



Center for Social Development

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Washington University in St. Louis

The Impact of Credit Counseling on Consumer Outcomes: Evidence from a National Demonstration Program

Stephen Roll, PhD

Center for Social Development

Washington University in St. Louis

Stephanie Moulton, PhD

The John Glenn College of Public Affairs

The Ohio State University



Credit Counseling Overview

- Reaches two million clients a year
- Provides three core services
 - Financial Education
 - Individualized Budget Counseling
 - Reviews household income and expenses
 - Develops goals and action plans
 - Debt Management Plans (DMPs)
 - Consolidates payments, improves interest rates, waives fees
- Supplemental programs contingent on agency
 - Can include financial coaching, additional education, automated reminders, credit builder loans, etc.
 - One-third of agencies are “multi-service”



Who is served by credit counseling agencies?

- Distressed target populations
 - Low levels of financial literacy (Disney, Gathergood, & Weber, 2015)
 - Undergoing shocks (Collins, 2010)
 - Low-income, low savings, problematic borrowing behaviors (Roll, 2016)



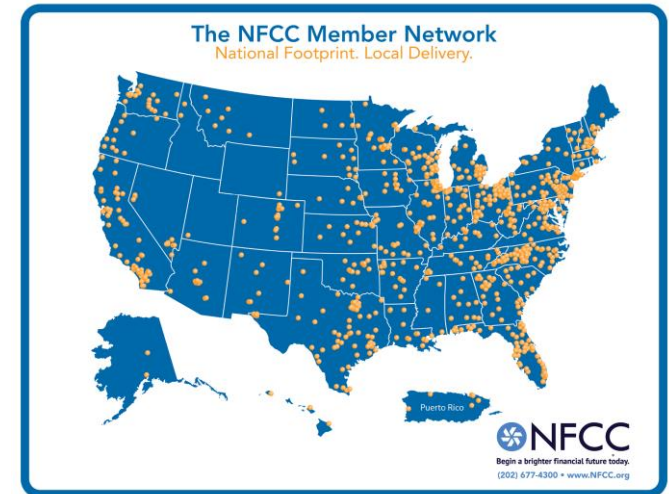
What do we know about credit counseling initiatives?

- Very little empirical work on credit counseling impacts
 - Industry analyses (e.g. Loonin & Plunkett, 2003)
 - Descriptive analyses (Kim, Garman, & Sorhaindo, 2003; Bagwell, 2000)
 - Work on supplemental aspects of credit counseling (e.g. Barron & Staten, 2011) and examining client characteristics (e.g. Disney & Gathergood, 2009)
 - Limited systematic evaluations of credit counseling programs (Elliehausen, Lundquist, & Staten, 2007)
- Mixed or limited evidence for the impact of related interventions (bankruptcy/homeownership counseling, financial education, financial coaching)



Program Setting

- Sharpen Your Financial Focus nationwide credit counseling initiative
 - “Three-Step Personal Financial Stabilization Program” similar to traditional credit counseling programs
 - Targeted and general education
 - Budget counseling
 - Online self-assessment
 - Debt Management Plan enrollment (if qualified)
 - Program began in September 2013. Evaluation runs through February 2015
 - Reached over 40,000 clients by the end of the evaluation





Data

- Clients from 13 NFCC agencies (n=8,963)
- Matched comparison group generated through Coarsened Exact Matching
 - Imbalance bounded prior to matching
 - 10 matching variables, very strongly balanced between groups
 - 70% match rate
 - Unmatched clients are extremely distressed
- Credit data for 6,094 counseling clients and 6,005 matched comparison individuals
 - Credit data collected quarterly from August 2013 to February 2015



Matching Results

Summary Statistics for Treatment and Comparison Groups in Coarsened Exact Matching Analysis

