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IRC & CEO Credit Outcomes Study

A LONGITUDINAL ANALYSIS OF CREDIT SCORES FOR CLIENTS PARTICIPATING IN IRC AND CEO'S INTEGRATED FINANCIAL CAPABILITY PROGRAM MODEL

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Credit Outcomes Study

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Executive Summary

The International Rescue Committee (IRC) works in 25 communities in the U.S. serving more than 50,000 primarily low-income refugee and immigrant clients each year. A continuum of economic empowerment programs – including workforce development, financial capability services, and small business development services – are offered in an accessible, welcoming, community-based setting.

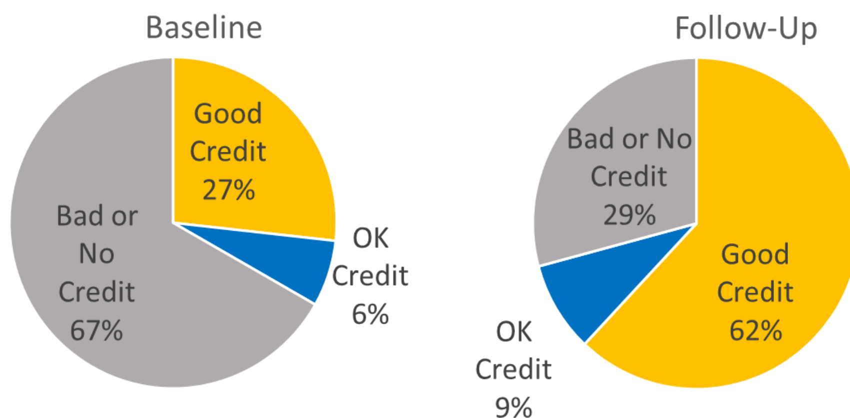
In 2016, IRC founded a subsidiary financial institution, the Center for Economic Opportunity (CEO), to help further catalyze the economic gains of clients by offering low and no-cost loan products to clients engaged in IRC's social service and anti-poverty efforts. Since inception, CEO has made more than 2,200 loans totaling $5M financed to clients engaged in IRC's programs. Loans offered range from 0% Credit-Building Microloans to business and consumer loans up to $20,000. All applicants first participate in financial education and most are connected to a trained IRC Financial Coach during their engagement with CEO's loan products. 95% of CEO's borrowers are low-income and 67% had bad or no credit score at time of loan application.

IRC and CEO recently collaborated on a long-term study of the impacts of our model on the credit scores of participants. The analysis draws on credit data from 1,234 individuals, including baseline and follow-up credit scores with an **average of 668 days** between score pulls.

The results are summarized below and offer compelling case for the integrated "financial products + financial programs" model being implemented by IRC and CEO.

- 68% of all borrowers (n=1,234) realized a net increase in their FICO® Score, with an average final score of 662
- 73% of all borrowers who started with no credit score (n=617) successfully achieved a positive FICO® Score, with an average final score of 678
- 83% of all borrowers (n=1,234) either improved (56%) or maintained (27%) their starting credit tier

The figure below represents comparison of aggregate client FICO® Scores at baseline vs follow-up.



The analysis presented in this report shows a promising correlative relationship between IRC and CEO's model of service delivery and increases in the credit scores of some of America's most economically marginalized individuals.

Key findings suggested by the data include:

- Financial coaching and credit education, coupled with accessible loan products, may have significant potential to produce long-term positive impacts on credit scores, financial behaviors, and in-turn, the financial security of participants
- Clients with 'insufficient credit for scoring' may be better positioned to rapidly achieve positive credit outcomes vs. those who already have an established credit history
- Clients with already-low FICO scores see less gains as compared to clients across all other credit tiers
- Credit outcomes between men and women are generally consistent

Credit Tiers Used in Analysis

GOOD CREDIT	Over 720
	Between 680 and 719
	Between 640 and 679
OK CREDIT	Between 600 and 639
BAD OR NO CREDIT	Insufficient Credit
	Under 600

While more research is needed, the analysis presented here offers an encouraging assessment of the potential in IRC and CEO's blended model of financial capability programming. Further, it lays the groundwork for other stakeholders to deepen investment in and engagement with this model to continue to learn about the ways in which an integrated approach to building credit and financial resilience among low-income families may be a key component in building sustainable pathways out of poverty.

