

## Definitions

Financial capability is defined as “the capacity, based on knowledge, skills, and access, to manage financial resources effectively.” Financial capability is a critical step towards financial security, and many people (regardless of socioeconomic background) may lack one or more factors of the financial capability equation below:



Some may lack the knowledge (e.g., understanding the terms of their credit card account) or the skills (e.g., calculating the total costs of using credit) needed to manage their financial lives effectively. Others may not have the access to resources necessary for managing their finances well (e.g., high quality but affordable financial services). Challenges in any of these areas will negatively affect financial capability. Low financial capability, in turn, will negatively affect financial security.

Some examples of different services that an organized network can provide to help families build financial capability:

- **Financial Education** – Workshops and classes on financial topics, offered in a series or standalone sessions.
- **Financial Coaching** – Ongoing one-on-one interactions that focus on achieving financial goals.
- **Financial Counseling** – One-on-one interactions that focus on solving immediate financial issues.
- **Credit Counseling** – Assistance organizing, prioritizing, or paying down debt; helps participants monitor and manage credit.
- **Credit Building** – Access to products or programs that help participants build or re-build credit.

- **Access to Safe and Affordable Financial Products** – Access to or encouraging the use of financial products that are low-cost, convenient, and transparent. I.e: second chance accounts, direct deposit etc.
- **Free Tax Preparation Assistance** – Volunteer Income Tax Assistance (VITA) or Tax Counseling for the Elderly (TCE) programs; often includes promoting the Earned Income Tax Credit (EITC).
- **Access to Federal and State Benefits** – Screen participants for benefits eligibility and provide assistance in accessing benefits, such as SNAP (Food Stamps), child care, or transportation subsidies.
- **Incentivized Savings Programs** – Work with participants to save for their goals and provide savings incentives that they can use for an asset, purchase or another expense.. i.e. IDA's, match savings programs, etc.
- **Asset Ownership Programs** – Support participants to build and/or maintain assets such as retirement savings, a small business, a home, a vehicle, or postsecondary

Definitions by Prosperity Now