit-building product for youth, RightWay conducted interviews and focus groups. Young people ultimately selected a credit-building loan over a secured credit card, noting that the loan felt like a more structured way to build their credit and practice making monthly payments. Unequivocally, all the young peo-

ple who participated in interviews or focus groups expressed their desire to have a trusted individual providing coaching and counseling to accompany their participation with a credit-building product to provide encouragement, advice and accountability. With that feedback, RightWay also prioritized partnering with or hiring a credit coach or counselor.

**Nebraska Children and Families Foundation** went a step further by integrating young people into the program delivery. Because the Foundation is an intermediary, they partnered with a direct service provider, Family Housing Advisory Services, for the project. During interviews conducted on a site visit with Prosperity Now, youth fell across a spectrum of “feeling good” about their credit to feeling “horrible.” However, they all noted that there was more they could learn to feel greater financial security. Several young people who felt they were more stable expressed interest in giving back to the program via a mentorship program. Once the idea of financial mentorship was shared with a large focus group of clients, there was excitement about it.



I like the idea [of a financial mentorship program]. It feels like paying it forward.

YOUNG PERSON FROM **NEBRASKA CHILDREN AND FAMILIES FOUNDATION**

Nebraska has identified a young person who is willing to coordinate the program, an approach that staff support because they believe it will leverage the existing social capital between peers. Older youth who are interested will be trained in the Bureau of Consumer Financial Protection’s *Your Money, Your Goals Toolkit*, which will empower them to help young people navigate their financial challenges and stick to their goals.

Centering youth’s wants and needs in the program design helps to ensure that services are supporting the financial goals and addressing the financial challenges of young people.

**T**he YMYG Toolkit is a publicly-available resource developed by the Bureau of Consumer Financial Protection for frontline staff to facilitate conversations with staff about financial topics. The toolkit includes background information, 40 interactive tools and resources organized across nice modules: Setting goals and planning for large purchases; Saving for emergencies, bills and goals; Tracking and managing income and benefits; Paying bills and other expenses; Getting through the month; Dealing with debt; Understanding credit reports and scores; Money services, cards, accounts and loans; and Protecting your money.

## LESSON 2 | Build the Capacity of Staff to Provide Resources to Clients with Credit and Debt Goals or Challenges

Credit and debt issues are often complex and overwhelming for many Americans across race, gender, age and economic status. The first step in supporting young people to improve their awareness, skills and access to credit-building opportunities is for the adults around them to be informed about the resources available. None of the organizations that we worked with had leadership or staff with expertise in credit and debt, so many decided to invest in additional training and support for their staff to increase their competency.

**If I had really bad credit, I would be worried that someone would judge me.**

YOUNG PERSON FROM **NEBRASKA CHILDREN AND FAMILIES FOUNDATION**

**Children's Home Society of Florida** (CHS) engaged case management staff throughout the project. It incorporated these staff into in-person site visits so that it could gain a better understanding about the importance of credit building and reflect on where conversations about finances may arise. Staff and leadership saw a need for more training, so independent living counselors participated in a financial education training delivered by Jump\$tart Florida and a local credit alliance that focused on tools and resources to support young people in their financial lives. To codify credit as a program focus, CHS leadership identified a staff member on the independent living team who would serve as a credit liaison, and whose primary role would be to leverage trainings and curriculum to develop new program content, train other staff and generally serve as the main point of contact for all internal credit questions. As a result of this investment, staff are now talking about credit with the youth, as well as internally among themselves.

**First Place for Youth** decided to work with local partners to deliver credit-building services (see section on partnerships), but it was still essential for staff to better understand their clients' financial goals and challenges and fully understand the services being offered by external partners to make appropriate referrals. Staff were trained on the newly developed financial assessment form to capture clients' baseline information and monitor progress at regular intervals. Moreover, frontline staff are invited to attend the financial education workshops that partners deliver to clients, so that they can learn more about their services and receive financial help themselves.

The **RightWay Foundation** is very familiar with delivering services in-house. With just five paid staff members, services are delivered by all staff. When young people stated that they wanted credit coaching or counseling to help support their credit goals and challenges, the organization researched what it would take to have a staff member become a certified financial counselor. While one staff member expressed interest in studying for the certificate, the team realized that with other program priorities, acquiring the certificate in the short-term would be difficult. The team was also concerned

that this new responsibility could overwhelm one staff member and was not sustainable should the staff member leave. Prosperity Now connected RightWay to Justine PETERSEN<sup>14</sup>, an organization committed to credit building, microlending and homeownership. RightWay found that Justine PETERSEN's credit-building loan product (Save2Build Loan) would be a great match for their young people's needs and appreciated that it would be paired with a training for staff so that everyone could learn the basics around credit, pulling credit reports and how to administer the credit-building loan. In addition, RightWay's CEO started to engage his staff in conversations about their own credit to understand how he could best support them and connect them to resources they might need to feel more financially secure.