Organization Profiles

The ***International Rescue Committee*** **(IRC)** works in 25 communities in the U.S. serving more than 50,000 primarily low-income refugee and immigrant clients each year. IRC has an incredible degree of linguistic and cultural competence and notably strong connections with "hard-to-reach" communities of immigrants from countries of lesser diffusion.

In each locality, IRC operates as a community-based organization offering a host of programs from Youth and Immigration and Legal Protection to Health, Refugee Resettlement and Workforce programs.

In the past five years, IRC has also invested in **Financial Capability** programs and now houses more than 30 full-time, trained[1] Financial Coach staff positions that offer clients a mix of classroom instruction and 1:1 support in managing finances, learning and building credit and co-creating plans for continued economic advancement.

IRC Financial Coaches serve as the bridge to the ***Center for Economic Opportunity's*** **(CEO)** loan products. Founded as a subsidiary of the IRC in 2016, CEO is certified as a national Community Development Financial Institution (CDFI) Loan Fund and offers small-dollar consumer and business loans to clients engaged in IRC Financial Capability and other related programs.

Since 2016, CEO has originated more than 2,200 loans totaling $5M financed through partnership with IRC. CEO's borrowers are directly reflective of the diversity and the underlying economic vulnerability of IRC's clients: 95% of borrowers are classified as low-income, with average earned annual incomes of $28k supporting household with an average of 3.6 individuals. 67% of CEO's borrowers had bad or no FICO at time of application, and borrowers arrived in the U.S. from over 70+ countries.

CEO is currently operating in all 25 IRC locations across the U.S. The organization holds multiple consumer lending licenses and is organized as a 501(c)(3) non-profit.

IRC + CEO Model (Intervention)

CEO's loans are designed to work synergistically with IRC's economic empowerment programs to maximize the positive impacts of our common clients and help achieve results neither a CEO loan nor an IRC program could generate alone. For example, CEO's Credit-Building loans are accessible by anyone engaging with IRC Financial Education training, while Auto and Education loans offer access to supportive financing at low rates for clients in IRC workforce programs seeking to find a job or finish training to begin a new career.

The model has the below features and benefits:

IRC Financial Capability Programs

3,600+
Total clients served each year

30+
Financial Coaches on Staff

6,100+
1-1 coaching sessions annually

CEO Lending Stats

2,200
Loans originated since 2016

$5M
Total Financed

95%
Of CEO's borrowers are low-income

98%
CEO loan repayment rate

[1] Over 30 IRC Financial Coaches across the U.S. have completed and passed the Central New Mexico Community College's 60-hour Financial Coaching training

- All applicants first participate in IRC Financial Education Training, usually offered by a certified IRC Financial Coach. Most applicants also receive 1:1 personal budgeting and credit counseling during the course of their loan application.
- CEO leverages IRC's linguistic and cultural competence to bring loan products to diverse families disconnected from the financial mainstream (we've made loans to borrowers from more than 70 unique countries)
- CEO reports all borrower repayment information to the three major credit bureaus and services all loans to maturity; CEO has notable pro-consumer collection policies, such as easy-to-obtain loan modifications, no late fees and no hidden charges beyond the list price of loans.
- If borrowers run into problems after receiving a loan, CEO and IRC can work in tandem to help address the client's issues to help get things back on track.

