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FIELD EXPERIMENTS ON THE IMPACTS OF FINANCIAL PLANNING INTERVENTIONS FOR RECENT HOMEBUYERS

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Low and moderate-income households are less likely to plan for long term financial goals, including retirement, and are less likely to seek out assistance with long term financial planning. Offering behavior-based financial planning interventions that leverage technology at teachable moments may prove to be an efficient and effective strategy to reach this vulnerable population. We conduct a randomized field experiment to explore this strategy during a teachable stage in the life-cycle: the purchase of a first home. A sample of 600 homebuyers will be randomly assigned to varying combinations of interventions, including an online financial assessment tool, interactive financial planning modules, and telephone-based financial coaching. Current results are based on 203 homebuyers who had participated in the study as of August 2011. We describe the study sample and methodology, present preliminary findings, and discuss early implications. Ongoing follow-up with homebuyers and outcome evaluation will be completed in subsequent years.

The recent mortgage crisis demonstrates that, despite its promotion as a wealth-building tool, home ownership can entail substantial financial hardship. This is particularly true for new homeowners with fewer resources (Duda and Belsky 2001). Further, low and moderate-income households are less likely to plan for long-term financial goals (Haveman, Holden, Wolfe, & Sherlund, 2006; Munnell, Golub-Sass, Perun, & Webb, 2007). The purchase of a first home may provide a teachable moment for reaching low and moderate-income households with comprehensive financial planning tools. Prior to implementing such interventions on a broad scale, there is a need for a systematic understanding of the financial well-being of the target population, and the effectiveness of replicable interventions.

The present brief provides the first-year analysis of a three-year project designed to address this need. A randomized field experiment is administered to: (a) assess the financial vulnerability of low-income, first-time homebuyers, and (b) test the effectiveness of online financial planning tools and telephone-based financial coaching.

Four-Stage Financial Planning Process

Low and moderate-income households, and in particular first-time homebuyers, have specific challenges when it comes to financial planning given limited assets and competing demands. We break the financial planning process into four stages, identifying challenges that are specific to each stage. The first stage in financial planning is to assess one's current financial position. Because this task is complex and time consuming (especially at the time of home purchase), there is a tendency to skip this stage and base financial decisions on simplified assumptions (Prelec and Lowenstein 1991; Weber and Chapman 2005).

Four Stages of Financial Planning:
Assess financial well-being
Set financial goals

Implement financial goals
Monitor progress

The next stage in financial planning is to set financial goals. However, low and moderate-income households may have difficulty identifying long-term goals because of lower levels of financial literacy and a bias towards immediate financial needs. The third stage in successful financial planning is implementing the necessary steps to reach the desired goals. However, without specific implementation intentions (e.g. when, where, how), individuals tend to procrastinate. The final stage is monitoring progress toward goals. Without some sort of accountability mechanism or external check on progress, households may lack the motivation over time to follow-through with their intentions.

The MyMoneyPath Program

We leverage information about the four stages described above and their attendant challenges to design a technology-based support program we call MyMoneyPath. The program consists of four parts. First, new homeowners complete an online financial health assessment. Financial problem areas are automatically identified. Second, the homeowner is offered online financial planning modules that present basic financial concepts and provide visual representations of the individual's financial well-being. Third, users are asked to select financial goals in potential problem areas (e.g., credit card payment or retirement planning) and set time frames for meeting the goals. Finally, through quarterly telephone contact, financial coaches remind homeowners of their goals and reiterate what steps need to be taken to meet them.

Study Design and Methodology

We integrate the MyMoneyPath approach into a statewide affordable homeownership program in Ohio. We partnered with the First Time Homebuyer Program offered by the Ohio Housing Finance Agency (OHFA), which provides affordable fixed-rate mortgage financing. The first 600 consenting homebuyers to participate in OHFA's homebuyer program and complete its education component between May 20, 2011 and December 31, 2011 will be randomly assigned to one of two groups. Members of the first group will participate in only the financial health assessment (control group), while those in the second group will participate in assessment, completion of online financial planning modules, goal setting, and financial coaching (treatment group).