Whether offering credit-building services in-house or through partners, organizations need to build staff capacity to identify credit issues as they arise and address them appropriately.

### **LESSON 3** | **Identify Partners and Build Relationships to Deliver Services**

Each organization built a partnership to deliver credit-building services or products to its clients. Some of the organizations possessed long-term, existing partnerships to deliver services to their target clients, while others were more used to offering all their services in-house. Since nearly all the organizations were new to connecting their young people to financial services, each organization had to perform a community scan to identify new partners in its regions and ask potential partners a series of questions they had never considered before.

Most of the clients in **DePelchin Children Center's** Transitioning to Adulthood Through Guidance and Support (TAGS) program did not have an established credit history. Staff wanted to ensure that the credit-building initiative took a proactive approach to credit education and skills development so that young people could develop positive credit history. The program manager for the TAGS program had previously been trained as a financial coach but was also the program's only full-time staff member. Instead of relying solely on this person to pull credit reports, deliver financial education and assess readiness for credit building, the program's leadership thought it would make more sense to leverage community members. The organization resolved to partner with external service providers to support their young people. DePelchin conducted a community scan to identify providers who could provide credit education workshops, credit report pulling, a suitable credit-building product and one-on-one support to young people. It learned that a local partner, SER Jobs for Progress, could help young people acquire job opportunities to supplement their limited income from public benefits and could offer credit report pulling and credit counseling through its Financial Opportunity Center. The TAGS program manager was able to establish a strong rapport with the SER Jobs contact, which will facilitate continued partnership for service provision.

DePelchin also knew that a partnership with a financial institution would be important because it wanted to offer young people a secured credit card. Knowing that some of its young clients currently use Bank of America, and that there are locations close to

its residential facility, DePelchin submitted a proposal to the bank to request financial mentoring support and access to its secured card. Bank of America accepted the proposal and connected DePelchin staff with a main point of contact. Over the course of a few months, the two organizations have been collaborating to develop the financial mentorship program. It's important to note that even when one finds an eager partner, the work has only begun. DePelchin plans to train the Bank of America financial mentors in trauma-informed care and pair them appropriately with young people. At the time of publishing, DePelchin is still establishing the terms of the secured card.

**Children's Home Society** (CHS) identified a handful of local partners, but ultimately decided to partner with Seacoast Bank, a local financial institution that was eager to partner with them for credit education and access to safe and affordable bank accounts. Because CHS had worked with Seacoast Bank in the past, CHS felt assured they understood the specific backgrounds of the youth and how to tailor services accordingly. However, to ensure alignment, the two organizations conducted a few phone calls and an in-person meeting to provide more context for the specific needs of the youth, who are mostly under 18 years old and would need workshops to be modified to their understanding. CHS now attends Seacoast Bank's monthly community meetings to learn more about how the credit union is engaging with the community and make connections with other organizations in the area. CHS voiced that identifying and developing their partnership was the most crucial part of the fellowship, but it was also time intensive because matching provider services with client needs were important to realize outcomes. CHS is now working to evaluate partners to work with youth 18 and older, who have different and evolving needs.



**It would be more helpful for someone to sit down and walk through financial topics and issues with me one-on-one.**

**YOUNG PERSON FROM FIRST PLACE FOR YOUTH**

**First Place for Youth** knew early in the planning process that it would need to partner with other organizations to provide services because youth identified that they wanted to receive one-on-one support from an expert on financial and credit issues. FPFY decided to partner with MyPath. MyPath will provide financial education and financial coaching via its Savings Model and Credit Model. FPFY was excited about the partnership because of MyPath's experience and tools, which have been tailored to vulnerable young people. Young people also wanted help in accessing safe and affordable financial products (e.g., bank accounts, secured credit cards) and they were interested in accessing these services from a credit union because they believed that credit unions were safer. FPFY had a previous relationship with Pacific Service Credit Union, which provided banking services to staff, so they decided to extend that relationship to clients. Another benefit to the partnership with Pacific Service Credit Union was its technological capability.

A Pacific Service Credit Union representative could sign clients up for accounts remotely from a branch and during education sessions. The credit union was also willing to share with FPFY the number of clients who signed up for accounts in aggregate (but not individual user data).

