Asset Funders Network

ACHIEVING FINANCIAL RESILIENCE IN THE FACE OF FINANCIAL SETBACKS

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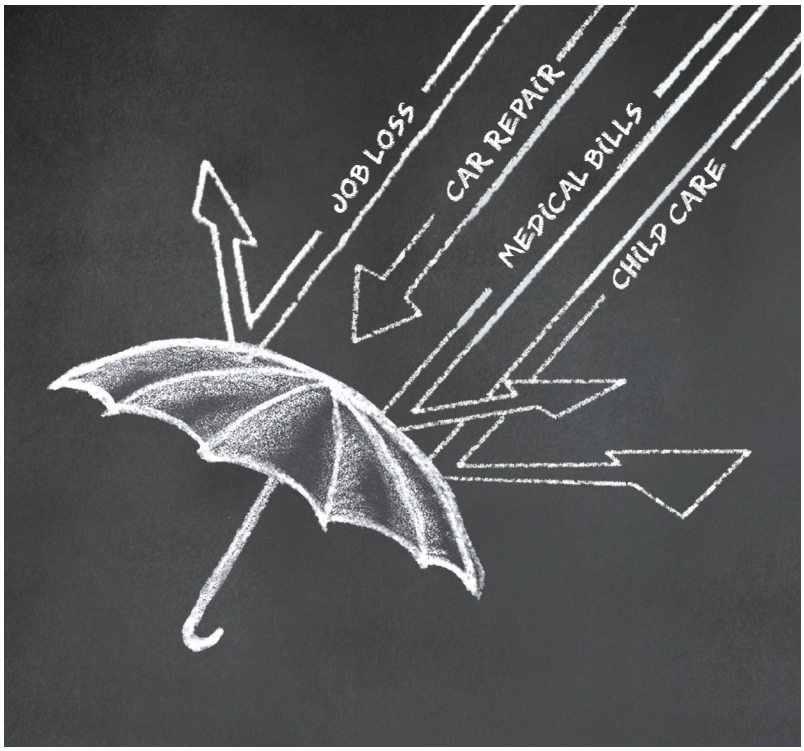
The Asset Funders Network (AFN) developed this primer to inform community-based strategies that can help economically-vulnerable families to better manage financial setbacks, shortfalls, and shocks. The goal of this brief is to provide a common understanding and language for funders and financial capability programs as part of a financial emergency toolkit.

A $735 car repair. A $1,280 medical bill. A week of missed work that reduces take home pay by $750. These kinds of financial shortfalls happen to families every day. Even a relatively small shortfall can become a major financial emergency for some people. When a family's cash flow cannot keep up with the bills that are due, the household will struggle to make ends meet. Having tools to manage financial emergencies is critical for long-run financial security.

Short-run financial stability is a necessary condition for economic mobility, but people pursuing mobility, and the long-run financial security it provides, may be constrained in their ability to respond to financial emergencies. Thus, financial resilience supports are a critical component of longer-run strategies to grow income and wealth.



Financial emergencies can happen to anyone, but they are more common for people who are economically vulnerable due to systemic inequities—low-wage workers, people excluded from mainstream financial services, and people with variable income and expenses. Financial resilience programs are a critical building block to expand financial security, especially for Black, Latinx, and indigenous people, as well as undocumented workers. Due to the effects of de jure and de facto segregation, these groups tend to work in jobs with lower wages and weaker benefits and protections and live in communities with inferior public and private services, both which increase systemic risk of negative financial shocks.

The coronavirus pandemic has highlighted the importance of strategies to help people get through short-run financial emergencies. But the pandemic is just one example of the risks people face in an economy where financial security depends on steady employment and benefits—these risks are always present for vulnerable families. Yet, the pandemic also shows how community-based programs across the country can mobilize to provide the tools people need to be financially resilient.

Support from philanthropy is critical in enabling innovative programs to provide strategic short-term financial supports. This primer provides background on the need and case for financial resilience supports to help people in financial emergencies, as well as a framework for understanding the wide range of programs and models in the field.

SHORT-TERM FINANCIAL EMERGENCIES UNDERMINE LONG-RUN FINANCIAL SECURITY

Financial shocks—from income disruptions or unexpected expenses—can destabilize household finances and create hardships that can threaten overall well-being.[1] One in three households cannot cover an emergency expense of $400 with cash, savings, or a credit card paid off by the next statement.[2] As a result, financial emergencies are common:

2019 CONSUMER FINANCIAL PROTECTION BUREAU SURVEY

27% OF HOUSEHOLDS — REPORTED HAVING A MAJOR CAR REPAIR EXPENSE

29% OF HOUSEHOLDS — REPORTED A MAJOR OUT-OF-POCKET HEALTH CARE COST IN THE PAST 12 MONTHS

25% OF HOUSEHOLDS — EXPERIENCED A DROP IN INCOME IN THE SAME TIMEFRAME AS A REPAIR EXPENSE

80% REPORTING A SHORTFALL — SAID THE EVENT WAS UNEXPECTED[3]

Lower-income households have been experiencing more frequent income shocks for several decades,[4] but Federal Reserve Board surveys conducted after the start of the pandemic in the spring of 2020 show that these patterns have become even more acute—millions of families are on the edge of falling behind without any financial cushion.[5]

Even small financial emergencies can cause problems for people with low incomes. For example, a $750 car repair costs the same whether someone makes $25,000 a year or $75,000 a year, but that expense is about one-third of monthly income for the lower-income household, compared to one-ninth for the higher-income household. Because relatively small expenses represent such large portions of the total income for people with low incomes, a short-run financial emergency may snowball, leading to hardships like food or housing insecurity. Even being at risk of financial shocks creates distress for families. Managing financial emergencies also imposes significant cognitive stresses. Thus, repeated financial emergencies create a poverty trap.[6] Financial emergencies undermine people's ability to build assets and achieve greater financial security and mobility.[7] Without access to tools to smooth over gaps in income or expenses, people cannot make long-run financial plans, including pursuing strategies that can drive upward economic mobility. Indeed, the most frequent reason individuals aged 25 to 55 withdraw funds from retirement accounts is financial hardship.[8]