CLIENT SPOTLIGHT: Noreen from Pakistan

Noreen arrived in the U.S. as a refugee from Pakistan in 2018 with her husband and 2 children. After engaging with IRC + CEO services, she took out several Credit-Building loans and now has an excellent credit rating. She is currently working on starting a fashion design business in Phoenix, AZ.

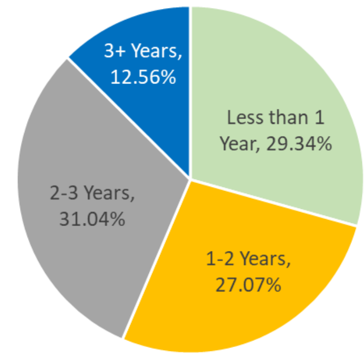
Notes on Data and Methodology

All clients explicitly consent to participation in long-term credit studies as part of their engagement with IRC and CEO. The clients all "opted in" to services and as such, likely had a range of pre-existing factors that potentially influenced their financial data and behaviors. For example, the clients may have had higher level of motivations to improve their financial circumstances than a similar population of individuals who did not participate. It is also possible this client group had higher levels of financial distress than a similar population of individuals, perhaps motivating them to seek out loans (cash) and/or the support of a financial coach during a period of financial hardship. While this does place some limitations on the types of analysis that can be conducted, IRC and CEO see this approach as a first, critical step in reviewing a data set – longitudinal credit data from very low-income, primarily non-English speaking individuals – as a significant opportunity to advance learning and conversation about promising program models.

The baseline data used in the study consists primarily of FICO® Scores[2] captured at loan application and extends back to 2016. The follow-up pulls were conducted during the period of March and April 2020 using exclusively "soft inquiry" credit pulls. The initial raw data set consisted of 1,446 individual borrower records, which was reduced by iterations of quality checks to remove erroneous/incomplete information. The data was further reviewed to exclude any records where the baseline and follow-up dates were less than 90 days apart to ensure sufficient time for credit impacts to be realized. No other

[2] For the baseline pulls, the majority used the FICO 8 scoring model (which incorporates data from all three bureaus), though some accounts had baseline captured using the FICO 4 model (which only uses data from TransUnion). All follow-up pulls were captured using the FICO 8 scoring model. The differences between the scoring models are not believed to have meaningfully impacted this analysis, especially given most participants were relative newcomers to the U.S. with limited, if any, existing credit data upon initial engagement with services.

filters or changes were applied. The final resulting data set consists of 1,234 records with clean baseline and follow-up data. Across all records, there was an average of **668 days** between baseline and follow-up FICO scores. Time between baseline and follow-up pulls was split largely evenly as highlighted in the chart to the right. As noted elsewhere in this study, outcomes across these groups were largely consistent regardless of length of time between credit pulls.



Client Demographics

Demographic data of the participants included in the data set reflect incredible diversity, while clearly highlight the underlying economic vulnerabilities of participants.

Key Client Demographics

Borrowers Represented in Data set	1,234
Average Years in U.S. at 1st Loan	3.2
Average Household Size	3.7
% Entered U.S. under Humanitarian Status	85.96%
% Female	38.58%
Unique Countries of Origin	66
Average Monthly Household Income	$2,188.61
% Low Income	95.31%
% Extremely Low-Income	48.87%
Total Loan Amount Originated	$2,632,596

Top-10 Countries of Origin

Country of Origin	# Participants
Iraq	244
Afghanistan	152
DR Congo	141
Syria	127
United States	71
Iran	59
Somalia	47
Eritrea	45
Burma/Myanmar	37
Ethiopia	30

Most clients entered the U.S. under a humanitarian immigration status (such as refugee or asylum-seeker) sometime over the past 10 years. Other clients include non-refugee immigrants and native-born Americans who enrolled in IRC's Financial Capability programs. Every participant in the study received at least one loan from CEO and Financial Education and Coaching support from IRC.

