Borrow Less Tomorrow

In partnership with Innovations for Poverty Action, Clarifi, a credit counseling agency based in Philadelphia, created the Borrow Less Tomorrow (BoLT) program. BoLT explored the most effective ways to improve consumers’ repayment behaviors. The program sought to address consumers’ present bias and limited attention, which can cause consumers to deprioritize long-term financial goals.

As a part of BoLT, Clarifi sent text messages of varying frequency and content to clients reminding them to stick to their long-term debt management plans (DMP). Clarifi sent text reminders to over 500 clients and compared their repayment behavior to that of a control group of a comparable size. On average, study participants had over $27,000 in debt and made planned payments of $580 per month to repay creditors. Reminders varied in frequency (two or four times a month) and approach (goal-oriented - e.g. “your payment will help you reach your financial goals” - or task-oriented - e.g. “your payment is due on X date”).

BoLT’s social accountability component made use of participants’ family and friends, who could be contacted if the client failed to keep to their repayment plan.

Clarifi’s BoLT pilot ran from March 2011 to July of 2013. The project received funding from the Center for Financial Services Innovation’s Financial Capability Innovation Funds. A partnership with a collaborative of funders led by the Citi Foundation, the Funds provided support to innovative projects designed to help low-income and underserved consumers adopt positive financial behaviors.

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Clarifi asked:

» Can text message reminders impact consumers’ debt-repayment behavior?

» What kind of messages are most effective and how frequently should they be sent?

» Does social accountability motivate clients to stay on track toward financial goals?

Clarifi learned:

» Low-frequency, task-oriented messages were most effective in driving positive repayment behavior. Clients receiving these messages were 8% more likely to have met their scheduled payment amount (or to have completed their DMP) in any given month than clients who received no reminder messages. Results were statistically significant.

» Take-up of the social accountability mechanism was low and had no significant relationship with improving consumers’ debt-repayment behavior.
Future Applications

Sending smart text reminders is an inexpensive and effective strategy for financial services providers to keep their customers engaged and on track towards long-term goals. Providers can apply the low-cost service to a wider audience and investigate its applicability to areas besides debt repayment.

Peer support can still be a viable way to encourage healthy financial behavior but providers may need to further experiment to design a program that would work for their customers. In particular, the sensitivity of personal finance information may make participants hesitant to involve friends and family.

Clarifi

Originally called the Consumer Credit Counseling Service, the organization changed its name to Clarifi in 2012 to signal its expanded mission in the face of an increasingly complex financial services world. It now offers such services as college planning, mortgage counseling and debt management plans as well as its more traditional credit counseling. The organization currently has over a dozen locations servicing the Greater Philadelphia area and maintains a rich network of partnerships with nonprofits, financial institutions, schools and government entities to facilitate the spread of financial literacy in the community. Clarifi is a member of the National Foundation for Credit Counseling and is accredited by the Council on Accreditation of Service for Families and Children Inc.

To learn more, visit clarifi.org.

The Financial Capability Innovation Funds

The Financial Capability Innovation Funds were supported by a collaborative of funders led by the Citi Foundation and also including Bank of America, the Capital One Foundation, Charles Schwab Bank, Charles Schwab Foundation, Experian, Morgan Stanley, NYSE Euronext Foundation, US Bank, and Visa.

From 2010-2012, the Center for Financial Services Innovation selected thirteen cutting-edge projects to receive $4 million total in grant support, from among 373 applications totaling more than $107 million in requests.

To learn more, visit cfsinnovation.com/Financial-Capability-Innovation-Funds.

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