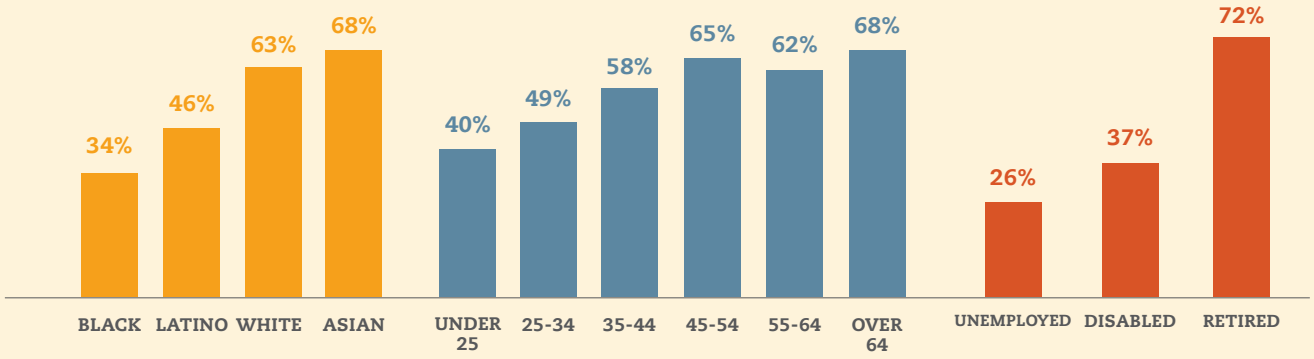
SYSTEMIC INEQUITIES EXACERBATE FINANCIAL EMERGENCIES

For Black, Latinx, and indigenous people and communities, short-term financial setbacks are more common, in large part because of structural inequities in employment and a lack of access to financial services. People of color are more likely to work in positions that do not provide access to basic workplace benefits, such as health insurance, sick leave, family medical leave, and retirement savings.[9] They also have unequal access to financial services. The 2019 National Survey of Unbanked and Underbanked Households shows that almost all (98%) of White households have a checking or savings account, while only 88% of Latinx households, 84% of indigenous households, and 86% of Black households are banked.[10] This racial gap is rooted in a long history of discrimination in financial markets.[11] Overall, non-White households have far less wealth than White households and tend to have most of their wealth in illiquid assets, such as real estate and property, rather than financial assets.[12]

Consequently, these households lack resources to smooth financial shocks. The share of households that report they could cover a $2,000 financial shock within 30 days, using any combination of savings, assets, increased work, borrowing, and help from family members, is only 34% among Black households and 46% among Latinx households, compared to 63% of White-headed households and 68% of Asian-headed households. Younger people, especially those under age 25, are less likely to report being able to handle a financial emergency than older households. Not surprisingly, people who are unemployed or out of work due to a disability are among the least likely to report being able to handle a financial emergency of $2,000. These patterns grew more extreme after the onset of the 2020 coronavirus pandemic.

Because people often rely on each other to provide a safety net, sacrificing their own financial security for that of family members,[13] financial emergencies can compound across communities of color, exacerbating wealth and income inequality in families, neighborhoods, and across generations.

PERCENT OF HOUSEHOLDS REPORTING THEY CAN COVER A $2,000 SHORTFALL WITHIN 30 DAYS



SOURCE: Stavins (2019). **NOTE:** Other household races and ethnicities are not reported in the survey data.

THE RELATIONSHIP BETWEEN LONGER-RUN ECONOMIC GOALS AND FINANCIAL EMERGENCIES

As people strive toward greater economic mobility, they may be exposed to more financial shocks and shortfalls. For example, people may enroll in higher education with the goal of earning more, but attending school may trigger unexpected expenses while also reducing the ability to work as much. This makes managing a financial emergency even harder.

Thus, although short-run financial stability is a necessary condition for economic mobility, families pursuing mobility may be further constrained in their ability to respond to financial emergencies. **The need for financial resilience supports may actually increase as people pursue longer-run strategies to grow income and wealth.**

FINANCIAL WELL-BEING

A state of being in which a person can fully meet current and ongoing financial obligations, feels secure in their financial future, and is able to make choices that allow enjoyment of life.

- Control over day-to-day finances
- Ability to absorb a financial shock
- Feeling of being on track to meet financial goals

HOW FAMILIES MANAGE FINANCIAL EMERGENCIES

Lower-income families are incredibly resourceful money managers, especially given the financial stress and economic constraints they face.[14] Typically, people need between $800 and $2,000 to deal with an immediate income or expense shock.[15] For lower-income families, however, even a few hundred dollars could create a major financial emergency.[16]

An unexpected expense or drop in income requires access to resources over and above what can be generated through work in the next few days or weeks—the amount of time needed to cover bills or access public or employer benefits. Having a reliable financial cushion to cope with a financial emergency can reduce financial and emotional stress.

Of course, financial shocks come in different forms. Some events, while unexpected, are predictable. Other events are unpredictable or idiosyncratic in nature, such as a natural disaster or job loss. Other events are more predictable in that they are likely to happen, but when they will happen may be unpredictable. For example, most people know that eventually the economy will go into a recession, or a car will need repairs, but it is hard to know when these events will occur. Meanwhile, financial shocks also vary in terms of who they affect. While community-wide shocks, like a pandemic or a major factory shutting down, affect everyone in a community, other shocks, like a disability or unexpected out-of-pocket medical cost, are isolated to a specific individual or family.

The distinction between events that are predictable or those that are not is important, since people tend to be forward-looking, making plans for the future. They can take precautions if they expect an event will eventually take place, by having emergency savings or by taking out insurance, for example.

Differences in the focus of the shock are also important to consider. Community-wide shocks are more widespread and may trigger additional public supports, although the scale of community-wide shocks may also strain service delivery systems. Individual-level shocks are far more common, but they do not tend to occur on a scale that garners widespread attention. Uncertain, individual shocks are common, but they are also not the focus of most financial capability programs or services. While some programs help people with unemployment and disability, few supports are available to help with predictable shocks like uncertain expenses.

FINANCIAL CAPABILITY PROGRAMS

The purpose of financial capability programs is to help participants reach their financial goals and build their financial well-being. Financial capability is the capacity – based on knowledge, skills, and access – to manage financial resources prudently and effectively.