The clients live in one of the ten IRC-CEO locations participating in the study. Most clients were from the IRC in San Diego and Phoenix offices where CEO lending and IRC Financial Coaching has the most robust and longest-standing programs.

Client Locations

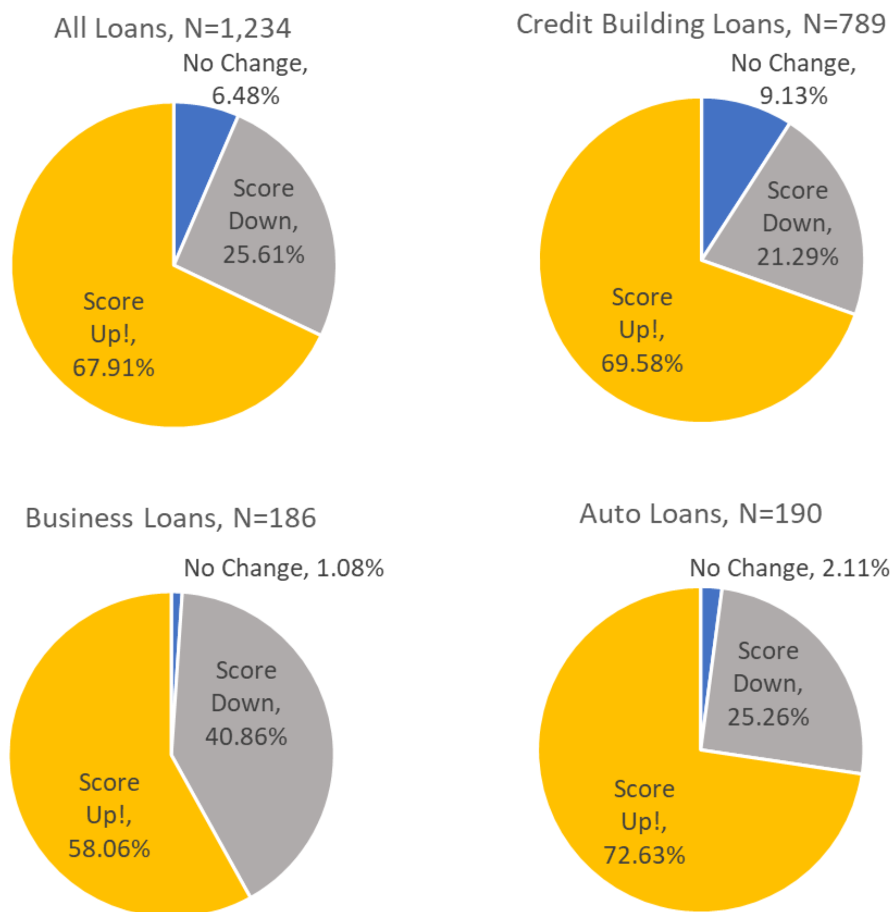
IRC Office Location	# Of Clients	% of Total Clients
San Diego	467	38%
Phoenix	418	34%
Atlanta	99	8%
New York	69	6%
Oakland	59	5%
Salt Lake City	34	3%
Denver	31	3%
Sacramento	28	2%
Dallas	22	2%
San Jose	7	1%
Grand Total	**1234**	**100%**

Results

Evaluation of the data was conducted using three different methods.

Score up or Down Analysis. One analysis examines raw increase or decrease in FICO® score from baseline to follow-up and offers a simplistic "Up, Down or Unchanged" evaluation of participant credit scores.

Clients who started with 'insufficient credit for scoring' were included in the 'Score Up' category if their follow-up FICO® score was at least 600; anyone in this group who later established a FICO® score below 600 was classified as 'Score Down.' Of the 80 clients (6.48% of all borrowers in the study) who realized 'No Change' to their credit score, all but two started and ended with 'insufficient credit for scoring.'



