pocketnest™

Pocketnest™ Financial Planning App: A Community Development Service to Close the Financial Literacy Gap

Developed with CRA in Mind

July 2019

INTRODUCTION

The Community Reinvestment Act (CRA) was enacted by Congress in 1977 to encourage financial institutions, banks in particular, to help meet the credit needs of all communities they serve. Under the regulations of the CRA, federal regulators grade banks (those with at least $250 million in assets) on three measures of compliance: lending, investment, and **service**.

As financial literacy continues to decrease with the millennial population[1], financial institutions are seeking new solutions to bridge the financial literacy gap, while also improving the local communities they serve.

Pocketnest, the digital and free comprehensive financial planning app, was created with CRA in mind. It is a community development service that equally serves financial institutions and their consumers. Pocketnest provides users with free, approachable and user-friendly guidance to create and stick to a financial plan; meanwhile, the app serves as a scalable financial literacy program that institutions can white label and offer local communities as community development. We believe that Pocketnest helps financial institutions meet the CRA considerations of being "an organization that provides financial services education programs to low-and moderate income individuals," while closing the financial literacy gap.

The following research was compiled by graduate students at the University of Michigan, through the First Customer Program (FCP) and funded by the Michigan Economic Development Corporation (MEDC). They completed a four-month study of the CRA code, it's application, and interviewed key stakeholders including bankers and CRA experts to compile this paper.

THE FINANCIAL PLANNING REVOLUTION: A WHITESPACE OPPORTUNITY FOR FINTECH

According to a recent study by PricewaterhouseCoopers, **a mere 8 percent of the country's millennials can demonstrate high financial literacy**.[1] Millennials are a generation of which **81 percent have long-term debt**—54 percent of whom claim their student loan is the main concern—and only one quarter can demonstrate *basic* financial knowledge.[1] Instead, 67 percent of this do-it-yourself generation is getting the majority of their financial advice from two sources: **Facebook and Twitter.**[2]

Unsurprisingly, more than 20 percent of millennials with retirement accounts took loans or hardship withdrawals in the past year from their retirement accounts. Further, only 27 percent of millennials seek professional financial advice on saving and investment.[1]

Meanwhile, the financial advising industry has not adapted to the demands of the next generation who are used to technology-based, and mobile-first service; in fact, 43 percent of millennials say their financial institution does not communicate with them through their preferred channel of technology[3] and 53 percent of millennial-millionaires say they would find a new advisor if theirs was not using technology.[4] On the other hand, **86 percent of financial advisors ignore genX and millennials as potential clients altogether.**[5] The average age of a financial advisor is 51 and older advisors are selling their practices and retiring at a much faster rate than younger advisors are entering the field, resulting in an expected shortage of 200,000 advisors by 2022.[6]

In the coming decades, more than 80 million millennials in the U.S. are bound to inherit and earn tens of trillions of dollars.[7] They are also the generation most attuned to the banking industry's shortcomings. However, according to the Millennial Disruption Index (a three-year survey of over 10,000 millennials), 33 percent of millennials believe they will eventually not need a bank at all.[7] According to a recent survey by Blumberg Capital, 60 percent of Americans believe banks fail to keep up with their needs, and 57 percent believe traditional financial institutions will not exist as they do today within their lifetime.[7]

As entrepreneurs continue to develop innovative financial technology products, often while using new technologies to improve and build upon previous systems and processes, they have begun to identify solutions that grow awareness of fintech, while bridging the financial literacy gap. Many startups leveraging technology to simplify personal finance, streamline financial planning processes, and help manage student debt are reinventing financial tools and facilitating better financial education.

THE FINTECH SOLUTION

In a working paper by Carlin, Olafsson and Pagel,[8] the authors analyze the effect fintech (mobile banking apps) has on financial outcomes and the performance of users. Evaluating data from Iceland using econometric models (regression discontinuity), the authors found that the app lowers search costs and makes finding personal information easier for users. In addition, they found a substantial reduction in financial fee payments (driven by overdraft interest) in response to accessing information more often. Further, users reduced their roll-over consumer debt by approximately 14 percent in a two-year period. It is clear that financial institutions providing financial education through fintech services can have lasting positive impacts on the people and communities they serve.

Fintech can reach consumers that traditional banking structures cannot. Fintech can help locate the most promising investments and loans opportunities to low and moderate income individuals. This can align incentives between banks and fintech to partner together around CRA related topics.[9] Fintech can also incentivize financial institution participation, as it can efficiently and cost-effectively improve their Community Reinvestment Act (CRA) scores.[9]

THE ROLE OF THE CRA

CRA-Compliant Community Development Services

CRA Examiners focus on large banks' provision of financial services whose primary purpose is community development. Community development offerings range from the provision of low-cost deposit accounts, technical assistance to housing and development organizations, **credit counseling and financial literacy**, Individual Development Accounts (IDAs) and other savings initiatives, and electronic benefits transfer programs.