Of course, financial emergencies of all types hit families whether they are prepared or not. People of color and low-wage workers are at greater risk of shocks at both the individual and community level due to underlying structural inequities. For example, they may only have access to health insurance that has high deductibles or live in neighborhoods more susceptible to flooding. Moreover, as evidenced during the pandemic, a community-wide shock may lead to disproportionate income loss and unemployment among Black, Latinx, and indigenous people.[17] Because of these factors, people of color who face multiple financial emergencies may fall further behind, ultimately making race-based financial inequities even worse.

TYPE OF FINANCIAL SHOCKS

	UNPREDICTABLE	PREDICTABLE, BUT UNCERTAIN
COMMUNITY-WIDE	Natural Disaster Pandemic	Economic Recession Major Business Closure
INDIVIDUAL & FAMILY	Disability Job Loss	Major Car Repair Out-Of-Pocket Medical Cost

DEVELOPING INTERVENTIONS

Short-term emergencies require short-term interventions. Much like someone experiencing a health emergency goes to a clinic for immediate attention, people need immediate help when they have an unexpected financial emergency. Financial emergencies may be short-lived or they may require longer-term supports.

People facing a major problem—like the failure of a business or the death of a spouse—may experience immediate financial shortfalls as a result, but they will also need longer-run help to get back on their feet, including legal and social services. By contrast, in an episodic financial shock, a person's income is less than expected, or their expenses are greater than planned, and they need support to bridge the emergency and get back on track. Without financial resilience supports, they will fall behind on bills, potentially be forced to forgo food or health care, and perhaps even face the loss of housing.[18]

Financial resilience programs provide a bridge to get people over a financial emergency and back on the road toward their financial goals, while also helping to reduce their exposure to repeated financial shocks and risk of hardship. While dealing with the immediate financial emergency is critical, the overarching goal of financial resilience programs is longer-run stability. Turning back to the health care metaphor, the emergency clinic works well to address specific crisis events but is not appropriate for ongoing care.

THE NEED FOR FINANCIAL RESILIENCE SUPPORTS MAY ACTUALLY INCREASE AS PEOPLE PURSUE LONGER-RUN STRATEGIES TO GROW INCOME AND WEALTH.

BRIDGING FINANCIAL SETBACKS: BUFFERS, BORROWING, BENEFITS, AND BACKSTOPS

Economists refer to the ways that people manage spikes and dips in income and expenses over time as smoothing. There are four main smoothing strategies:

- Maintaining a **BUFFER** of money stored as savings or assets,
- **BORROWING** money that will be earned in the future to use now,
- Accessing cash **BENEFITS**—additional resources provided as direct aid from the government or charity, or from social networks and family members, and
- Using insurance—contracts that pay out based on certain criteria—as a **BACKSTOP**.

Each strategy differs in the steps that people have to take to be financially resilient, including having different time dimensions. For example, savings requires setting aside money in the past. Borrowing requires loan repayments in the future, and it may introduce a longer-run financial obligation, creating ongoing financial stress. People use combinations of strategies, and there is no one "right" strategy for all people in all financial emergencies.

When people do not have any of these four options and cannot increase their income, they have no choice but to reduce their spending. Since food and shelter are necessities, people will prioritize these expenses and instead defer other forms of consumption and stop paying bills and making loan repayments.[19] As financial stresses compound, even keeping up with housing and food may become a problem.

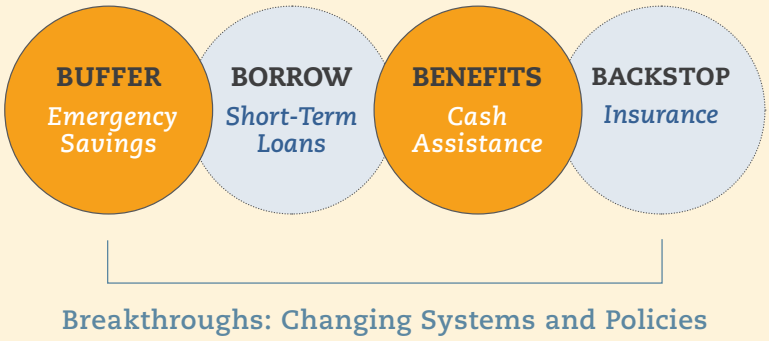
DEVELOPING AND SUSTAINING FINANCIAL TOOLS TO ADDRESS A FINANCIAL EMERGENCY

Strategies	PAST OBLIGATION	TODAY	FUTURE OBLIGATION
BUFFER	SAVE	SPEND SAVINGS	REPLENISH SAVINGS
BORROW	ESTABLISH CREDIT	BORROW MONEY (USING CREDIT)	REPAY DEBT
BENEFITS	CONNECT TO NETWORKS	APPLY FOR BENEFITS	ADHERE TO PROGRAM GUIDELINES
BACKSTOP	PAY INSURANCE PREMIUMS	CLAIM INSURANCE	MANAGE INSURANCE POLICY

BUILDING THE FINANCIAL EMERGENCY TOOLKIT

Collectively, buffers, borrowing, benefits, and backstops form a financial emergency toolkit people can use to smooth unexpected drops in income or expenses. Each component of the toolkit is important, but these tools can have more impact on financial security together, as part of a coordinated system. Moreover, programs delivering these services can build on collective lessons across client experiences to promote changes to public and private systems and policies that improve financial stability for more families.