Across all borrowers in the data set, 67.91% realized an increase in their FICO® score. Further analysis was conducted to filter results by the initial loan product and revealed consistent upward trends across loan types. While the majority of business loan recipients did see improved credit (58%) they were somewhat less likely to experience improved credit as compared to other loan types. Auto loan recipients were the most likely to see an increase in credit score, with 73% realizing an increase. Credit-Building loan recipients were the most likely to have 'no change' in their credit score (9.13%), likely a result of borrowers only taking a single credit-building loan without taking ongoing additional

steps to improve their credit rating. CEO's Credit-Building loan has a short duration, and without proactive steps to build or maintain a credit rating, scores will regress back to 'insufficient credit for scoring.'

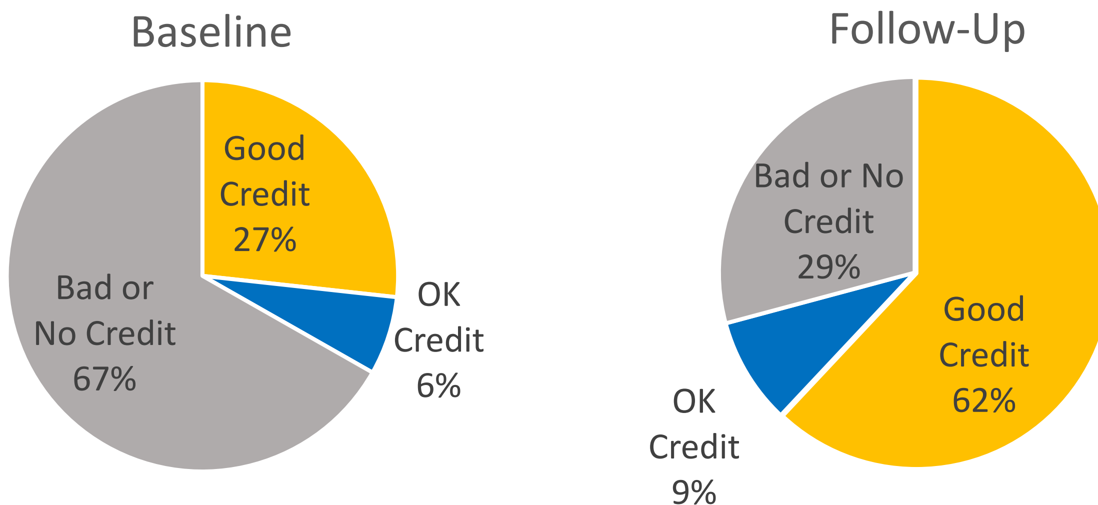
This analysis clearly reflects positive trends in participant credit scores across all variables.

Before and After Analysis. A second analysis was conducted that began by labeling all scores as either "Good," "OK," or "Bad/No Credit" according to the score thresholds shown in figure to the right. The six score thresholds and the three overarching labels are based on common credit score thresholds used by mainstream lenders to make decisions about a) whether borrowers will get access to a credit product and b) what the cost (e.g. interest rate) of that credit will be. For example, a score of 640 is generally good enough to qualify someone for a traditional mortgage.

Credit Tiers Used in Analysis

GOOD CREDIT	Over 720
	Between 680 and 719
	Between 640 and 679
OK CREDIT	Between 600 and 639
BAD OR NO CREDIT	Insufficient Credit
	Under 600

The charts below offer a look at aggregate participants credit scores at baseline and follow-up.



While 67% of participants had 'Bad or No" FICO at baseline, the follow-up results reflect only 29% were classified as such. More importantly, 62% of borrowers had achieved a 'Good' credit rating in the follow-up, as opposed to only 27% at baseline.

A review of length of time between baseline and follow-up credit pulls reveals no significant deviation in the allocation across the final credit tiers used in this analysis.