Originally, the **RightWay Foundation** wanted to deliver credit-building services itself but realized that if it was going to deliver high-quality services to young people by the end of the fellowship, it needed to find a partner who could jump in with service provision. RightWay also reasoned that partnering with other service providers would create a learning opportunity for staff and could demonstrate firsthand whether the service should be provided in-house at a later time. RightWay researched about six local partners and conducted phone outreach to vet the services listed on its websites. After an energetic call with the Pacific Asian Consortium in Employment (PACE), the two organizations decided to sign a Memorandum of Understanding for PACE's in-house credit counselor to offer quarterly financial education classes, credit pulling and one-on-one credit coaching to alumni of RightWay's Operation Emancipation program (RightWay's flagship workforce development program). RightWay's Vice President of Programs will conduct regular check-ins with the credit counselor to identify themes around credit-building goals and challenges, assess progress and manage the partnership.



It would be great to have a financial literacy class. Most people don't learn how to manage their money in the foster care system.

YOUNG PERSON FROM **THE RIGHTWAY FOUNDATION**

**Nebraska Children and Families Foundation** decided to work with a local bank to offer a debt consolidation loan. There was a clear need for this product: in interviews and focus groups, young people who participate in programs administered by Family Housing Advisory Services (Nebraska's partner) shared that they struggle with debt and need a service that can help them manage paying it down while taking care of other financial responsibilities. But staff at Nebraska did not feel equipped to conduct financial conversations with young people and, similar to FPFY, Nebraska developed a common assessment form that would facilitate referrals to external partners. Ultimately, Nebraska was not able to develop a loan with terms that worked for the youth; too many of the youth are unemployed or lack stable employment to qualify for the product. This disconnect between product and needs is worth noting because partnerships in credit building sometimes require tweaking an existing product to accommodate for the circumstances of the target population. Coming to a mutually satisfying solution can take months of negotiations, or in the example above, may not ultimately crystallize, leaving organizations to identify another potential partner or do it themselves.

Partnering with a local service provider allows organizations to build connections in the community and manage the capacity of their staff. The process also requires a dedicated liaison and patience.

#### **LESSON 4 | Bring the Products and Services to Youth**

Youth transitioning from foster care are often juggling multiple obligations. Young people might be enrolled in school, working and utilizing other social services and programs. Asking young people to go to yet another place to receive services might be a tall order—even more so when transportation barriers and insufficient income are factored in. Furthermore, young people might have negative associations with certain types of organizations because of past mistreatment or neglect and be hesitant to work with an unknown entity. The partnerships highlighted above allow products and services to be brought directly to young people through programs that they already interact with and trust.

For example, many partners agreed to deliver services at fellows' offices or a common area where youth usually gather. Pacific Service Credit Union staff will come to the **First Place for Youth** headquarters to offer safe and affordable bank accounts and a secured credit card to young people who are interested and employed. MyPath staff will also come to the headquarters in-person to offer financial education workshops and financial coaching to interested young people. Similarly, **DePelchin** will coordinate financial education classes, led by Bank of America volunteers, during monthly house meetings at the residential living facility, which all TAGS clients are required to attend. CHS's partner, Seacoast, decided to pilot financial education workshops at group homes. In addition to these workshops, CHS's internal credit liaison is developing a credit session for the youth after school program which will begin in August, using the Jump\$tart materials shared during the staff training. These credit sessions will also be delivered to youth in the group homes where they reside. As mentioned previously, the PACE credit educator/counselor's sessions will be incorporated into **RightWay's** Operation Emancipation training schedule.

By bringing services to young people, they can more easily make use of services in a trusted setting.

#### **LESSON 5 | Incorporate Support and Safety Measures Into Product Use**

Each organization focused on doing whatever it could to support clients' success in their credit-building journey. This included providing opportunities for young people to fail in a safe space, a concept that influenced their process of identifying products, vetting them for adequate safety measures and ultimately the selection and design of product delivery to reinforce program retention and improved financial outcomes.

**The RightWay Foundation** relies on social work students to provide mental health services and case management to young people. Staff decided to add questions related to credit and debt into case management forms so that staff and interns can assess their financial behaviors, beyond the other mental health and employment factors that

they track. In addition, the organization instituted criteria for product use: clients must have graduated from the Operation Emancipation program, have steady employment for at least six months, possess a financial goal and be willing to meet with the credit coach/counselor while using the product. While the credit coach/counselor intends to maintain confidentiality in the one-on-one conversations, they will share any risks to safety with the relevant RightWay case manager. In partnering with Justine PETERSEN, RightWay was also able to use the organization’s reported outcomes to assess the loan’s safety and success rate with previous clients.”