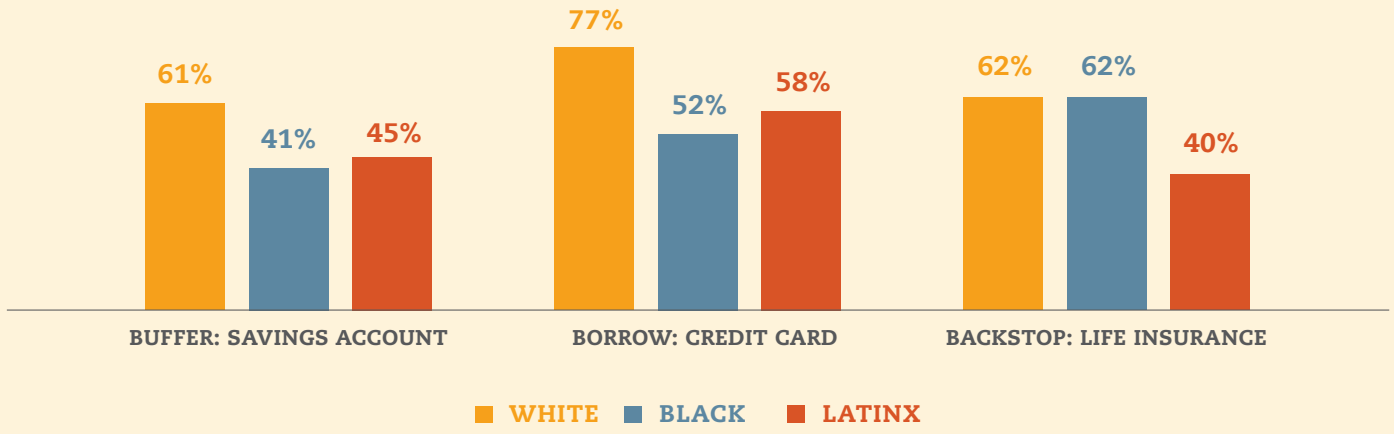
FINANCIAL EMERGENCY TOOLKIT



Data from the Federal Reserve 2019 Survey of Consumer Finances illustrate some of the gaps in the use of buffer, borrow, and backstop tools by race and income level. Black and Latinx households are much less likely to have savings accounts and credit cards than White households, and Latinx households are less likely to have any form of life insurance. Low- and moderate-income households are less likely to have savings accounts, credit cards, or life insurance than more affluent households. **The takeaway from these data—a key finding across surveys—is that the very people who most need a financial emergency toolkit are the least likely to have one.**

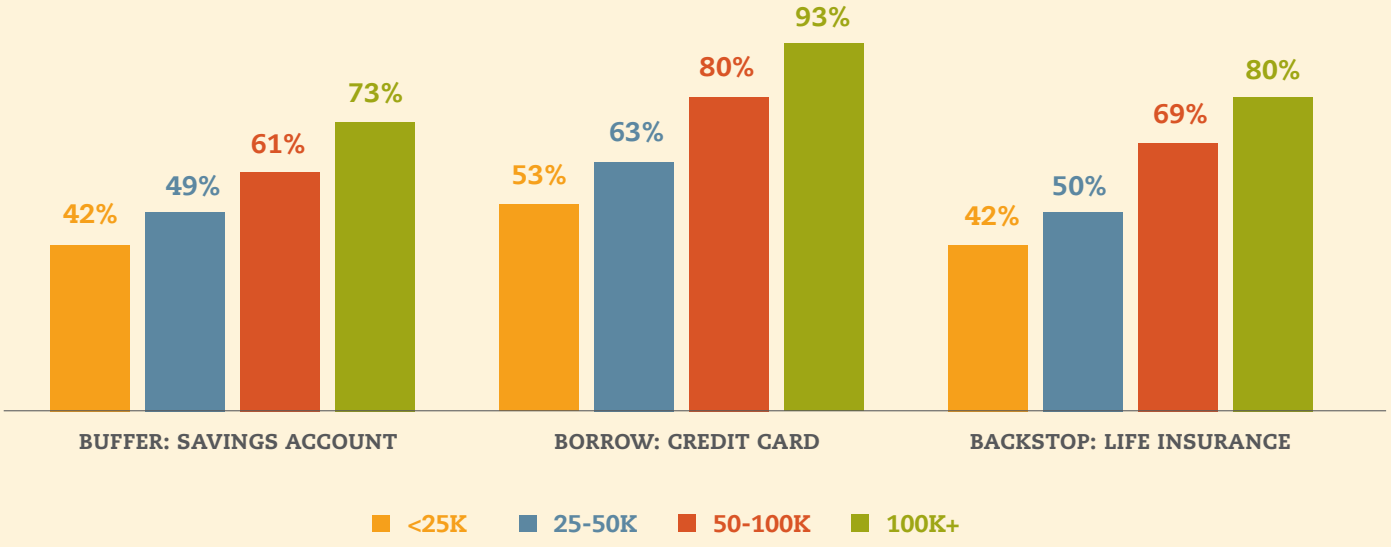
ACCESS TO BUFFERS, BORROWING, AND BACKSTOPS ARE UNEVEN BY INCOME AND RACE

USE OF BUFFER, BORROW, AND BACKSTOP TOOLS BY RACE



SOURCE: 2019 Survey of Consumer Finances, Federal Reserve Board.

USE OF BUFFER, BORROW, AND BACKSTOP TOOLS BY INCOME



SOURCE: 2019 Survey of Consumer Finances, Federal Reserve Board.

BUFFERS: Money earned in the past and stored as savings or assets

Financial buffers are the foundation of a household's financial emergency toolkit. While savings may not be sufficient to deal with every situation, having even a few hundred dollars as a buffer helps people feel less financial stress and be more confident in their finances and their ability to achieve their financial goals.[20] Yet, one in four households have less than $400 available as cash or in a checking or savings account.[21] Building up savings can be challenging for households with low incomes and high essentials costs.

Once source of buffering is emergency savings, often labeled a "rainy day fund." Emergency savings allow people to smooth consumption when they have an income or expense shock. Ideally, emergency funds are liquid, meaning they can be accessed in one or two days with few restrictions or penalties. A common way to store precautionary savings is in a bank account, including checking and savings. Some emergencies may require funds that are accessible immediately. The most liquid buffer source is cash, although storing cash presents both risk of theft and the temptation to spend. Many people, especially low-income, Black, Latinx, and indigenous families, keep at least part of their buffer in cash.[22]

Property, such as household items that can be sold, may provide another buffer source. Accessing this buffer can take more than a few days and may also incur transaction costs, making it less efficient than a financial account.[23] People can also tap longer-term savings like retirement accounts as a buffer, but this approach can also take longer and incur fees and penalties—in addition to undermining long-run financial security.[24]

Building up a buffer and then managing how that buffer is accessed and spent down during a financial shortfall is not an easy task for most people. They need to know how to navigate accounts and financial systems and have the confidence to manage accounts when a financial emergency occurs.[25] Saving also requires regular income and a way to store assets that is safe and cost-effective. Financial inclusion is an important component of being able to have an emergency account. Since lower-income families, immigrants, and people of color are less likely to have access to traditional banking services, they may be at a fundamental disadvantage when it comes to having a financial buffer.[26]

