Loan Products for Credit-Building:

An Impact Analysis of Twin Accounts

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Summary

Low-income people often find that poor credit scores, or no scores at all, prevent them from obtaining affordable consumer credit. Organizations that help people improve their financial well-being overall often focus on improving their credit. One increasingly popular way to do this is to put clients into specialized loan products that help people build credit in ways recognized by agencies that construct and assign the scores.

Beginning in 2010, the Local Initiatives Support Corporation, with the input of many of its partners–created and piloted a credit building loan product called Twin Accounts, which includes a one-to-one match to client repayments as an incentive to on-time payment. Several years later, LISC was able to expand this product through its national Financial Opportunity Center network, through its CDFI partner–Justine PETERSEN. This paper compares the outcomes of Twin Accounts borrowers with other, statistically-matched, clients of LISC-supported Financial Opportunity Centers who did not open such accounts to find out whether their scores, in fact, improved.

Results show that financial coaching, when paired with access to financial products, has a large impact on credit scores and credit building behaviors. Participants in Twin Accounts had double the credit score gain of non-participants in Twin Accounts and were more than twice as likely to gain a score and keep it (98 percent versus 36 percent in the comparison group). On average, Twin Accounts participants increased their credit score by 35 points, compared to a 10 point increase for non-borrowers.

In addition, participants in the credit builder loan had higher six- and twelve-month employment retention rates, perhaps indicating a greater ability to weather financial crises or stronger connection to all FOC services including employment counseling. The findings of this analysis provide support for the continuation and expansion of the Twin Accounts program.

Introduction

Creditworthiness and credit scores generated by credit rating agencies using consumer credit bureau reports matter to the financial lives of low-income individuals. By design, credit scores affect the ability of consumers to affordably access both the mainstream consumer lending market (credit cards, car loans, etc) and the asset-building opportunities in the home mortgage market. Over time, credit scores have also taken on an important role in other areas as well: many employers check credit reports as part of their hiring process, and credit scores can affect the cost of other consumer contracts such as cell phones and utilities.

Many organizations that work with low-income clients to improve their financial well-being have focused on building credit as an important component of that work. Credit builder loans have emerged as a strategy used by such organizations as Self-Help Credit Union, Mission Asset Fund, and others. The loans offer participants a chance to generate a reported trade line with on-time payments with the credit bureaus, structured in a way that supports participants in making on-time payments. Organizations offering credit builder loans have seen significant positive impact on participants' credit scores.[1]

Twin Accounts are credit builder loans offered to clients of the Local Initiatives Support Corporation's network of Financial Opportunity Centers and serviced by Great Rivers Community Capital which is Community Development Financial Institution wholly owned by Justine PETERSEN. Justine PETERSEN is LISC's non-profit partner in offering Twin Accounts. Twin Accounts consist of a loan of $300 which the client repays in monthly of approximately $26 installments over the course of a year. The lender reports the payments to the credit bureaus, building a credit track record for the client. For those clients participating in Twin Accounts with match, at the close of the loan period, after successfully making a year's worth of on time payments, the client receives the original $300 as well as $300 in match for a total of $600, which is placed on a secured credit card in order to continue credit building. By establishing a new active trade account with on-time payments, Twin Accounts are hypothesized to boost existing credit scores and help those who do not have credit scores attain them.

LISC's Financial Opportunity Centers are programs within community-based organizations which offer bundled financial, employment, and income supports coaching to low-income clients. They integrate employment services such as job readiness training, skills training, job placement services, and one-on-one employment coaching with financial coaching. Twin Accounts participants' receipt of FOC services, particularly financial coaching, is intrinsic to the model's theory of change: Twin Accounts are credit builder loans combined with FOC-based financial coaching.[2]

1 Wolff, S. (2016). *An analysis of Self-Help Federal Credit Union's Fresh Start product.* Reyes, B., & Phillips, S. (2013). *Building Credit for the Underbanked.*

2 *The FOC program model is described more fully in Rankin, S, (2015). Integrated Services and Improved Financial Outcomes for Low-Income Households.*

This Analysis

Questions

This analysis uses data tracked for Twin Accounts clients and data in LISC's FOC program database to examine the impact of Twin Accounts on participants' credit and other financial outcomes. Questions include:

- How do credit outcomes for participants with completed Twin Accounts compare to similar FOC participants who did not participate in Twin Accounts?
- For clients who are unsuccessful in making Twin Accounts payments, are accounts closed quickly enough to avoid negatively impacting participants' credit?