**DePelchin** also set employment as a criterion for accessing a secured card, and the program manager will help young people identify a regular use for their secured card (e.g., cell phone payment). The Bank of America financial mentors plan to have regular check-ins with the TAGS program manager to ensure that any challenges of the young people are being fully addressed.



**I think its really important for the program to encourage us to use the secured card [because] you still have the money and it’s in a secure place.**

**YOUNG PERSON FROM DEPELCHIN CHILDREN’S CENTER**

**FPFY’s** partner, Pacific Service Credit Union, plans to assess all young people who sign up for an account on whether they are ready for a secured credit card. The financial institution will then share information with FPFY about which youth applied and were accepted and follow up with them via their Youth Advocate to monitor their use of the product. Only youth who are receiving one-on-one financial coaching sessions can apply for the coach, since that coach will provide specific education on how to manage the product.

Credit building products can be a transformational tool and organizations embedding credit-building products into their programs have a unique opportunity to support young people in using products safely and appropriately.



## Recommendations for the Field

The previous section captures the successes and challenges experienced by the participating organizations in the credit-building fellowship, laying the foundation for the five key lessons. Further analysis produced additional recommendations that can help facilitate access to credit-building opportunities for young people transitioning from foster care, and in some cases, to organizations that serve vulnerable populations more generally. The following content is broken up into four sections. The first section shares recommendations for optimizing service delivery of credit-building services and products. The second section explains how organizations can work with state and local policymakers to enforce policies requiring agencies to pull credit reports for youth in foster care. The third section provides recommendations for partnering with financial institutions. The fourth section shares considerations for working with funders seeking to support credit-building programs.

### **ONE | Organizations that serve vulnerable youth**

Many programmatic changes can be implemented to help organizations that serve youth, and particularly youth who are transitioning from foster care, to build or repair their credit. Most of the organizations we worked with modified their programs and services to better understand and meet their clients' financial needs. While the fellows' organizations work with youth transitioning from foster care specifically, many of the considerations discussed here could be used by organizations that serve other vulnerable populations.

First, programs should consider prioritizing financial capability within client needs assessments. While organizational staff often build strong relationships with clients and support them in goal setting, training and problem solving, the current financial capability of their clients is not always understood. While intake forms and case managers might request information around mental health, housing and employment status, questions about financial attitudes, knowledge, goals and needs tend to be absent from these documents or conversations. Incorporating these questions will allow the program staff to gather baseline financial knowledge about their clients and can also be used to support measurement and evaluation in the longer term.



It's hard to start something or maintain your money if you don't have goals."

YOUNG PERSON FROM **THE RIGHTWAY FOUNDATION**

Each of the fellows' organizations developed a financial capability assessment or updated their intake form to enhance their understanding of their clients' financial lives and inform service delivery. Programs can embed existing tools, such as the [Bureau of Consumer Financial Protection's Financial Well-Being Scale](#) and the [Center for Financial Security's Financial Capability Scale](#) into an existing assessment or use them to build a new one.

Second, programs should pull credit reports to establish whether young people have a credit history, credit score and/or errors on their reports. In the case of credit, knowledge is power. If a person has a low score, or no score, a credit report can reveal the contributing factors. A Federal Trade Commission study found that one in four consumers found errors on their credit reports that may affect their credit scores.<sup>15</sup> Helping young people to pull and understand their credit reports facilitates their ability to reach their overall credit goals—such as seeking out a credit-building product, enrolling in credit counseling or creating a debt management plan. If the program tracks the basic credit history of their clients, they can also better understand which interventions they might be well-positioned to offer.

Third, programs should consider training staff to become certified credit counselors so that they can provide support directly to youth instead of referring to or partnering with an outside entity. Building or repairing credit is a complex and time-intensive process. It is not something that can be addressed by just attending a financial education workshop, but rather requires ongoing work and support. Many foster youth do not have parents or guardians working with them to establish and maintain good credit, as many other young people do, so the adults they work with play a critical role. The option of training staff was appealing to many of the fellows because youth were already engaged in intensive services with the organization and in many cases had deep and trusting relationships with staff. Staff were interested in exploring the idea of helping youth address credit issues but were uncomfortable doing so on their own because they felt that they didn't have sufficient knowledge to help youth navigate credit issues and didn't want to provide youth with bad advice. Allocating funding and time to train staff to become credit counselors allows youth to receive support around credit issues in an organization that is already helping them navigate complex financial issues, such as finding an apartment or securing a first job, and it provides an excellent professional development opportunity for staff.