Several promising approaches can potentially help people to build a financial buffer. First, programs that are tied to employers take advantage of direct deposit to automate contributions to accounts set aside for financial emergencies. The City of Boston, for example, offered employees an easy way to split their paycheck into a separate account designated for emergencies. Innovative approaches to using savings accounts as part of retirement savings also provide a financial buffer that employees can use in lieu of tapping their main retirement accounts while they build long-term savings.[27]

CITY OF BOSTON EMERGENCY SAVINGS PILOT

WHO: *Municipal Employees in Boston*

FUNDERS: *The Rockefeller Foundation (as part of the City of Boston's Economic Mobility Lab) provided the prizes and incentives; JPMorgan Chase supported the evaluation (through Commonwealth).*

Recognizing the important role of emergency savings in financial security, the City of Boston launched an emergency savings fund pilot program to support their employees' financial well-being. The program, which was later evaluated by Commonwealth, encouraged municipal employees at two of the City's departments, the Boston Centers for Youth & Families (BCYF) and the Boston Public Library (BPL), to have small sums of money from their paychecks automatically deposited into savings accounts. Employees were encouraged to participate via monetary incentives. BCYF employees were offered a guaranteed $50 incentive to participate, and BPL employees were entered into a raffle to win a $100 bonus as an encouragement to start saving.

Splitting paychecks, even by small amounts, may present an effective way to help people build savings. On average, an additional 20% of employees at the BCYF and BPL split their direct deposit to create an emergency savings fund when given the option and encouraged to do so through incentives.

Participants deposited an average of $67 per week into their emergency savings accounts—a rate that would result in nearly $3,500 in annual savings per employee.

Second, savings initiatives combined with annual federal and state income tax refunds allow those who do not have regular payroll deduction savings opportunities to start an emergency fund. This group disproportionately includes people with low incomes and Black, Latinx, and indigenous families. Tax-time savings programs can help people take advantage of lump-sum tax refund payments to start an emergency account by setting aside a portion of their tax refund.[28]

A third approach is prize-linked savings, programs that facilitate the creation of emergency funds by providing the opportunity to win a prize. Savers can earn raffle entries for cash prize drawings by making deposits into certain savings accounts. For example, each $25 deposit could earn one entry for a monthly drawing, as well as entries for quarterly or annual drawings. Prize-linked savings programs are less administratively burden-

some than matched savings programs and yet quite effective at encouraging people to save regularly.[29] SaverLife, a nonprofit financial empowerment organization, uses prize-linked savings as part of a fintech platform to engage clients in saving for an emergency. The prizes get people's attention and remind them to save.

SaverLife

WHO: *Low-income workers nationally*

FUNDERS: *CapitalOne, Intuit, JPMorgan Chase, Mastercard, MetLife Foundation, Prudential, Wells Fargo*

SaverLife provides a technology-based platform to support members of its network in building and accessing emergency buffers. The platform includes prize and incentive-based savings. While automatic savings in the form of payroll deductions or transfers from accounts are useful for people with steady income, many people need to be able to determine when they can afford to save and when they need to manage expenses. Likewise, people who are self-employed or work informally lack a regular payroll and need to be able to manage when and how much the save. Incentive-based saving keeps the act of saving "top of mind" for participants; the offer of a prize or incentive makes saving a priority. SaverLife leverages technology to manage payments and transactions, which are often linked through employers. The platform also connects to bank accounts to track people's balances.

SaverLife provided "savings boosts" in response to the coronavirus pandemic. These boosts to savings balances helped people bridge the gap until they could access other benefits, such as unemployment insurance. However, some SaverLife clients were skeptical of payments, especially in communities where fraudulent offers of help are common. SaverLife's existing network enhances their trust in communities to overcome this resistance to receiving help.

Importantly, SaverLife uses the data and lessons learned from its networks to inform public policy. While the platform helps people deal with today's financial emergencies, SaverLife also hopes to change systems so that people face fewer financial setbacks in the future.

Buffers are just one piece of the toolkit needed to manage financial shocks. Buffers alone are insufficient because accumulated savings and assets are eventually spent down. And people may want to preserve some of their buffer to deal with the next emergency or handle a bill that can only be paid with cash.[30] Thus, borrowing, benefits, and backstops each play a crucial role as well.

BORROWING: Money earned in the future and borrowed to use now

While buffers are based on resources generated in the past, borrowing requires forgoing future income or financial assets to accelerate access to those resources in the present. Borrowing trades off current consumption against future consumption; furthermore, the loan itself comes with costs, in the form of fees and interest. Access to credit is a major dividing line between those who can manage a financial shock and those who cannot.[31] For middle-income and more affluent households, borrowing is a common way to manage financial emergencies. People with credit cards, lines of credit, and home equity loans can borrow to smooth income shortfalls or unexpected expenses. Lower-income households and people of color are less likely to have credit cards or access to a line of credit, or to own a home on which they can draw a home equity loan. For example, only 52% of people with income under $25,000 have credit cards. Black and Latinx households are also less likely to have credit cards than White households. People who have retirement accounts or whole life insurance could borrow from these assets, but few low-income households have these types of financial products.[32]

People in a financial emergency often turn to unsecured loans—loans based solely on future income that are not secured by property, like a home or automobile. Unsecured loans are riskier for lenders since they have no collateral other than the borrower's promise to pay back the debt. Since unsecured loans tend to be small and have fixed application and underwriting costs, these loans tend to have high fees. These costs are even higher for people who have no credit history or poor credit, who are also among the people least likely to have a savings buffer and to be in critical need of emergency funds. As a result, some people may have no choice but to use payday loans or paycheck advance loans. These loan payments are due within a week or two, which results in people rolling over loans repeatedly, leading to borrowing costs that are much larger than the original amount borrowed. In this way, lenders can too easily take advantage of people who are emotionally stressed by offering payday loans.[33]

Other alternatives for borrowing include pawn loans and auto title loans, both of which require borrowers to have property as collateral and puts their property at risk if they fail to repay the loan. These loans can also have high fees and rapid repayment periods. Similar to payday loans, borrowers can become trapped in loans they cannot afford to maintain.

People can also borrow from their current bills, by skipping payments for utilities, rent, or other obligations, taking advantage of grace periods or repayment options. This is also a costly way to borrow, however, since it will trigger late fees, harm credit reports, and risk losing services or even facing eviction.

The most common source of short-term borrowing for someone with a financial shortfall is an informal loan from family or

friends.[34] These relationship-based loans are not sustainable for lower-income families, however, as many family members do not have enough money to lend.