Data sources

As the servicer of the Twin Accounts loans, Justine PETERSEN tracks Twin Accounts participants' program participation, including information on timing of the loan, prepayments and late payments, and accrual of match. In its role as funder & data system provider for the Financial Opportunity Centers, LISC maintains a dataset which includes information on FOC participants' employment, credit, budget, and balance sheets. The present analysis combines the Twin Accounts-specific data with the broader FOC data. The Twin Accounts data used here was acquired in March 2016 and includes participants with loan closing dates through the end of 2015; the FOC data includes participants enrolled through July 2015. As of March 2016, 689 individuals had opened Twin Accounts. Because the FOC dataset ends in July 2015, 555 of those participants are found in the FOC program data. Table 1 (left) shows the account status as of March 2016 within that set of individuals.

Table 1: Twin Accounts Participants by Account Status

	Count
Open	213
Completed	263
Closed Early	79
Total	**555**

Who uses Twin Accounts

Requirements

Eligibility requirements for the Twin Accounts program are designed to target participants who are in a position to make on-time payments on the loan and to benefit from credit building. Program guidelines state that Twin Accounts should be offered to participants whose financial coaching sessions show that they have positive cash flow in their budgets (meaning that their income from employment or other sources is greater than their expenses). Clients with very healthy credit profiles—high scores deriving from robust and diverse credit history—are generally discouraged from opening Twin Accounts because the scope for credit improvement from the account is limited.

Characteristics of account holders

Twin Accounts participants are similar across demographic categories to the general population of FOC clients in the sites where Twin Accounts have been opened. They are slightly more likely than the general FOC population to be white or Hispanic and have slightly higher educational attainment levels. Annual household income at program enrollment is higher for Twin Accounts holders than for the general FOC population.

Table 2: Demographics of Twin Accounts and All FOC Clients in TA Sites

	% Twin Accounts	% All FOC Clients in Sites with Twin Accounts
Female	54	53
Male	46	47
African-American/Black	60	63
American Indian/Alaskan Native	0	1
Asian/PI	1	2
Multi-Racial	0	1
Caucasian/White	15	12
Hispanic	24	20
AA-Some College	36	29
Bachelors or Higher	7	8
HS-GED	39	41
No High School Diploma	17	21
Felony	28	24
Misdemeanor	8	10
No Convictions	65	66
Married	15	16
Divorced/Separated	18	17
Single (never married)	67	67
Owned	17	19
Rent-Subsidized	19	19
Rent-Unsubsidized	38	35
Homeless-Rent Free	26	27
AnnualHHIncome	$13,159	$8,497

More than half of Twin Accounts opened to date have been to participants in Financial Opportunity Centers in Chicago. Chicago has more FOC sites and clients than any other city in the LISC network, and is where the Twin Accounts program was piloted. Smaller numbers of accounts have been opened in nine other LISC markets.

Table 3: Twin Accounts Participants by LISC Market

Market	Twin Accounts (count)	Percentage of all accounts
Boston	25	5
Chicago	298	54
Detroit Metro	20	4
Duluth	8	1
Greater Cincinnati/Northern Kentucky	21	4
Houston	48	9
Michigan Statewide	24	4
Rhode Island	25	5
Toledo	62	11
Twin Cities	24	4

Table 4: Credit category of TA holders at time of account opening

	Hi	Lo	Unscored
Count	85	174	296
Percent	15%	31%	53%

High >=620, Low <620

Slightly more than half (53%) of FOC participants who open Twin Accounts did not have credit scores at the time they open the account. Of the remainder, two-thirds had low FICO scores (below 620) and one third have high scores. The average score at account opening for those who had scores was 596.

Impact for participants with completed accounts

The goal of the Twin Accounts product is to allow participants to demonstrate their ability to make regular payments on a loan, building a positive credit history that will increase their credit score if they already have one and allow them to acquire a healthy credit score if they do not. Evidence from the Twin Account FICO scores tracked by Justine PETERSEN indicates that participants do just that. But there are reasons to think that the individuals who open Twin Accounts might have improved their credit even without this product. Twin Account participants are selected in part because they seem to be in a good position to build credit: they have positive cash flow and scope for improvement. Moreover, Twin Account holders are also participating in financial coaching, working with FOC staff on other credit building strategies. Without a comparison group, it is difficult to attribute the gains seen to the Twin Account itself.