	Years Between Baseline and Follow-Up Credit Pulls			
Final Credit Tier	1 Year	1-2 Years	2-3 Years	3+ Years
Good Credit	62.43%	61.08%	63.19%	60.00%
OK Credit	8.84%	9.28%	8.09%	9.68%
Bad or No Credit	28.73%	29.64%	28.72%	30.32%
Total	100.00%	100.00%	100.00%	100.00%

These results unambiguously reflect a significant percentage of participants realized meaningful gains in credit rating after participation in IRC & CEO's model of financial capability programs and financial products, and that these gains in credit scores were **durable over time.**

Change in Credit Tier Analysis. The final analysis focused on changes in credit tiers for individual participants. Baseline and follow-up FICO® scores were classified in credit tiers and a comparative analysis conducted to identify whether the final credit tier represented an improvement, no change, or a decrease from the initial tier.

The results are consistent with those from other methods and reflect clear improvements in participant credit ratings. Overall, 83% of participants either successfully achieved a higher credit tier (56%) or maintained their initial credit tier (27%). Only 17% of participants realized a decrease into a lower tier of credit rating. Most notable are the 73% of borrowers who began with 'insufficient credit for scoring' successfully achieved at least a 600 or higher FICO® and 66% achieved a 'Good' credit rating of at least 640. Thirty percent successfully achieved the highest credit tier (720+).

CLIENT SPOTLIGHT: Charles from Nigeria

Charles arrived in the U.S. as a refugee from Nigeria in October 2019 with his wife and 4 children. After engaging with IRC + CEO services, he now has an auto loan from CEO and a good FICO score. His wife has since started building credit with her own CEO Credit-Building Loan. They both work full-time, attend community college, and are saving to purchase a home in Dallas, TX.

	Beginning Credit Tier						
Change in Tier	Over 720	680 - 719	640 - 679	600 - 639	No Score	Under 600	Totals
# Improved	-	43.65%	43.20%	51.25%	73.42%	42.51%	56.00%
# Maintained	72.15%	19.05%	29.60%	18.75%	12.64%	57.49%	26.74%
# Decreased	27.85%	37.30%	27.20%	30.00%	13.94%	-	17.26%
Total Accounts	79	126	125	80	617	207	1234

Conclusions

This long-term review of more than 1,000 participant credit histories across an average of 668 days from baseline to follow-up clearly suggests meaningful gains in participant credit ratings correlated to IRC and CEO's model. In turn, these increases in credit score directly support enhanced financial security for participants. Families with an established FICO® Score have additional options in case of an emergency, pay less for auto, consumer and home financing, pay less for insurance, are less likely to be required to put a deposit to activate a cell phone plan or utilities, have greater access to rental units (as most landlords screen tenants based on credit history) and have greater opportunities for employment.

Families with positive FICO have more options to deal with emergencies, pay less for financing, insurance & utilities; have greater access to rental units and better job opportunities.

Some top-level findings from this research include:

- **There is correlation between receiving Financial Coaching and Loan Products to long-term improvements in participant credit score.** All three types of analysis conducted in this study consistently point to a positive correlation between participants engaged in IRC and CEO's integrated model and resulting positive credit outcomes.
- **Clients with no credit score may realize stronger gains than other groups**. Our work corresponds with other recent findings[3] on credit-building for low-income households in concluding clients without an established FICO® Score are most likely to realize strong gains in credit rating and rapid ascent into higher credit tiers in a short time.
- **Clients with already-negative FICO scores may be less likely to realize credit gains.** Among all starting "tiers", clients with a FICO® Score of under 600 were least likely among other groups to realize improvements in scores or credit tiers. The authors suspect this could be due to multiple factors, including more serious credit barriers that require more time and resources to address and psychological factors.
- **Participants with positive FICO® Scores (at follow-up) were in the U.S. for less time than those with more negative credit ratings.** The data revealed participants in the highest tier of credit rating were in the U.S. for the least amount of time (an average of 2.3 years), whereas those in the lowest tier were in the U.S. the greatest amount of time (an average of 4.5 years).