A more formalized version of relationship-based loans is rotating savings and credit associations (RoSCAs), or lending circles, known by many names around the world, such as *tandas* or *susus.* Lending circles are a community-based credit alternative based on group borrowing or "solidarity lending." Members of a circle contribute capital, often through small periodic contributions. Funds are then distributed to a member of the group to meet financial emergencies or address other needs. This strategy has features of savings with regular contributions, as well as insurance based on certain hardships. Lending circle loans often have low or no interest. A California-based nonprofit, Mission Asset Fund (MAF), is working to turn this tradition into an opportunity to access credit.

MISSION ASSET FUND

WHO: *Low-income individuals, immigrants and refugees, and self-employed clients in the San Francisco Bay Area and, through partners, nationwide*

FUNDERS: *JPMorgan Chase, Levi Strauss Foundation, Wells Fargo, and others*

With its Lending Circles program, Mission Asset Fund (MAF) works to bring people out of the financial shadows by using lending circles, a time-honored tradition in immigrant communities, to help people rebuild credit. Low-income and immigrant families lack access to basic bank accounts and face barriers to building credit histories. Lending circles overcome these problems. Members of each lending circle make monthly payments to a shared loan pool, which is then used to make zero-interest, small-dollar loans that rotate to members of the circle. The loan term is set at 6 to 12 months, and loan amounts range from $300 to $2,400. Clients sign promissory notes to secure the loans, and MAF reports payments to the major credit ratings agencies, thus establishing credit records or helping to repair credit.

Use of the loan funds is unrestricted. Most clients join lending circles to build credit, but participants also use the program to increase savings, pay down debt, launch businesses, and invest in their future. Nearly 80% of clients complete the program with prime or near-prime credit. In addition, over 80% of clients who joined without a credit score established one by the end of the program.

MAF shares its social loan platform and loan servicing tools with a network of 71 nonprofits in 18 states and Washington, D.C.

To be able to use borrowing to deal with financial emergencies, people need three things. The first is a positive credit record. Establishing credit, as well as navigating credit bureaus to address credit report problems, is a critical component of the financial emergency toolkit. While borrowing is a claim on future income, people must work on preparing to borrow before an emergency occurs. Lending Link in Nebraska offers a financial coaching program as part of its lending process to help people develop stronger credit profiles as future borrowers—ultimately helping them qualify for a more traditional, lower-cost loan.

LENDING LINK

WHO: *Residents and low-income small business owners in South Omaha (mainly Latinx) and North Omaha (mainly Black)*

FUNDERS: *Omaha area financial institutions and foundations, including the Sherwood Foundation and the William and Ruth Scott Family Foundation*

Lending Link Credit Solutions supports low- to moderate-income people by providing access to capital. Lending Link was established as a mechanism to battle predatory lending practices. Lending Link provides short-term micro-loans, small unsecured loans, collateralized loans (including car loans), and micro-business loans to residents and small business owners who have difficulty accessing loans from traditional lenders.

Loan terms are from 4 to 24 months at a 5% annual interest rate. The organization has approved loans for as little as $100; the average amount is approximately $2,000, and the maximum loan amount is $5,000, on an auto title loan. It takes 1–2 business days to process a loan application. The repayment rate has been over 90%.

Financial coaching is a core part of the organization's programming. Lending Link believes that education coupled with affordable, alternative loans is the surest way to help people get out of debt, build assets, and create a more secure financial future.

Lending Link is clear with clients that it offers loans and not grants. However, a certain degree of flexibility is required. Borrowers often have insufficient funds, so Lending Link allows people to make small cash payments when they can or extends loan terms when customers' circumstances change. The organization also relies on a "two-way referral system": if the barrier to repayment is more extensive than just being a few dollars short, Lending Link connects clients with additional resources.

The second key is having access to affordable credit. Unsecured loans are higher risk, but some lenders provide lower-cost alternatives, often through technology.[35] Alternatives to payday loans can provide the same convenience with lower interest rates and more flexible terms, avoiding predatory practices. Many nonprofit credit unions and community development financial institutions (CDFIs) provide affordable installment loans, signature loans, and lines of credit to people with no or poor credit. LHOME, a Kentucky-based CDFI, offers a variety of loan products, including a special loan for emergency expenses in the wake of COVID-19.

LHOME

WHO: *Low-income individuals, small-business owners, and homeowners in Greater Louisville (focus on those who live or work in West and South Louisville, mainly Black areas that are home to many African refugees)*

FUNDERS: *Jewish Family and Career Services, U.S. Treasury, and area investors*

LHOME (Louisville Housing Opportunities and Micro-Enterprise Community Development Loan Fund, Inc.) offers affordable loan products in Louisville, Kentucky. LHOME is certified as a Community Development Financial Institution (CDFI) by the U.S. Department of the Treasury.

In March 2020, LHOME launched the Lifeline Loan program to help families deal with emergency costs without having to resort to payday lenders. Available for up to $500, these loans have a 12-month term and a 15% annual interest rate, which is significantly lower than a payday loan. LHOME uses a fintech partner to process digital loan applications in a quick-turnaround platform.

Lifeline Loan funds may go toward basic necessities (utilities, water, rent, prescription medicine), and LHOME pays vendors on clients' behalf. This approach mitigates issues with payment systems for people who are unbanked. While the loans are mostly small dollar amounts, they can have an important impact for borrowers.

Finally, borrowers need to be able to manage the loan terms, especially in the face of repeated financial setbacks. For example, both LHOME and Lending Link provide borrowers with a variety of options for repayments to meet families where they are, and to provide flexibility if the family's situation changes, including repayment plans or changes in the loan term.

Overall, borrowing is a key aspect of financial resilience. Having access to credit is just as important as having emergency savings buffers. Access to safe and affordable credit is critical for families to manage a financial setback.[36] But credit is not available to many Black, Latinx, indigenous, and immigrant households, and when credit is available, these borrowers often pay higher fees and interest rates.[37] Loans are a part of the financial emergency toolkit where innovation, including fintech solutions, is needed to expand access to affordable loans for underserved consumers who need loans to smooth consumption during a financial shortfall.