For each activity, CRA examiners must determine several key factors: the extent of community development services provided, customers' usage, and the innovativeness and responsiveness of the services. Innovation is measured by how ground-breaking and inventive the community development offerings approach solutions for low- and moderate-income (LMI) populations, whether developing and providing new services or developing a system to expand reach to new customers.

CRA and Financial Education

To provide **credit counseling and financial education** as part of Community Development Services, the evaluation takes into account the following:

- Provides credit counseling, home buyer and home maintenance counseling, financial planning, or other financial services education to promote community development and affordable housing; which may include credit counseling to assist LMI borrowers to avoid foreclosure on their homes.

- Establishes school savings programs or develops or teaches financial education or literacy curricula for LMI individuals.
- Provides other financial services with a primary purpose of community development, such as low-cost savings or checking accounts (including “Electronic Transfer Accounts” provided pursuant to the Debt Collection Improvement Act of 1996); individual development accounts (IDAs); or free or low-cost government, payroll, or other check cashing services that increase access to financial services for LMI individuals.

Together, CRA regulators and the Financial Literacy and Education Commission can provide financial institutions with resources and fintech tools to improve their financial education programs. Using fintech to enrich financial education programs will grow financial literacy, while improving the quality and delivery of financial knowledge, skills, and outcomes of LMI residents. Financial institutions should be encouraged to partner with and invest in professional experts, such as Pocketnest, who can deliver these services, rather than simply rely on existing bank staff.

BUILDING AND DEMOCRATIZING FINANCIAL LITERACY WITH POCKETNEST

About Pocketnest

PocketNest provides comprehensive, personal financial planning in a digital platform to genX and millennials, by licensing to financial institutions including banks, investment advisors and credit unions. With a mission to democratize financial planning, the app leads users through an assessment of all ten themes of personal finances, resulting in easy, customized recommendations and to-do items.

Fintech offerings like Pocketnest achieve greater financial inclusion by extending the availability and penetration of digital financial services to underserved and previously unbanked sectors of the population. With increased reach and a lower threshold of participation, free fintech offerings like Pocketnest democratize financial education and literacy to groups that, otherwise, do not have access.

Financial literacy and community development

Financial institutions engage in financial literacy and education programs for strategic purposes. These programs enrich and elevate the communities they serve, while growing their customer base.

In order to receive CRA credit for financial education, it is critical that the institution explicitly define how its financial education serves as community development. For example, a bank could increase local property ownership by hosting a homeownership seminar; or, a bank could generate new leads or account holders by hosting workshops educating local community members about efficient and safe lending strategies. Using Pocketnest, financial institutions can white label the app and offer community members a free, approachable and user-friendly tool to create and stick to a financial plan. This financial literacy program will improve community members’ financial well-being, while simultaneously earning the institution CRA credits and providing the institution with integral customer data, including a detailed debt analysis, budget breakdown, savings snapshot, income tax position, and the immediate actionable financial to-dos customized for that user.

We believe that Pocketnest helps financial institutions meet the CRA considerations of being “an organization that provides financial services education programs to low-and moderate income individuals.” For example, institutions can partner with Pocketnest to help residents in lower-income neighborhoods better understand their budget, credit and insurance coverage; ultimately, this partnership will build the residents’ wealth, improve the local economy and grow the institution’s local awareness. The free financial literacy program will, in turn, help institutions organically grow their audience and extend the reach of their products and services to an underserved and under-tapped market: low- and moderate-income persons, and unbanked or underbanked markets. With higher awareness in an underserved market, institutions will be able to organically grow their customer base and customer acquisition. Additionally, the institution would increase its CRA grade.

CONCLUSION

While only 8 percent of the country's millennials can demonstrate high financial literacy,[1] 81 percent have long-term debt and 23 percent can demonstrate *basic* financial knowledge.[1] Meanwhile, the financial advising industry has not adapted to the demands of the next generation who are used to technology-based, and mobile-first service.

As financial literacy continues to decrease with the millennial population,[1] financial institutions are seeking new solutions to bridge the financial literacy gap, while also improving the local communities they serve. Financial institutions are turning to CRA-compliant programs and resources.[9]

Using fintech to enrich financial education programs will grow financial literacy, while improving the quality and delivery of financial knowledge, skills, and outcomes of LMI residents. Financial institutions should be encouraged to partner with professional experts, such as Pocketnest, to deliver these services.

Pocketnest, the digital and free comprehensive financial planning app, is a community development service that equally serves financial institutions and their consumers. Pocketnest provides users with free, approachable and user-friendly guidance to create and stick to a financial plan; meanwhile, the app serves as a financial literacy program that institutions can white label and offer local communities and consumers as community development. We believe that Pocketnest helps financial institutions meet the CRA considerations of being "an organization that provides financial services education programs to low-and moderate income individuals," while closing the financial literacy gap.

With 19 years of experience in investments and financial planning, founder Jessica Willis recognizes the need for a nextgen personal financial planning tool in an industry that is a prime opportunity for disruption.

RESOURCES

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[8] Carlin, B, A Olafsson, and M Pagel (2017), "FinTech Adoption Across Generations: Financial Fitness in the Information Age", NBER working paper
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