Matching Variable	Counseled Mean (St. Dev)	Comparison Mean (St. Dev)	% Difference (Treatment/ Control)	Balance*
Credit Score (Vantage 3.0)	594 (77.1)	597 (80.3)	-1%	0.04
Open Revolving Debt (\$)	10,582 (15,346)	10,248 (14,947)	3%	0.02
Total Installment Debt (\$)	20,425 (34,647)	21,113 (44,461)	-3%	0.02
Mortgage Debt (\$)	44,021 (104,449)	46,565 (131,740)	-5%	0.02
Number of Bankruptcies	0.30 (1.6)	0.29 (1.6)	3%	0.01
Age of Oldest Account (Months)	182 (105.4)	183 (109.5)	-1%	0.01
Payments 60 Days Delinquent (Last 12 Months)	0.58 (1.6)	0.59 (1.7)	-1%	0.01
Mortgage Payments 90 Days Delinquent (Last 24 Months)	0.11 (1.2)	0.12 (1.4)	-8%	0.01
Balance to Credit Ratio on Revolving Debt	0.52 (0.4)	0.52 (0.4)	1%	0.01
Observations	6,094	6,005		

Best practices:
<0.05=Strongly
balanced
sample

*Balance is calculated as a function of the absolute difference between the counseled and comparison means, divided by the standard deviation for the full sample.



Motivations for Seeking Counseling

Reason For Seeking Counseling [†]	#	%
Reduced Income	4,804	79%
Domestic Conflict	390	6%
Un/underemployment	1,762	29%
Other	2,652	44%
Increased Expenses	1,321	22%
Costs of death in family	35	1%
Creditors increased interest rates	148	2%
Increased family size	128	2%
Medical/Disability expenses	404	7%
Other	606	10%
Other Reasons	1,350	22%
Bad credit	149	2%
Previous bad experience	45	1%
Other	1,156	19%

n=6,094 credit counseling clients

Source: NFCC Administrative Data

[†]Respondents could select multiple reasons for seeking counseling



Method

- Treatment effect of counseling on debt metrics, credit scores, and payment delinquencies assessed through a differences-in-differences approach
 - Treatment effect estimated using fixed effects panel regression
 - Standard errors clustered on the individual
- Model:
 - $y_{it} = \alpha_i + \pi \text{Counseling}_{it} + \lambda \text{Quarter}_t + \delta(\text{Counseling}_{it} * \text{Quarter}_t) + \beta_j x_{it} + \varepsilon_{it}$
 - x_{it} : Post-counseling time-varying controls
 - Bankruptcy, debt charge-offs, foreclosures