BENEFITS: Additional resources provided as direct cash aid

The third piece of the financial emergency toolkit is benefits—specifically, cash assistance. Cash benefits and emergency grants have a long tradition, including the era of Community Trusts and Settlement Houses at the turn of the century. While cash aid is common in international development, hardship grants and emergency cash assistance in the United States have mainly existed in the context of natural disasters, offered narrowly in certain geographic locations with defined, widespread financial shocks. The 2020 pandemic accelerated the use of emergency aid, however, in response to widespread public health emergencies that prevented people from working and created unexpected expenses.

Cash benefits are generally unconditional, meaning they are available with minimal rules or stipulations and can be used without any restrictions. The goal is to deliver assistance with simple and efficient application processes. High administrative burdens for potential beneficiaries will keep people—especially Black, Latinx, and indigenous people—from accessing the help they need.[38]

Cash benefits come from four main sources. One is employer-based hardship aid, which allows employees to request an outright cash payment not connected to current or future levels of work. Canary is a technology solution that allows employers to develop financial hardship grant programs for employees.

Public programs are another source of benefits. While state and federal resources are available in the case of a disaster area declaration, individual-level assistance is uncommon. Some state and local general assistance programs can provide cash to help families manage a short-run financial emergency, but these public cash programs tend to be too slow and too restrictive.[39]

The third source of emergency financial assistance is help from friends and family. Transfers within and across generations are especially common among higher-income households.[40] Among lower-income households, however, providing cash supports to relatives can become a financial burden.[41]

Programs administered by nonprofit organizations or CDFIs represent the fourth source of cash benefits. People can access emergency grants to deal with financial shortfalls through community-based lenders or community development credit unions. One example is the Oklahoma Native Assets Coalition, which distributed cash assistance during the pandemic.

OKLAHOMA NATIVE ASSETS COALITION, INC.

WHO: *Indigenous peoples nationally*

FUNDERS: *Wells Fargo Foundation and Decolonizing Wealth Project*

Oklahoma Native Assets Coalition, Inc. (ONAC) is located in Oklahoma City and operates across the country through a coalition of tribes, Native-led nonprofits, and other partners focused on increasing opportunities for economic self-sufficiency among tribal citizens. ONAC launched its Emergency Cash Assistance program in May 2020. The first national Native-led emergency cash assistance relief effort to directly serve Native families in response to the pandemic, these $500 payments are directly distributed to families by ONAC. They come with no restrictions on the use of the funds once disbursed. ONAC also offers recipients wrap-around services such as financial coaching and Native Bank On resources. ONAC, with the Decolonizing Wealth Project, also disburses emergency cash assistance as part of the Native American Community Response Fund.

ONAC is able to serve Native families thanks to a well-established coalition of partners it has built over 19 years. Client-facing organizations with staff on the ground in Indian Country know how to best reach and serve people facing financial emergencies.

NATIONAL DOMESTIC WORKERS ALLIANCE

WHO: *Domestic workers nationally, mainly immigrants and women of color*

FUNDERS: *Bill & Melinda Gates Foundation, Ford Foundation, Google.org, Open Society Foundation, and individual contributions*

The National Domestic Workers Alliance (NDWA) works for respect, recognition, and inclusion in labor protections for domestic workers, the majority of whom are immigrants and women of color. NDWA operates through more than 60 affiliate organizations in all 50 states. Through the alliance, NDWA's 50,000 members can access member benefits and participate in advocacy.

The Coronavirus Care Fund (CCF) provides $400 in emergency assistance for qualifying home care workers, nannies, and house cleaners who are experiencing financial hardship due to the coronavirus pandemic. The fund has received more than $20 million in contributions. NDWA designed the CCF to be simple and require limited paperwork. Workers who were identified through network organizations could apply for emergency assistance via an online process managed on NDWA Lab's online Alia platform (developed to support portable benefits). Funds were mailed as prepaid cards.

NDWA is using lessons from this program to advocate for an expansion of sick leave, disability coverage, and paid time off for more workers.

Other programs target populations that are traditionally overlooked, like undocumented immigrants or those working in the gig economy. For example, the State of California Coronavirus (COVID-19) Disaster Relief Assistance for Immigrants provided one-time disaster relief assistance to undocumented adults ineligible for other forms of aid because of their immigration status. Funded by the state and philanthropy and administered by nonprofit organizations, the program allowed undocumented adults to receive $500 in emergency assistance. Similarly, the National Domestic Workers Alliance created the Coronavirus Cares Fund to support home care workers, nannies, and house cleaners.

Cash grants are often only $500 to $1,000. This is a relatively small amount compared to the incomes and expenses families manage overall. But cash assistance is more than economically meaningful; it helps people to have hope and provides some financial breathing room. With cash, they can focus their attention on planning to get back on their feet financially. Even small cash grants can help break the cycle of frustration that families facing multiple financial shocks get locked into. For example, the Family Independence Initiative (FII) provides families with direct access to cash to help them achieve their own goals.

GUARANTEED INCOME MODELS

While programs like the Earned Income Tax Credit (EITC) and Supplemental Security Income (SSI) are examples of income supports, there have been proposals to expand eligibility for minimum income supports for more people, including guaranteed income models. It is important to note that while minimum income payments can help smooth out cash flow, people will still have unexpected expenses over and above regular cash transfers. Buffer savings, borrowing, cash benefits, and insurance backstops will remain a necessary part of the financial toolbox.

FAMILY INDEPENDENCE INITIATIVE

WHO: *Family Independence Initiative*

FUNDERS: *Google.org and others*

The Family Independence Initiative (FII) works to help people reach their unique goals by providing direct cash investments and a platform to strengthen their social networks. The premise of FII is that low-income families have the capability to improve their well-being. They do not need to be told what to do or not do; instead, they need to know what steps to take. FII supports a technology platform, UpTogether, on which people create small groups to share solutions to problems, set personal and financial goals, and track their progress. Members, who become part of a network, support each other both on and off the platform. The web-based platform also facilitates unrestricted cash transfers via direct deposit or payment cards.

During two years of engagement with FII and UpTogether, families increase their monthly income by about 27% on average. While families set their own goals, direct access to financial resources helps them achieve these goals. UpTogether members also experience gains in nonfinancial goals like improving health or education, securing housing or transportation, and investing in their families.

Benefits are especially useful for those with thin or poor credit and no savings. In particular, young people tend to have little or no buffer, and are not likely to have strong credit scores to make borrowing possible.[42]

Cash assistance is an important complement to other tools in the financial emergency toolbox when people have exhausted their buffers and cannot borrow.