Bringing in the FOC program data helps address this issue. Financial Opportunity Centers track credit scores for participants engaged in financial coaching. We can use this data to select a comparison group of FOC participants who did not open Twin Accounts but were similar both demographically and in entering credit profile to those who did open Twin Accounts. Then we can compare the credit outcomes for the two groups after the Twin Account is completed and beyond, for cases where we have data past the completion of the loan and complete data.

Matching procedure

To compare the credit outcomes for TA account holders to other FOC participants, we narrow the TA group to participants with completed loans and with data on FICO status and score after the end date of the loan, either from the Justine PETERSEN data or from the FOC program data. We sampled from FOC program participants to create the match. Before matching, potential comparison group members were screened for the following characteristics:

- Enrolled in Financial Counseling
- Had at least two FICO scores recorded, at least a year apart
- Not Twin Accounts participants (of any account status)
- Not in bankruptcy at enrollment
- Not at Focus Hope or any of the Indianapolis FOCs. Focus Hope offered a different credit builder product, and the Indianapolis sites offered a variant on Twin Accounts that was not serviced by Justine PETERSEN; these sites are excluded to avoid including in the match individuals who utilized alternative credit building loans.

The groups were matched on a set of demographic variables (age, race, gender, criminal conviction status, education level, and annual household income) and on their entering FICO status category, defined as either Unscored, High (above 620) or Low (below 620). Nearest neighbor matching with a ratio of 10:1 was used. This created a treatment group of 115 completed Twin Accounts holders and 1150 comparison group members. The treatment group is smaller than the full group of Twin Account holders because we are narrowing to participants with completed accounts and with non-missing data.[3]

Characteristics of treatment group and comparison group after match

As expected given the matching procedure, the treatment and comparison group look similar across the demographic characteristics that were used in the match, including on the characteristics (race, education, and household income) where they diverged in Table 2, where we compared Twin Accounts participants to the general FOC population.

[3] Analysis was conducted in R:

R Core Team (2014). R: A language and environment for statistical computing. R Foundation for Statistical Computing, Vienna, Austria. URL http://www.R-project.org/.

Matching was conducted using the MatchIt package:

Ho, D. E., Imai, K., King, G., & Stuart, E. A. (2005-2013). MatchIt : Nonparametric Preprocessing for Parametric Causal Inference. Available through the Comprehensive R Archive Network.

Table 5: Post-match Demographics

	% Twin Accounts	% Comparison Group
Female	53	52
Male	47	48
African-American/Black	57	57
American Indian/Alaskan Native	1	1
Asian/PI	3	4
Multi-Racial	0	0
Caucasian/White	15	14
Hispanic	24	25
AA-Some College	35	37
Bachelors or Higher	12	11
HS-GED	36	36
No High School Diploma	17	16
Felony	29	31
Misdemeanor	9	8
No Convictions	63	61
Married	18	21
Divorced/Separated	23	21
Single (never married)	60	58
Owned	22	19
Rent-Subsidized	11	18
Rent-Unsubsidized	48	37
Homeless-Rent Free	19	26
AnnualHHIncome	$14,947	$13,710

Outcomes

Comparing Twin Accounts completers who completed their accounts to individuals with similar credit profiles who did not participate in Twin Accounts, we find that TA completers had double the average FICO gain and were more than twice as likely to gain a score and keep it (a virtual guarantee for TA completers, versus only 36% of the comparison group.)

The average FICO change for those TA completers with scores at both start and end was 35 points, 25 points higher than the comparison group. The average score for Twin Accounts participants who acquired scores after opening the Twin Account was 645; average score for those attaining scores in the comparison group was 595. The FICO differences remain when controlling for total time spent receiving FOC services, and when controlling for FC time spent (via a linear regression model).

Not all Twin Accounts completers were engaged in FOC employment coaching or seeking jobs. For those who were, the job placement rates were statistically similar—the Twin Accounts placement rate was slightly higher, but the difference was not statistically significant, nor was the difference in 90-day retention rate. Six month and one year job retention rates, however, were higher for Twin Accounts completers than for the comparison group: 15 points higher for 180-day retention and 19 points higher for 365-day retention. However, as discussed below, Twin Accounts participants were more likely to be engaged for longer term in FOC services, and thus may have been more accessible to register retention information.