Finally, organizations should consider financially supporting their clients to open a credit-building product, such as a secured card or loan. All the organizations in the fellowship were concerned about setting young people up for success with products

and wanted to provide support in helping them manage products if they were eligible. Many of the young people in these programs lacked savings and were concerned about making the down payment needed for a secured card. The organizations also wanted to provide financial support to young people if they experienced a financial crisis. Program staff rationalized that when a typical young person makes financial mistakes they often have family to help navigate them. Because of their involvement in the foster care system, these organizations sought to create a safety net akin to a family. By providing small-dollar awards to help young people make a deposit on a secured card or help them continue to pay a secured card or a credit-building loan if they experienced a financial crisis, programs would be able to build in safety measures that would protect young people from further damaging their credit. Organizations can support young people by allocating some funding to help them pay for the deposit on a secured card or to serve as collateral for a credit-building loan.

## **TWO** | Working with Policymakers

The Child and Families Services Improvement and Innovation Act, which was passed in 2011, requires that each child in the foster care system receive a copy of their credit report every year starting at age 16.<sup>16</sup> By ensuring that young people pull their credit report early and often, youth can identify if they have a low score or no score and can look for errors that may contribute to a low score or identify actions they can take to improve their score. In 2014, the federal law was amended to state that youth should start receiving the report at age 14.<sup>17</sup> While some states and counties have been able to implement this federal law, many have struggled. According to a survey conducted by Credit Builders Alliance (CBA)<sup>18</sup> and Child Focus Partners in 2014, only 50% of respondents, who consisted of public and private child welfare agencies, as well as other community-based organizations that were tasked with implementing the law, agreed with the statement, “my agency is accessing credit reports for all youth in foster care in accordance with an agency-wide policy or implementation plan.”<sup>19</sup> While this data is somewhat dated, in our discussion with the five organizations that participated in this fellowship, very few sites were aware of this requirement and felt that child welfare agencies were inconsistently implementing this policy. In our interviews and focus groups with young people, few reported that they had received help from a child welfare agency in accessing their credit report.

This requirement is challenging for states and counties to implement for several reasons. For states to pull credit reports from all three agencies, they must become credentialed and submit requests electronically. This process can be somewhat time consuming and difficult. If agencies submit requests electronically, they will receive what are known as business division reports, which are often challenging to read and may omit key information that is needed to dispute errors on a credit report.<sup>20</sup> If agencies are able to receive a report, workers often lack the training to help young people understand their credit report and address issues on the report. According to the above referenced survey by CBA and Child Focus Partners, nearly half of respondents reported that they had received no training on how to understand, access or interpret credit reports and/or inaccuracies found in the reports.<sup>21</sup>

The policy currently varies for young people who are under 18 versus those who are over 18. Young adults over 18 can theoretically access their credit reports on their own, but this may be challenging to do if they have moved a lot, given that the free reports available through AnnualCreditReport.com require address verification and other forms of identity verification. Agencies should consider developing procedures to ensure that young people have support when they pull their credit reports, or they should consider developing a procedure to continue to access young people's reports after 18.<sup>22</sup> Taking one of those measures will help ensure that young people's access to their credit reports does not fall through the cracks as young people age out of the foster care system.

Organizations working with and serving youth can advocate for state and county governments to do more to ensure that this requirement is successfully implemented, and that young people are able to learn about errors on their report. Child welfare agencies and nonprofits must develop plans to implement this policy and workers must be provided with sufficient training to help young people address credit issues. CBA and Child Focus Partners have published [guidance](#) about how child welfare agencies should approach credit report pulls. While the legislation clearly states that child welfare agencies should be responsible for addressing any issues that are identified on young people's credit reports, there has been a lack of movement on this requirement. Organizations working with and serving youth should work with state and county legislators to develop clear steps around this requirement and should outline steps to take with young people as they are leaving care, given that resolving credit issues can take a significant amount of time.<sup>23</sup>

Organizations that provide support services to young people and organizations that are providing specialized financial capability services should explore whether joint partnerships are possible with child welfare agencies. Since many frontline staff lack the training to know how to read these reports, financial capability service providers could play an important training role.

### **THREE | Partnering with Financial Institutions**

During the fellowship, many of the organizations worked to form partnerships with banks and credit unions to provide safe and affordable products that would help build young people's credit. To thrive in the financial mainstream, banking products are an instrumental entry point. Bank accounts enable people to utilize direct deposit for wages and set aside money for rent and other expenses. If a program is focused on employment, incorporating a conversation on the benefits of a bank account is relevant and timely. To make it actionable, organizations can bring in a banking partner to help clients enroll. Credit can be confusing and overwhelming to young people, and most people do not know about secured credit products, which can be used as stepping stones to mainstream credit products. Organizations that seek to build credit among young people can pair credit education with practice through a secured credit card or credit-builder loan.