Selected Regression Results

Sharpen Evaluation Summary Results

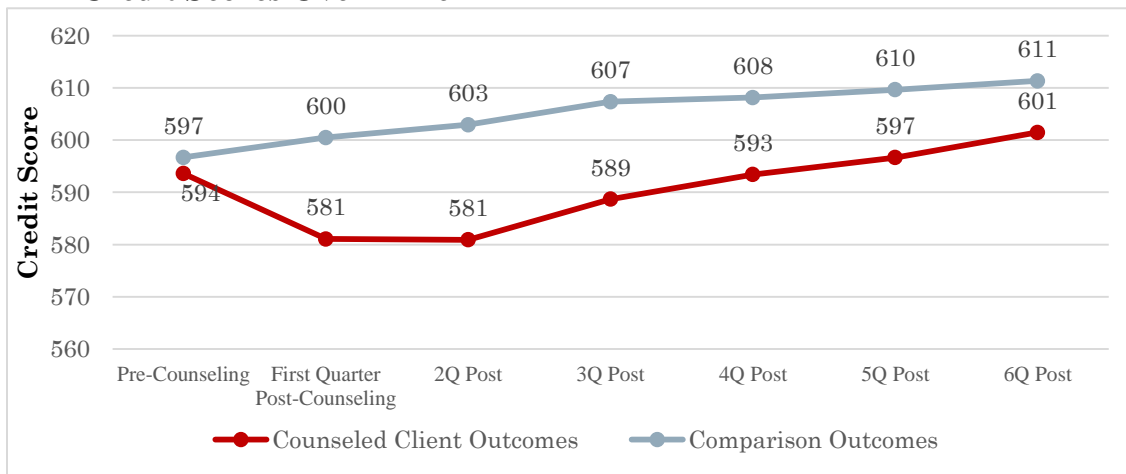
Sample and Model	Key Client Outcomes			
	Revolving Debt (\$)		Credit Score	
	Counseling Group Change	Regression-Adjusted Counseling Impact	Counseling Group Change	Regression-Adjusted Counseling Impact
<i>Full Sample</i>				
No Controls	-5,735	-3,637***	7.9	-6.8***
Controlling for Debt Write-Offs	-2,654	-1,993***	10.1	-6.4***
<i>DMP Clients</i>				
No Controls	-5,486	-3,340***	10.8	-5.1***
Controlling for Debt Write-Offs	-2,918	-2,110***	13.4	-4.1***
<i>Non-DMP Clients</i>				
No Controls	-6,148	-4,130***	3	-9.5***
Controlling for Debt Write-Offs	-2,228	-1,762***	4.3	-9.8***
<i>Credit Risk Profiles</i>				
50th Credit Score Percentile at Baseline	-3,929	-1,224***	28.2	0.9
25th Credit Score Percentile at Baseline	-1,722	-167	48	6.2***

