A Message from Senior Vice President Richard Walker and Assistant Vice President and Director of the Financial Capabilities Group Sol Carbonell

We at the Federal Reserve Bank of Boston are strongly committed to promoting the financial stability of households across New England's low- to moderate-income communities. One way of achieving this goal is to work with other institutions and practitioners in a collaborative effort to build and strengthen the financial capabilities of individual residents.

Community colleges are ideal partners in this pursuit. They enroll nearly half of all undergraduates in this country, provide access for students who might not otherwise be able to pursue higher education, and serve as pathways to higher earnings. But a number of hurdles stand between community college students and the successful completion of their academic pursuits. Some of those hurdles are immediate: The need to earn money while attending school, family crises, or medical emergencies. Others are long-term challenges that require students to develop the skills, knowledge, and confidence to manage their personal finances and cope with the impact of financial disruptions.

Empowering students to make healthy financial decisions that have the potential to alleviate current financial challenges and position them for financially stable futures is a strategy likely to benefit students and the institutions that serve them. This is the goal of building financial capabilities—the capacity based on knowledge, skills, and access to manage financial resources effectively. We look forward to collaborating with community colleges in ways that lead to more financially capable student bodies, and we are excited to contribute to the exploration phase of that process with this *Handbook*. We hope you find it to be a useful and engaging resource.

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Executive Summary

Community colleges offer affordable tuition and open admissions policies that enable many underserved populations to access opportunities for upward mobility and financial stability. Yet, these predominantly low- to moderate-income (LMI) students face an array of risk factors that jeopardize their educational outcomes, most prominently financial constraints but also a tendency for poor financial decision-making. The quality of financial choices we make today can render life more or less difficult in the short-term and have financial consequences for years to come. A commitment on the part of community colleges to build the financial capabilities of their students—to help their students manage their financial lives effectively—is a strategy likely to benefit the institutions and the students they serve.

This *Handbook* provides community college personnel, potential partners, and interested supporters with possible ways to help build financial capabilities among students. It describes how the field has evolved, where and why efforts to promote financial capabilities have fallen short, and how to incorporate mechanisms to increase the effectiveness of these efforts.

Here are a few of the major themes the *Handbook* addresses.

- Dealing with short-term ("acute") financial distress is not the same as building financial capability. Although many community colleges address acute need, relatively few focus on strengthening behaviors and capabilities that are more likely to result in long-term financial stability.

- Financial challenges and emergencies are among the major disruptors of community college students' academic careers. Better financial management leading up to a disruption can mitigate the disruption's effects on a student's academic trajectory. This suggests the utility of placing greater emphasis on efforts to change students' behaviors in ways that make them more financially capable and thus more resilient to financial shocks.

- Community college students differ from four-year college students in some readily observable ways, and there are significant differences among community college students themselves. This suggests that community colleges need to tailor their financial capability efforts to the characteristics of their student populations.

- Community colleges that decide to pursue some type of financial capability intervention can improve overall knowledge of "what works" by coupling their efforts with careful measurement and evaluation of effectiveness.

- The *Handbook*'s case study section highlights the efforts of eight community colleges to bolster the financial capabilities of their students. While it's too soon to say definitively if these efforts are achieving the desired result, they show promising signs of doing so. These programs have built-in measurement and evaluation components that will aid in assessing their success over time.

- The case studies include stories relating the motivating factors that spurred the decision to commit to helping students manage their financial lives more effectively. These include a concern for student loan borrowers who received aid awards with no guidance on financial decision-making, the nationwide student loan debt crisis, a fear of sanctions related to the institutional cohort default rate, and philosophies dedicated to equitable outcomes for at-risk students. Indeed, some of these programs evolved from resource-constrained, small pilot efforts to institutionalized or otherwise scaled-up, sustainable efforts.

- Online survey results for 2013 revealed that most of the region's community colleges considered students' ability to manage their financial lives a priority, and they reported having at least one offering in place to help students achieve this goal. The majority of responding institutions indicated that the level of resources and capacity dedicated to this work was insufficient.

A financially capable student is one who uses money management techniques and savings strategies on a daily basis so that unforeseen budgetary constraints or financial emergencies do not interfere with the student's ability to complete her education and achieve a greater degree of financial stability. A financially capable student is also one who borrows and repays responsibly and who plans for the future to ensure good credit, healthy debt, and opportunities for asset accumulation. These outcomes are also beneficial to community colleges, which are accountable for student completion and for student loan repayment behavior. Addressing critical financial needs may take priority or be handled in tandem with efforts to develop a student's financial capability, depending on a student's circumstances. But practically speaking, financial capability efforts should be considered distinct from those designed to address a student's immediate financial needs.

The first section of this *Handbook* makes the case for adopting a financial capability strategy within a community college setting. The authors assess a financial capability strategy against how well it aligns with six areas: (1) the needs of community college students, (2) how it fits with community college missions and the functions they already are performing, (3) the types of outcomes that may be expected from actual efforts, (4) the availability of staff resources, (5) the capacity to implement efforts as intended, and (6) the readiness of efforts for implementation, as indicated by field expertise and the experiences of other community colleges.

To give readers an actual sense of how efforts to build financial capabilities unfold and become operational, the *Handbook* highlights eight case studies of approaches implemented by community colleges around the country. The case studies describe educational matched savings programs, financial stability centers, peer mentoring, financial coaching, online financial education, and a multi-method approach to delivering content. Each study includes basic institutional characteristics, a description of the program, details on implementation, indicators of use and effectiveness, and challenges and funding.

As the case studies reveal, some institutions' efforts to strengthen financial capabilities are embedded in a more holistic effort, whereas for others the focus is narrowly on the transfer of knowledge and skills to enable effective management of personal finances. Some use partners while others incorporate students into the delivery. In addition, although the majority of case studies feature efforts in the later stages of implementation, there are two examples of less mature efforts that are still evolving and taking shape. The case studies also give readers an insider perspective on the way efforts can look and how they evolve within community college settings.

The purpose of the case studies is neither to demonstrate effectiveness nor to make recommendations to institutions. Our intention is to share with readers stories of how institutions went from acknowledging a need to actually serving students and, in some instances, members of the community.

In the section titled "Financial Past, Present, and Future of Community College Students Enrolled in a Personal Finance Course," the *Handbook* focuses on whether students engage in a meaningfully different way with content about personal finance. Drawing on essays written by community college students enrolled in personal finance courses, the authors attempt to identify themes in the application of personal finance concepts to financial goal setting and spending habits by subgroups.

And, in the section titled "A Snapshot of Financial Capability Efforts Among New England-based Community Colleges as of August/September 2013," institutional differences in priorities, resource availability, and implementation capacity are presented, as of August–September 2013. The data were gathered in an online survey administered by the Federal Reserve Bank of Boston and disseminated with the help of the New England Board of Higher Education. (Of 43 of the region's public two-year institutions, 34 completed at least part of the survey.) This helps put efforts into context and also serves as a baseline for comparing changes in efforts across the region.