Table 6: FICO Changes and Employment Outcomes, TA Completers and Comparison Group

	Comparison Group			Twin Accounts Group			
	Average or %	Median	N	Average or %	Median	N	Sig[4]
First FICO Score	601	590	515	593	589	51	0.58
Last FICO Score	607	601	728	639	640	113	0.00
First % with Score	45%		1150	44%		115	1.00
Last % with Score	63%		1150	98%		115	0.00
FICO Change (points)	10.6	11	500	35.4	37	50	0.01
Percent with FICO Increase	59%		500	80%		50	0.01
Percent who gained a score	36%		635	98%		64	0.00
Last FICO for those who gained a score	595	586	228	645	647	63	0.00
Any Job Placement	59%		874	65%		78	0.29
90 Day Job Retention	78%		508	84%		51	0.38
180 Day Job Retention	67%		499	82%		51	0.04
365 Day Job Retention	48%		464	67%		48	0.02

4 Anova for linear outcomes; chi-squared test for binary outcomes.

Table 7: Starting Credit Categories, TA and Comparison

	Hi	Lo	Un-scored
Comparison	16%	29%	55%
TA	15%	30%	56%

Looking at the change in credit categories, we see similar outcomes; the percentage of individuals in each credit category is very similar at program start (because the two groups were matched on this data point).

Table 8: Ending Credit Categories, TA and Comparison

	Hi	Lo	Unscored
Comparison	27%	36%	37%
TA	66%	32%	2%

But after completion of the Twin Account (for the treatment group) or the passage of at least 12 months (for the comparison group), the credit category groupings are quite different.

Table 9: Ending Credit Categories for Completers who Started Unscored

	Hi	Lo	Unscored	N
Comparison	13%	23%	64%	635
TA	75%	23%	2%	64
p=0.00				

Nearly all of the Twin Accounts completers who started without scores gained a score, and 75% gained a high score. In the comparison group, only 46% of those who started without a score became scored, and only 13% reached a high score.

Table 10: Ending Credit Categories for Completers who Started with Low Scores

	Hi	Lo	Unscored	N
Comparison	23%	73%	4%	329
TA	35%	62%	3%	34
p=0.27				

Of those who started with low scores, most in both groups kept their scores. In the Twin Accounts group, 35% attained a high score, versus 23% in the comparison group. The difference is not statistically significant.

Table 11: Ending Credit Categories for Completers who Started with High Scores

	Hi	Lo	Unscored	N
Comparison	82%	17%	1%	186
TA	94%	6%	0%	17
p=0.45				

Individuals starting their Twin Accounts with high scores were the smallest subcategory; while they were more likely than the comparison group to remain in the high category, the comparison is not statistically significant.

Avoiding negative impact for participants with closed accounts

The analysis above provides evidence that clients who successfully complete the Twin Account program show positive credit outcomes. However, not all clients are able to keep up with their Twin Accounts payments. The program is designed to allow financial coaches and Twin Accounts managers to work with clients to close their loans early if the participant is unable to keep up with payments, with the goal of avoiding a negative hit to the participant's credit. For clients who are unsuccessful in making Twin Accounts payments, are accounts closed quickly enough to avoid negatively impacting participants' credit?

To find out, we can create a new matched group for the TA participants who closed their accounts early, maintaining all other match criteria but selecting a match group that looks most similar to those who closed accounts early. We find that there is no significant difference between the FICO scores of TA participants who started and ended with credit scores and those in the comparison group. The comparison group had a higher percentage of individuals ending with credit scores, but this was not because they were more likely to become scored; the individuals who had Twin Accounts that were closed early were actually more likely to acquire a score if they started without one. At the same time, individuals with early closing Twin Accounts who started with low scores were slightly more likely to lose their scores. Generally the evidence supports the hypothesis that their accounts were closed early enough to avoid negative impact on their credit.