**Being that I had never heard of a secured credit card, I don't even know what questions to ask.**

**YOUNG PERSON FROM THE RIGHTWAY FOUNDATION**



Some of the organizations in the cohort struggled to find financial institution partners that were willing to offer a product to young people transitioning from the foster care system. In some cases, the offered financial product did not meet the needs of young people in the program and had a low uptake. Nonprofit organizations can help financial institutions meet requirements under the Community Reinvestment Act (CRA), a law intended to encourage financial institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income (LMI) neighborhoods, by helping them understand the needs of their clients and working with them to create a safe and affordable credit-building option if one does not exist. Some nonprofit organizations become co-signers on loans with young people or raise funds to cover deposits on secured cards to support young people in their programs.

Organizations working with youth aging out of foster care can play an important role in educating financial institutions about the financial needs of young people and the barriers they face accessing products and services from these institutions, as well as advising on new product and service design

#### **FOUR | Partnering with Funders**

Funders can play an invaluable role in helping organizations that serve youth transitioning from care to integrate credit-building services. Understanding how to communicate with vulnerable youth and connect them to credit-building services and products is key to building a strong funding relationship.

As was noted above, credit-building is a time-intensive process. The exact timeframe to build a credit score varies depending on the company assessing your score.<sup>24</sup> To establish a FICO score, consumers need to have one open account that is reporting to the credit bureaus for six months or longer. To establish a Vantage score, consumers need to only have an account open for one month and an account reported in the last two years.<sup>25</sup> Not only does it take a long time to build or repair credit, but planning for a credit-building integration process is time intensive as well. All the organizations that participated in this fellowship sought the input of youth when designing their services and the majority needed to form new partnerships to offer the services that they felt would best meet the needs of the young people in their programs. For organizations to go through the planning process and to track whether the services they are offering to young people have an impact on their credit score, they should advocate for multiyear grants.

It is also important to share what the funding can help support. Flexibility is key since funding might contribute to the training of staff, supporting access to credit report-pulling software or the granting of small dollar awards to help pay for things like the deposits on secured cards. Monitoring the impact of these services and products is critically important to measure success. Organizations might need to develop new measurement and evaluation procedures as well as adopt new systems to track new financial outcomes and outputs. Funders have an opportunity to deeply invest in organizations and see better outcomes if they provide long-term funding to organizations integrating credit building into their programs.



# CREDIT BUILDING & RACIAL ECONOMIC INEQUALITY

**T**hough not a key focus of our work with the five organizations serving youth transitioning from foster care, we would be remiss if we did not acknowledge that race and ethnicity are key determinants of a person’s economic situation. This section describes the demographics of young people in the foster care system—who are majority of color—the current state of racial economic inequality in our country, and the policies and practices that led us to where we are today. At the end, we offer a few programmatic ideas for how to integrate credit-building products and services in a way that acknowledges these racial disparities and can help the foster youth and financial capability fields better understand how to tailor services for foster youth of color. We hope these ideas are the start of future conversations and research on how to best support young people of color transitioning from foster care and how to dismantle systems that lead to disparate outcomes.

## **Demographics of Young People in the Foster Care System**

Young people of color make up 55% of the foster care system.<sup>26</sup> In 2016, 44% of children in foster care were White, 23% were Black or African American, 21% were Hispanic (of any race), 10% were other races or multiracial and two percent were unknown or unable to be determined.<sup>27</sup> African American and American Indian/Alaska Native youth are two groups that are over-represented in the foster care system, meaning the percentages of African American and American Indian/Alaska Native youth in the foster care system are higher than the percentages of these demographic groups within the general population. According to child welfare data from 2014, African American children are represented in foster care 1.8 times their rate in the general population and American Indian/Alaska Native youth are represented 2.7 times their rate in the general population.<sup>28</sup>

## Racial Economic Inequality

Young people of color in the foster care system are particularly vulnerable financially because they are part of a population that has systematically been denied opportunities to earn income and build wealth, resulting in stark disparities in income and wealth by race. At the median in 2016, Black households earned 61% and Hispanics earned 74% as much as White households. In terms of wealth, half (51%) of households of color are liquid asset poor, meaning they do not have enough liquid savings (money in cash or bank accounts) to replace income at the poverty level for three months, compared to 28% of White households in 2013.<sup>29</sup> Based on an analysis of the Federal Reserve Board's Survey of Consumer Finance in 2016, Black and Latino households had \$3,400 and \$6,300 in median household wealth, respectively, compared to \$140,500 among White households.<sup>30</sup>

These stark disparities in income and wealth along racial lines can largely be attributed to the effects of racist, discriminatory and exclusionary policies and practices since our country's founding through the present day. These income- and wealth-stripping policies and practices include, but are not limited to: the forced free labor of enslaved men and women, racially-exclusive land redistribution, the denial of citizenship based on race in the 18th and 19th centuries, workplace discrimination, the denial of social security to certain classes of workers largely made up of people of color and the exclusion of education and homeownership opportunities in the 20th century. Current public policies—such as asset limits for public benefit programs, racially-biased fines and fees in the criminal justice system and an upside-down tax code that overwhelmingly favors wealth-building for wealthy, mostly White households over everyone else—further perpetuate racial economic inequality.

