NEIGHBORHOOD TRUST FINANCIAL PARTNERS

Presentation to the 2012 Social Enterprise Leadership Forum

MAY 18, **2012**

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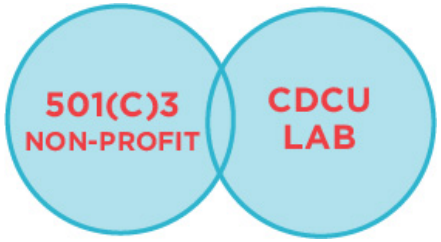
We Are a Nonprofit Financial Services Provider



Vision Statement: The working poor will be productive participants in the U.S. economic system, with opportunity to convert low wages into assets and long-term wealth building strategies, and to contribute to community revitalization.

We are:

A financial advisory service.

A laboratory for innovation.

A strategic partner.

OUR MODEL

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Success Framework

PRODUCTIVE BANKING

+ Financial Plan

+ Trusted Relationship

2-YEAR OUTCOMES:

- A long-term planning horizon
- Budget adherence
- Improved Net Worth
- A healthy credit profile
- Improved self-efficacy

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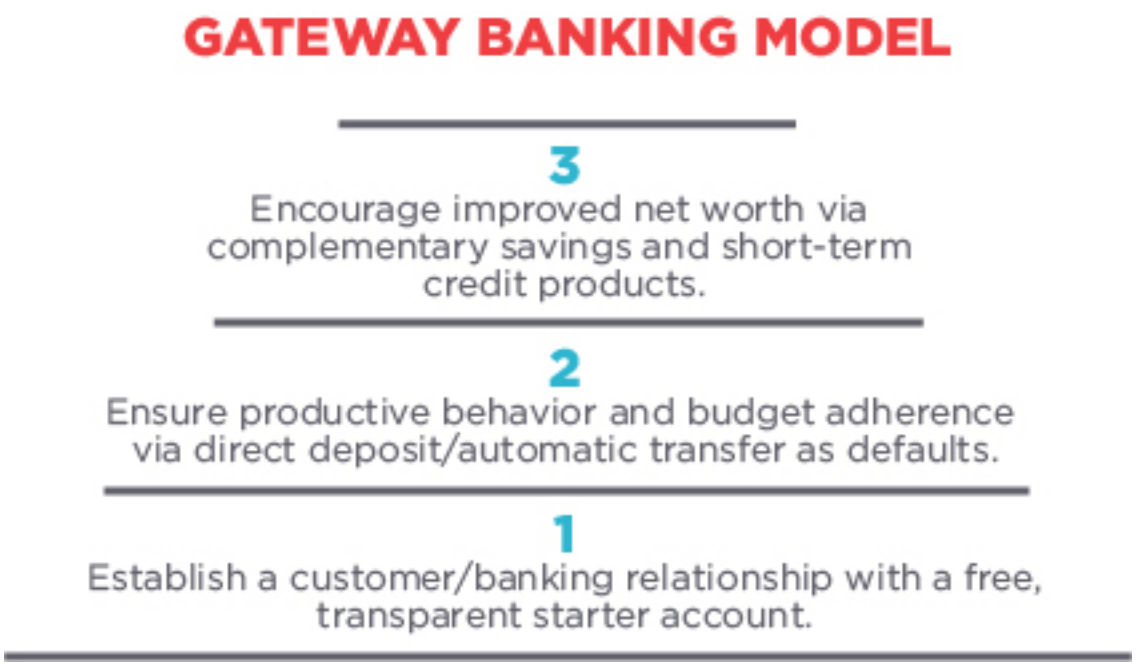
Gateway Banking Package

- Free Checking Account with Direct Deposit
- Free Savings Account
- Balance-building SuperSaver CD
- The Trust Credit Card
  (pilot launch April 2012)



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Our View on Applying Behavioral Economics

- We believe behavioral economics can be applied to innovative product design and delivery to:

  (a) overcome the significant hurdles to banking the unbanked
  (b) reduce unhealthy and burdensome debt levels
  (c) improve the likelihood that financial behavior is consistent with a financial plan

- We observe that:

  Our clients welcome commitment strategies, default allocations of their paycheck to budgeted goals, and new ways of viewing their financial information that encourages improved behavior.