Follow-up Credit Tier	Average Years in the U.S. at Baseline
Over 720	2.3
Between 680 and 719	3.2
Between 640 and 679	3.0
Between 600 and 639	4.1
Insufficient Credit	3.3
Under 600	4.5
All Tiers	**3.3**

[3] U.S. Consumer Financial Protection Bureau, July 2020: Targeting Credit Builder Loans

While in the absence of more rigorous research, concrete causation between the credit outcomes and IRC + CEO's efforts cannot be definitively proven. The authors do believe the study is supportive of two overarching factors that have underscored our efforts:

1. **Bundling Financial Coaching + loan products offers compelling results that point to adoption of positive financial management behaviors by participants**. We feel neither coaching nor lending alone could have achieved the same level of outcomes found in this study– particularly when considering the average follow-up occurred 668 days after initial baseline data was captured. The long-term nature of the study suggests participants - most of whom are new immigrants to the U.S. and likely did not have an understanding of the complex U.S. financial system upon their arrival – have consistently and successfully taken intentional steps to proactively manage their credit rating, and in turn, have improved their overall financial security. This behavior change cannot be explained by CEO's loans alone, and clearly underscores the importance of linking Financial Capability programming to lending. In turn, the presence of CEO loan products serves to incentivize engagement with Financial Coaching, and it is unlikely this level of volume and engagement in Financial Capability would have been realized without requiring participation as a pre-condition for loan application. Financial Capability Programs + integrated loan products have promise for impacts far beyond what each could achieve alone.

CLIENT SPOTLIGHT: Hogr from Iraq

Hogr arrived to the U.S. as a refugee in November 2019. After engaging with IRC + CEO services, he now has a very good credit rating and personal vehicle financed by CEO that makes the daily 30-mile commute to his job in San Diego possible. In addition to working, he is also studying coding to advance his career and financial security.

2. **Early intervention for new Americans can offer compelling ROI.** Early intervention with new Americans has real potential to help even low-income newcomers rapidly and durably establish credit and in-turn, ease their climb up the economic ladder. Simply spending time in the U.S. doesn't automatically build good credit; indeed the data suggests new Americans, especially those who struggle in low-wage jobs and are financially vulnerable – may well find themselves impacted by the same factors that make low-income Americans more likely to have bad credit[4]. Multiple findings in our study are supportive of the benefits of early intervention for refugees and immigrants, including:
    - All immigrants enter the U.S. without a FICO® score; this was the same group for whom credit outcomes were most positive in our study
    - Those with the highest follow-up FICO® scores were in the country the shortest amount of time
    - Those with the lowest tier of follow-up FICO® scores were in the country for the longest amount of time

[4] U.S. Federal Reserve, August 2018: Are Income and Credit Score Highly Correlated?

    - Those with the lowest tier of FICO® score at baseline were least likely to realize improvement to a higher credit tier

Intuitively, less time in the U.S. likely means greater chance that clients do not yet have a credit history, in contrast, more time in the U.S. may increase the chances a client makes a misstep that ultimately harms their credit rating. And once derogatory history is established, the data suggests upward gains are far more modest, which would be consistent with those in the lowest credit tier also being in the U.S. the longest.

More research is needed to better understand the client impacts of IRC and CEO's integrated model of linking small-dollar loan products to related economic development programs. Our study suggests strong correlation between our approach and the long-term impacts on FICO® score, but it has limitations that should be further explored in subsequent studies. Some key areas for future research include incorporation of additional elements to the study, such as:

- intensity and mix of service delivery
- participants with multiple loans
- more granular information from participant credit histories (for example, number of active trade lines, total amount of debt, type, and nature of derogatory accounts)

Lastly, a randomized control trial or other more intensive research methodology will be required to definitively gain answers to many of the correlations and observations included in this study.

IRC and CEO staff participate in Financial Coaching Training in San Diego. December 2019