Young people of color in the foster care system are not immune to these racist and exclusionary policies and practices and the economic inequality they create. As people of color, they are more likely to face discriminatory employment and hiring practices, less likely to have access to intergenerational

wealth transfers, more likely to be exposed to predatory financial products and services within their communities, and more likely to have had negative experiences with mainstream financial institutions. As programs design interventions—like credit building—that intend to build economic opportunity for young people of color in the foster system, it's important to recognize, and where possible, address these barriers and disparities.

## Implications for Program Design

To be clear, the credit-building fellowship did not research the question: ***How do we deliver credit-building products and services in a way that acknowledges and addresses racial wealth inequality?*** This question requires deeper exploration and discussion through ongoing partnerships between the foster care, financial capability and racial wealth equity fields. The following programmatic tips, therefore, are neither all-inclusive nor prescriptive, but rather a tool to spark conversation and reflection among staff, foster care youth, funders and other stakeholders about how to integrate credit-building products and services in a way that acknowledges racial economic inequality and attempts to break down barriers for foster youth of color.

- Educate staff and funders on structural and systemic barriers facing young people of color and how these barriers may impact outcomes.** Educating staff about structural and systemic barriers facing young people of color will help them understand young people's current financial lives and the opportunities (or lack of opportunities) available to them. Educating staff can shift staff's engagement with young people from a purely "individual responsibility" approach to one that acknowledges how the young person is one actor in a complex web of actors and systems. Furthermore, educating funders about systemic inequality can help them set more realistic expectations in terms of timeframe and outcomes to demonstrate the impact of their funding.
- Educate staff and other stakeholders working with young people of color about implicit bias and values/beliefs around finances.** We all have

implicit biases, meaning we unconsciously uphold certain stereotypes and beliefs about people in our minds. We also all have certain values around finances and personal beliefs about “good” or “bad” financial decisions. These implicit biases, values and beliefs can cause us to unfairly judge young people of color’s financial decisions. To counteract these judgements, educate staff and other stakeholders working with young people of color about implicit bias and allow them to explore their values and beliefs about finances. Encourage them to ask young people what may be driving their decisions and what barriers they may be facing. Focus on helping the young person navigate the barriers (or work to remove those barriers) instead of blaming them for their decisions.

- **Explore policy solutions that may impact racial disparities.** As a programmatic intervention, credit building alone cannot disrupt racial economic inequality for youth of color. Policy interventions will be critical for disrupting larger systemic barriers. For example, consider supporting advocacy efforts in support of policies that increase our understanding of the problems facing low-wealth households of color, generate more income for the bottom of the wage spectrum, encourage and enable savings, increase opportunities for ownership of wealth-building assets and support consumer protections.<sup>31</sup> Bring the client voice to problems to advocate for systemic changes.
- **Ask young people of color about their experiences navigating financial issues and believe them when they share what they have experienced.** Young people of color may have faced discrimination when seeking employment or accessing safe and affordable financial products and services. These experiences need to be acknowledged and young people’s feelings need to be validated. For example, young people of color may mistrust financial institutions and lenders. It’s important to respect this mistrust. Low-income communities and communities of color have long and painful histories of trauma and

oppression that have led to warranted mistrust of the U.S. financial system. Practitioners can play a role in sharing resources and information and letting young people make the decisions they feel are best for them.