  Yet they are suspicious of big banks and “the system”, of money management services they can’t touch or see, of services that don’t link to a trusted individual relationship.

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Challenge #1: Irrational embrace of savings instead of net assets

THE PREMISE: Healthy Balance Sheets—not just savings -- are critical to wealth creation. Debt reduction is the most important first step, but lacks the positive emotion tied to savings growth.

At Neighborhood Trust:

- 94% of our clients have credit card debt, with an average debt/income ratio of 60%.
- Of these clients 20% also have savings and 28% of this cohort have savings balances that are at least equivalent to their outstanding debt.

"Experts" as well as clients share an interest in promoting savings irrespective of debt load:

- "We need to promote savings behavior. Establishing the savings habit is as important as reducing debt."
- "A client of mine with severe credit card debt decided to put her tax credit into a savings account for her granddaughter's college. I supported this decision because it made her feel like she was truly progressing toward her financial goal."
- "Even if debt reduction is important, a sole focus on debt reducing behavior may cause such panic or despair that inaction / no savings may result."

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Solution: Communicate the power of net assets.

IDEA #1a: A financial statement which labels debt principal and interest expense reduction as net savings. For example, assume debt at 20% interest and savings at 5% interest:

Traditional Statement

	Debt	Savings
Starting Balance	$ 1,000	$ 500
Payment	$ 1,000	$ –
Interest (expense/revenue)	$ –	$ 25
Ending Balance	$ –	$ 525

Innovative Statement

	Debt	Savings
Starting Balance	$ 1,000	$ 500
Payment	$ 1,000	$ –
Interest (expense/revenue)	$ –	**$ 175**
Ending Balance	$ –	**$ 675**

IDEA #1b: (building on this): A "thermometer-like" visual that shows balance sheet progress based on overall improvement in net assets, irrespective of debt-specific or savings-specific activity.

IDEA #1c: Rename "interest expense" on the statement and thermometer with a name like "money wasted" or "extra money you pay credit card company" that underscores the opportunity cost of maintaining debt balances.

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Solution: Simplify debt payment via uniform payments

- **Create a debt refinancing product** which charges a lower interest rate and applies reduced expense to reduced principal. This product capitalizes on the client's regular payment habits and lack of concern about principal vs. interest expense to whittle away at principal over time. And these "savings" can be called just that with a more innovative statement presentation.

- **Create a debt consolidation program** that shows all debt on paper as one debt / one monthly payment, to encourage debt repayment via less complexity.

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The TRUST CARD – an IPA-funded pilot

- ✓ Reduce your interest expense
- ✓ Reduce the time it takes paying down your debt
- ✓ Improve your financial health

The Trust Card Is Easy

Transfer all of your debt to one card.

Make the same payments each month and watch your balance go down more quickly.

The Trust Card Saves You Money

The Trust Card has a lower interest rate.

Unlike other cards, as you pay off your debt, the minimum payment stays constant. You will be out of debt faster and spend much less on interest.

The Trust Card Gives You Control

Don't fall back into bad habits.

As you pay off your debt your access to new credit is limited—and you can choose a lower limit upfront. The Trust Card strikes a balance between reducing your debt and the need for available credit.

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Challenge #2: Cash in the pocket makes budgeting a challenge

THE PREMISE: Online banking and related systems that automatically allocate funds from a paycheck to budget goals like paying bills or saving for retirement are proven to be effective.

Improving the connection between a budget, a paycheck, and financial services will eliminate reliance on personal vigilance to achieving financial goals.

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Solution: Leverage the workplace payroll and direct deposit systems

- **Employer-based solution, requiring direct deposit.**
  - Improve direct deposit delivery systems.
    - Make direct deposit a default linked to a default checking account. Perhaps charge a fee to opt out and receive a paper check. Include split direct deposit linked to budgeting process as part of initial direct deposit process.
  - Link other payroll systems to budgeting and direct deposit.
    - Revise W-4 to include other types of deductions for debt payment and / or savings goals via split direct deposit.

- **Create new "financial statement."** Link payroll data to financial statement data which is put into budget format and linked to a checking account. This new statement will incorporate:
  - traditional activity and balance data;
  - budget goals showing payroll and other credits allocated to expense buckets.

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