Table 12: FICO Change summary, TA Early Closers and Comparison Group

	Comparison Group			Twin Accounts Group			
	Average or %	Median	N	Average or %	Median	N	Sig
First FICO Score	545	544	341	549	561	33	0.65
Last FICO Score	556	553	225	554	544	35	0.82
First % with Score	57%		600	52%		63	0.59
Last % with Score	69%		326	56%		63	0.05
FICO Change (points)	17.2	15	188	12.8	15	20	0.71
Percent with FICO Increase	64%		188	65%		20	1.00
Percent who gained a score	28%		132	50%		30	0.03

Table 13: Ending Credit Categories for Early Closers who Started Unscored

	Hi	Lo	Unscored	N
Comparison	5%	23%	72%	132
TA Early Close	13%	37%	50%	30

Table 14: Ending Credit Categories for Early Closers who Started with Low Scores

	Hi	Lo	Unscored	N
Comparison	13%	84%	3%	190
TA Early Close	13%	48%	39%	31

Table 15: Ending Credit Categories for Early Closers who Started with High Scores

	Hi	Lo	Unscored	N
Comparison	1%	0%	0%	4
TA Early Close	0%	50%	50%	2

Implications for participants' program engagement and retention

Previous research has shown that FOC clients who stay engaged with FOC services have better program outcomes. FOC managers hope that beyond helping participants build their credit, the Twin Account can act as a client retention tool, providing the participant with an incentive to stay engaged in the FOC's financial & employment coaching. To see if such an impact was observable in the data, we created a new matched comparison group, this time matching on the demographic characteristics, entering credit category, and timing of program enrollment. In this comparison, we compare all TA holders, regardless of account status, to FOC clients who were enrolled in financial counseling but did not open Twin Accounts.

We find that the Twin Accounts holders do engage in services at higher levels and for longer periods of time: Average total time spent receiving program services is nearly doubled, and the elapsed time between first and last program contact is increased dramatically as well. The effect is clear both in financial counseling, where the coaching is a component of Twin Accounts participation, and in employment counseling, where coaching takeup is more client-directed. However, none of our matching variables takes into account client motivation, which is likely to be a driver both of Twin Accounts participation and program participation more broadly.

Table 16: Average Time Spent (Minutes) and Days Elapsed

	Time Spent (Minutes)			Days Elapsed		
Group	All Programs	Financial Coaching	Employment Coaching	All Programs	Financial Coaching	Employment Coaching
Comparison	289	114	146	314	234	218
TA	533	296	202	524	466	358

p<.00 for all comparisons

Receipt of bundled services—that is, engaging with, at minimum, financial coaching and employment coaching—has also been associated with better outcomes for FOC participants. Twin Accounts participants are not more likely than the comparison group to be enrolled in bundled services. Instead, they are more likely to be receiving financial coaching only. This is particularly true for participants who complete the Twin Account. Participants who close early are more likely to enrolled in all three FOC programs.

Table 17: Program Enrollment Rates

All TA Holders

	FC Only	FC + ISC	EC + FC	All Programs
Comparison	8%	17%	16%	60%
All TA Holders	17%	15%	9%	58%

TA Completers

	FC Only	FC + ISC	EC + FC	All Programs
Comparison	7%	17%	13%	63%
TA Completers	17%	15%	10%	57%

TA Early Closers

	FC Only	FC + ISC	EC + FC	All Programs
Comparison	6%	14%	16%	65%
TA Early Closers	8%	14%	6%	71%

Conclusion

This analysis provides compelling quasi-experimental evidence that LISC's Twin Accounts product helps participants acquire credit scores and increase their scores more than similar individuals who did not receive Twin Accounts.

- Average final FICO scores were 32 points higher in the Twin Accounts group than the comparison group: 639 versus 607.
- The average FICO change for members of the Twin Accounts group who both started and ended with scores was 35 points, 25 points higher than the comparison group's average of 10 points.
- Members of the Twin Accounts group were more than twice as likely to gain a score and keep it (98%, versus 36% of the comparison group).
- The average score for Twin Accounts participants who acquired scores after opening the Twin Account was 645; average score for those acquiring scores in the comparison group was 595.
- Six month and one year job retention rates were higher for Twin Accounts completers than for the comparison group. (This may be at least partially an artifact of longer term engagement in FOC services.)
- Participants who were not able to successfully complete the Twin Account did not show negative credit outcomes relative to a comparison group
- Twin Accounts participants spent more time engaged with FOC services than similar FOC participants without Twin Accounts.

Twin Accounts are only one strategy in the arsenal of financial coaching and employment services deployed by Financial Opportunity Centers. Participants' access to skill building opportunities, quality jobs, and safe and affordable housing and other basic needs are all important components of financial success. But credit building is an important piece of the puzzle, and Twin Accounts help participants set that piece in place.

LISC