- **Consider credit building as one tool in the toolbox.** Continue to pair credit-building services with other supportive services that help young people build wealth. This may include income-generating opportunities, financial counseling, peer support, access to incentivized savings products or other interventions designed to help young people become more financially stable.
- **Be realistic about program outcomes associated with credit building.** Consider tracking short-term outcomes such as changes in young people’s knowledge, skills and attitudes and medium-term outcomes (e.g., changes in behaviors) in addition to long-term outcomes (e.g., changes in life conditions). Changes in life conditions are more likely to be influenced by larger systems and policies that your organization may not be able to control. Tracking changes in knowledge, skills, attitudes and behaviors may be better indicators of your program’s influence on young people.
- **Of the outcomes you track, disaggregate by race and ethnicity.** Disaggregated data on the impact of credit-building products and services will help the foster care and financial capability fields assess the impact of these interventions on young people of color. As noted earlier, credit building has the potential to help young people increase their financial well-being by removing poor credit as the reason for being denied access to housing and employment. However, young people of color may still be discriminated against by employers and property owners. Given current systemic barriers and discrimination, collecting data to evaluate the effectiveness of these strategies for young people of color has the potential to (1) expose discriminatory practices (since poor credit cannot be used as “an excuse” for rejections) and (2) help the field determine how to tailor services for this target audience.

## PART FOUR

# About the Featured Organizations

Through this project, Prosperity Now aimed to support more organizations to provide quality credit-building services to particularly vulnerable populations. After a community scan, Prosperity Now decided to work with organizations that support youth transitioning from foster care. The project was made possible through a generous grant from JPMorgan Chase & Co.

Children's Home Society of Florida, DePelchin Children's Center, First Place for Youth, Nebraska Children and Families Foundation and The RightWay Foundation participated in the credit-building fellowship. Please see below for a chart that includes additional information about the organizations and the credit-building services and products they integrated into their programs.



## Children’s Home Society of Florida

*A nonprofit organization that helps at-risk infants, children, youth and families achieve their potential. We protect abused or neglected infants and children, strengthen families and strive for stable, permanent and loving homes.*

<b>Location</b>	Northeast Region (Flagler, Volusia & Putnam Counties), Florida
<b>Target Program</b>	Independent Living Program
<b>Credit-Building Services Integrated</b>	<ul style="list-style-type: none"> <li>• Financial education</li> <li>• Access to safe and affordable bank accounts</li> </ul>

## DePelchin Children's Center

*An accredited foster care and adoption agency, DePelchin’s approach to caring for children integrates prevention, foster care, adoption and post-adoption programs. DePelchin is a nonprofit organization with locations throughout Houston and across Texas.*

<b>Location</b>	Houston, TX
<b>Target Program</b>	Transitioning to Adulthood through Guidance and Support (TAGS)
<b>Credit-Building Services Integrated</b>	<ul style="list-style-type: none"> <li>• Financial education</li> <li>• Credit coaching/counseling</li> <li>• Credit report pulling</li> <li>• Secured credit card</li> </ul>

## First Place for Youth

*First Place for Youth’s mission is to help foster kids build the skills they need to make a successful transition to self-sufficiency and responsible adulthood. FPFY provides results-driven direct service to young people who need support in pursuing their goals; and advocates for public policies that will improve the lives of as many foster kids as possible.*

<b>Location</b>	San Francisco and Solano Counties, California
<b>Target Program</b>	Independent Living Skills Program
<b>Credit-Building Services Integrated</b>	<ul style="list-style-type: none"> <li>• Financial education</li> <li>• Financial coaching</li> <li>• Credit report pulling</li> <li>• Access to safe and affordable bank accounts</li> <li>• Secured credit card</li> </ul>

## Nebraska Children and Families Foundation

*The Foundation is an intermediary that works with community-based organizations to prevent child abuse and neglect, ensure that every child can succeed in school and support youth in foster care as they transition to adulthood.*

<b>Location</b>	Lincoln, Nebraska
<b>Target Program</b>	Partnered with programs at <a href="#">Family Housing Advisory Services</a>
<b>Credit-Building Services Integrated</b>	<ul style="list-style-type: none"> <li>• Trained older youth to become financial mentors to youth transiting out of the foster care system</li> <li>• Credit-building loan</li> </ul>

## The RightWay Foundation

*The RightWay Foundation works with current or emancipated foster youth to provide therapy and counseling as a major part of the employment training model.*

<b>Location</b>	Los Angeles, California
<b>Target Program</b>	Transitioning to Adulthood through Guidance and Support (TAGS)
<b>Credit-Building Services Integrated</b>	<ul style="list-style-type: none"> <li>• Financial education</li> <li>• Credit coaching/counseling</li> <li>• Credit report pulling</li> <li>• Secured credit card</li> </ul>



## Endnotes

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- 13 Jump\$tart Florida is a statewide financial education coalition and affiliate of the national Jump\$tart Coalition for Personal Financial Literacy that works to educate and prepare young people for life-long financial success.
- 14 Justine PETERSEN (JP) is a national non-profit headquartered in. Justine Petersen partners with local financial institutions and government to help low-income and moderate-income individuals and families get mortgages and business loans, and counsels people about homeownership and financial management. JP is a member of the Credit Builders Alliance
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