Year One Results

Sample Characteristics. At the end of the first project year, 203 consenting participants had been enrolled in the study and randomly assigned to either the control (n=61) or treatment (n=142) group. Despite a low average income, most of these households would be considered ready for home purchase by conventional underwriting standards. For example, the average credit score in the sample is 675. Even by conservative underwriting criteria, credit scores above 620 are typically considered acceptable, and scores above 660 are considered to be indicative of "good" credit.

Financial Health and Confidence. Despite being "ready" for home purchase, initial results of the financial health assessment present a mixed picture of the financial vulnerability of respondents. Most had some positive financial habits: 91 percent had their paycheck deposited directly, 83 percent had some type of written budget, and of those, 74 percent reported being able to stay within the plan most of the time.

Positive Behaviors
91% had paycheck directly deposited

83% had a written budget
86% were saving

Most participants, 86 percent, were saving (though only 38 percent had money automatically deposited into an account). Despite these positive behaviors, all homebuyers in the study reported having some form of outstanding non-mortgage debt; the median debt for homebuyers was $14,396 with a median monthly payment of $319. Further, the median homebuyer had less than $2,000 in liquid assets. In addition, a non-negligible minority reported particularly problematic behaviors or situations: nearly one-third had no savings account, about 12 percent paid the minimum or less on their most recent credit card bill, 5 percent had received a collection call within the last three months, and 14 percent had struggled to make their rent payment within the last three months.

Potential Problems
$14,396 median non-mortgage debt
Less than $2,000 median liquid assets
12% paid minimum on credit card bill
14% struggled to make rent payment

Results concerning retirement preparedness were mixed. Of the respondents, 42 percent had a retirement account; of those who did, the median amount saved was $5,000. Only 41 percent reported having a plan to save for retirement in the future.

Respondents' financial confidence varied by type of debt: 92 percent were very confident they would be able to make their mortgage payments, 83 percent were very confident about their ability to pay day-to-day expenses, and 76 percent were very confident they would be able to pay down their debt. However, only 47 percent were very confident they will be prepared for future expenses, and only 36 percent were very confident about paying for retirement.

Policy Implications and Conclusions

The homebuyers in the sample had a high level of confidence that they will be able to pay their mortgages, and are doing fine based on conventional underwriting criteria. Given the paucity of savings and the high level of non-mortgage debt, however, sample members' confidence may be misplaced. Even as affordable housing policies shift toward tightened underwriting criteria based on conventional standards, low and moderate income homebuyers remain vulnerable and may not be positioned to build assets through ownership without more broadly targeted interventions. Results indicate that two factors—lack of information about future retirement needs, and short-term perspectives that prevent cash-strapped households from investing for long-term goals—prevent our sample of low and moderate-income homeowners from being sufficiently prepared for long-term financial needs.

Even as affordable housing policies shift toward tightened underwriting criteria, low- and moderate-income homebuyers remain vulnerable and may not be positioned to build assets through ownership without more broadly targeted interventions.

Interventions should help homebuyers accurately appraise their overall financial situation and work toward comprehensive financial well-being, and should include a focus on both education and behavioral modifications.

Preliminary recruitment data demonstrates that more than half of low-income homebuyers are amenable to the receipt of additional financial planning tools.

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Initial results suggest that our interventions are being provided at a teachable moment (first home purchase) to a potentially vulnerable group. These results highlight the potential for integrating simple financial planning tools such as those employed in this study during other teachable moments across the lifecycle. To the extent that such integration can occur through an existing program infrastructure, there may be an increased likelihood of take-up, as well as a lower cost of implementation.

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The Financial Literacy Research Consortium

The Financial Literacy Research Consortium (FLRC) consists of three multidisciplinary research centers nationally supported by the Social Security Administration. The goal of this research is to develop innovative programs to help Americans plan for a secure retirement. The Center for Financial Security is one of three FLRC centers and focused on saving and credit management strategies at all stages of the life cycle, especially helping low and moderate income populations successfully plan and save for retirement and other life events, including the use of Social Security's programs.

The Center for Financial Security

The Center for Financial Security at the University of Wisconsin-Madison conducts applied research, develops programs and evaluates strategies that help policymakers and practitioners to engage vulnerable populations in efforts which build financial capacity. The CFS engages researchers and graduate students through inter-disciplinary partnerships with the goal of identifying the role of products, policies, advice and information on overcoming personal financial challenges.

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