* $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$



Credit Scores and Payment Delinquencies Influenced by Shocks

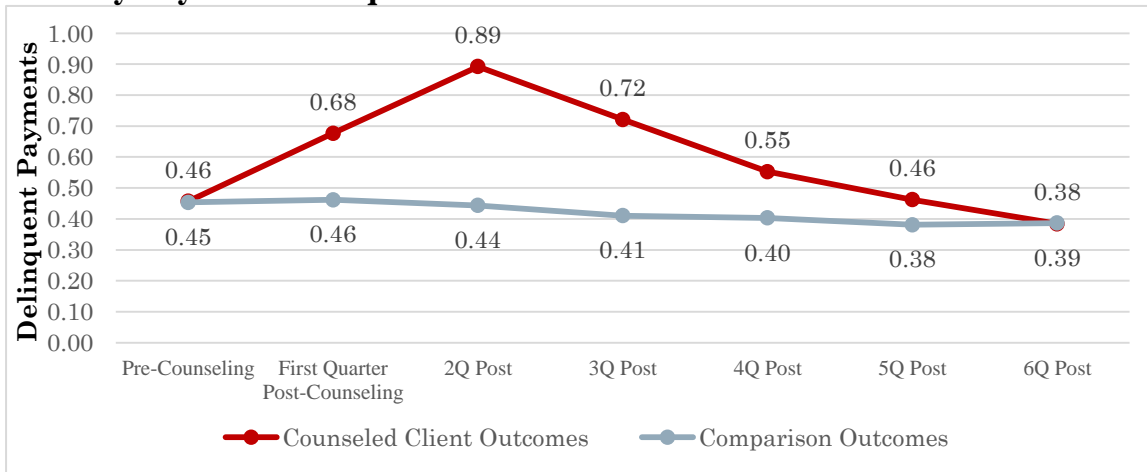
Credit Scores Over Time



Counseling
Impact:
-6.8***

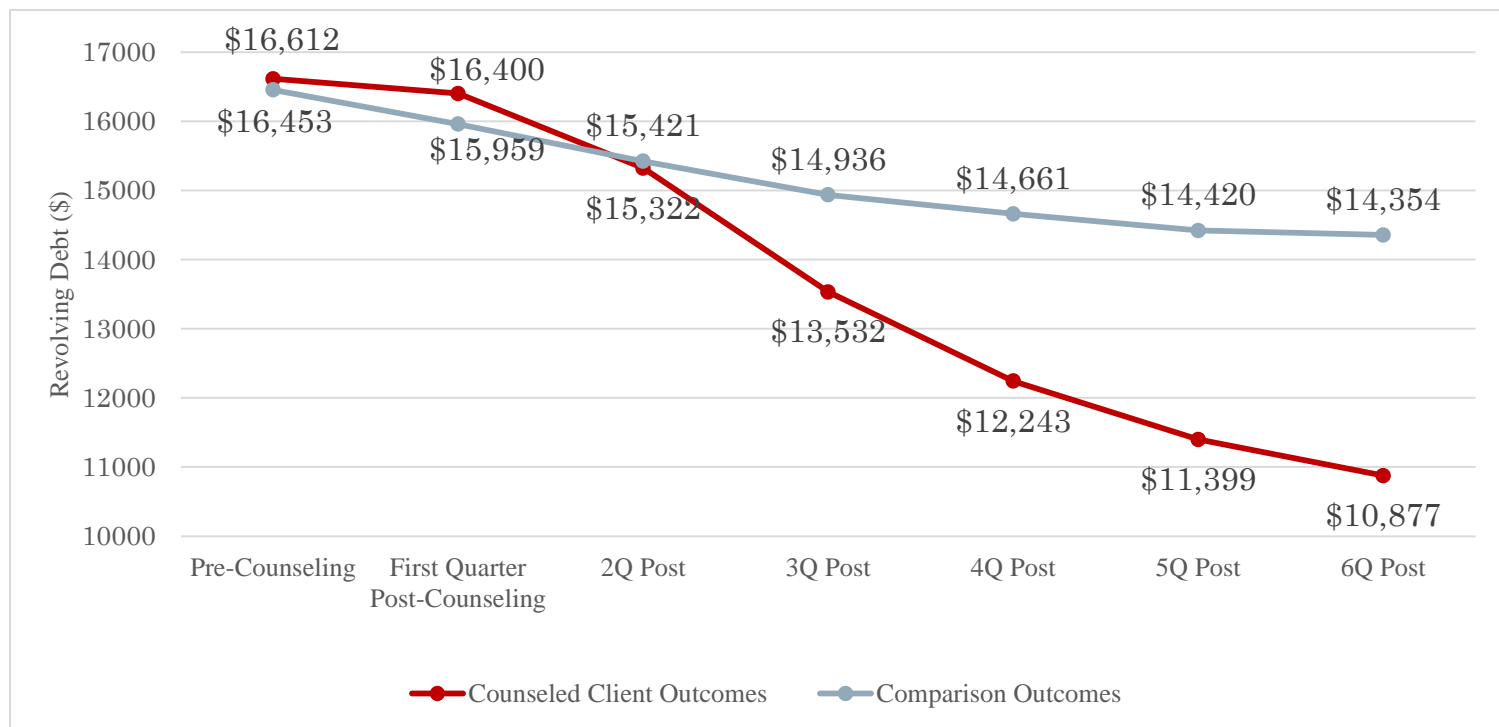
Counseling
Impact:
-0.01

60-Day Payment Delinquencies Over Time





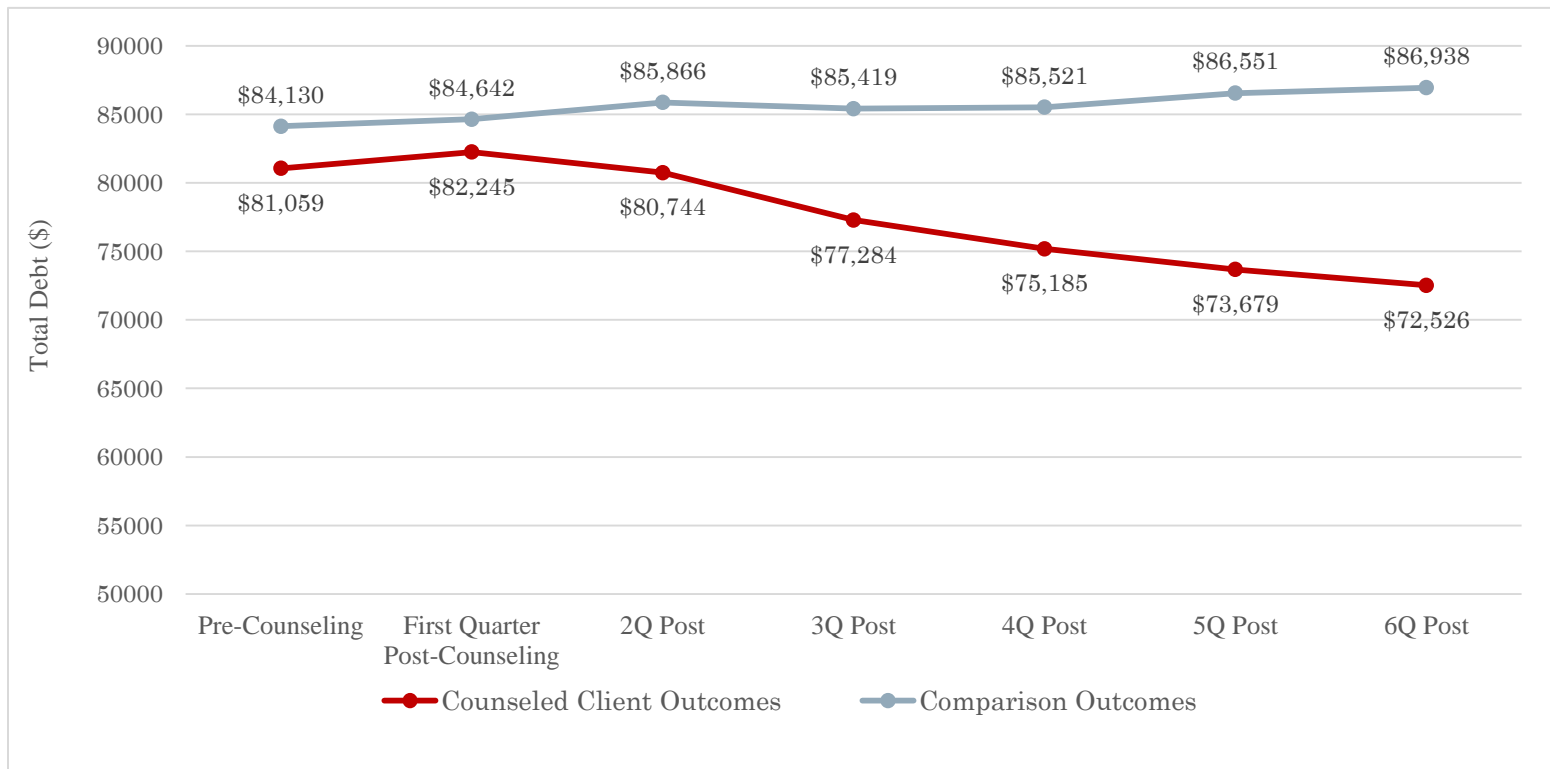
Revolving Debt Over Time



Counseling
Impact:
-\$3,637***



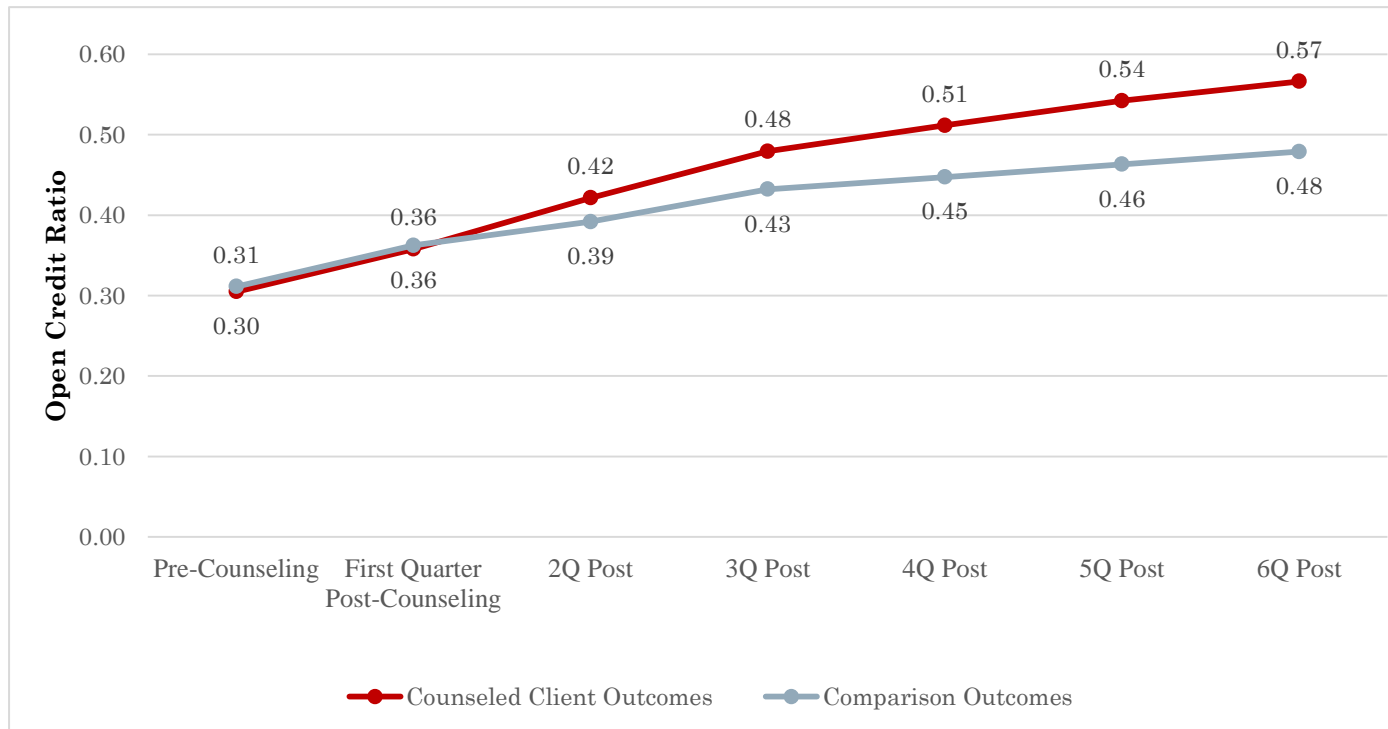
Total Debt Over Time



Counseling
Impact:
-\$11,341***



Liquidity Ratio Over Time (for those with debt at baseline)



Counseling
Impact:
0.09***



Conclusions

- Clients are entering the program at a time of substantial financial distress
 - Extends prior studies that observe outcomes at baseline and post-baseline; miss trends that may occur shortly after seeking help
- In the short- and medium-term, evidence is that credit counseling improves client debt outcomes
 - Reductions in debt and improvements in liquidity
 - Results are robust to controls for debt write-offs and DMP enrollment
 - Also present for clients with weaker credit profiles at baseline
- Credit score and delinquency metrics return to normal at the end of the evaluation period, but credit score still lags the comparison group
 - Credit scores are “sticky” indicators—changes may require longer time-horizon



Future Research

- Counseling/education programs aimed at specific target groups
 - Student loan holders, female heads of households
- Using automated reminders to keep clients on track with their goals and obligations
 - Randomized, controlled trial
- Financial coaching integrated into counseling services



Thank you!

Stephen Roll

Stephen.roll@wustl.edu

Stephanie Moulton

Moulton.23@osu.edu