BACKSTOPS: Insurance against risks

Backstops are the fourth piece of the financial emergency toolkit. Backstops protect people from a potential loss. Individual insurance contracts, social insurance programs, and employer-provided insurance and benefits are all examples of insurance that pools risks of financial shock among a group of people. People may use many forms of insurance as a backstop in case of a financial emergency.

One example of a backstop is disability insurance. While permanent disabilities that prevent people from working are covered by Social Security, short-term disability is not, especially for short-term illnesses or other situations that keep people from working but are not based on a work-related injury. Access to short-term disability, and even worker's compensation coverage, is uneven, especially for part-time and low-wage workers, as well as contract employees working in the gig or cash economy. While middle- and higher-income people often work at larger employers offering a suite of benefits, including short-run income continuation insurance for health or caregiving, many lower-income employees and people of color do not work at employers that offer these benefits.[43] Employer-based sick leave, as well as paid family and medical leave, are related benefits that allow people to deal with health issues without losing income.

Health insurance is another backstop. It helps people avoid major health expenses that could become a serious financial shock, even leading to problems paying for food or housing.[44] However, having health insurance does not reduce the incidence of a financial shortfall as much as some families may expect; even people with health insurance face out-of-pocket costs that can amount to significant expenses. Out-of-pocket costs can even become long-term medical debt if they are not managed. The risks of high medical expenses leading to a financial emergency are higher for Black, Latinx, and indigenous people, who disproportionately work in jobs with limited benefits. Moreover, state and federal policies that reduce access to health insurance coverage will exacerbate financial emergencies for families. Medicaid expansions and programs to expand access to health insurance can help protect families from financial shocks.

Other forms of insurance protect individuals from other kinds of major financial shocks. Property insurance protects people in case of accidents or damage to automobiles or homes. Coverage for renters, which is uncommon among low-income households, can protect people from some high-cost risks.[45] Other insurance contracts cover major automobile or appliance repairs, often at high costs. These types of coverage are marketed to low-income communities but are rarely addressed in asset-building programs as part of an overall financial protection strategy.

The main problem with insurance programs as a backstop is that unless participation in insurance pools is widespread, only people who are likely to make a claim will enroll—leading to high claim rates, which in turn drives up premiums, making coverage unaffordable. This phenomenon is called adverse selection: only the riskiest people take part in the insurance pool. As a result, many people cannot find affordable insurance backstops outside of employer-based benefits, coverage that is mandated, or coverage that is offered directly by governments.

Backstops are the least well-developed tools in the financial emergency toolkit. Few asset-building strategies or financial capability programs substantively engage with insurance issues, although many financial coaching programs help people navigate public and employer-based benefits. Backstops may be an area where more attention can help generate innovation. It is also an area where attention to public policies related to health insurance, unemployment, workers compensation, family and medical leave, and short-term disability insurance may be most valuable.

FIVE

LESSONS FROM THE FIELD

Across case studies, focus groups, and research conducted for this paper, five key lessons for financial capability programs and funders emerge.

Leaders of short-term financial resilience programs can offer insights to policymakers, employers, and the public at large. The lessons learned and evidence collected from engagement with people who are facing financial emergencies can help surface critical issues facing vulnerable workers, people of color, and undocumented individuals. For example, SaverLife uses its program data to provide evidence of patterns of financial shocks to inform best practices in employer benefits and public policy. Leaders in the field can address foundational issues of the social safety net, child care supports, and labor market regulations based on the experiences of people who have faced, and recovered from, short-term shocks. Advocacy can reduce the incidence of financial shocks for other families and drive support for a more robust and inclusive financial services ecosystem.[46]

1. Administrative Burdens are a Barrier to Accessing Services

Any program that offers savings, low-cost credit, or cash benefits has to develop a network to locate and recruit clients, then perform basic screening or underwriting based on program qualifications. However, the burdens of screening, paperwork, and time delays can exclude the most vulnerable and disproportionately affect Black, Latinx, indigenous, and immigrant families.[47] The perceived costs, including the hassles of administration for clients, need to be minimized to make programs accessible. Effective programs use streamlined program designs, reduce or eliminate paperwork, and develop procedures and processes anchored in psychology and behavioral economics.[48]

2. Delivering Emergency Financial Services Requires Robust Infrastructure

When the coronavirus pandemic broke out and programs wanted to get emergency assistance to those in need, systems had to be in place to connect with clients, perform basic intake functions, and make payments using electronic transfers, checks, or payment cards. Several leaders in the field interviewed for this project indicated that programs need more support to develop innovative ways to deliver financial services to people facing a financial emergency, especially families that are not digitally connected. In addition to payment systems, simply having an efficient and reliable way to connect to families in need, perform intake remotely, and administer programs is a foundational capability that community-based programs need to have in place. Those delivering this assistance are most successful when they or their community partners have built solid relationships with the families they serve. Because communities of color are often targeted by fraud and scams, even families who might be desperate for assistance often will not complete an application because they are concerned about fraud. For a program to reach those in need, someone families trust (such as a tribal official for Native families) often must let them know, by phone, letter, or email, that the program is a legitimate source of financial assistance.

3. Combine Supportive Services Across Approaches

Especially when people face two or more shocks at the same time, the extent to which individuals can be prepared to manage financial emergencies is limited. However, financial emergencies can facilitate financial empowerment. Given the inherent burden of navigating multiple systems, financial counseling and coaching are important for building financial resilience.[49] Through an emergency assistance program, clients can be offered financial coaching and access to savings, credit, and insurance to prevent future shortfalls while also dealing with immediate problems. The reality is that many people may not deal with financial emergency preparedness until a shortfall occurs, but they can start preparing for the next emergency right away.

> **EMERGING SOLUTIONS TO PROMOTE AND ENHANCE FINANCIAL STABILITY** must be relevant, linguistically and culturally congruent, and trustworthy to potential beneficiaries. Attuning programs to specific contexts is vital for promoting financial resilience across the board.
>
> **JOSEFINA FLORES MORALES**
> DOCTORAL STUDENT, UNIVERSITY OF CALIFORNIA, SOCIOLOGY DEPARTMENT

4. Keep Racial Equity and Inclusion Considerations Front and Center

Any strategy that a program employs should make racial equity and inclusion a priority by carefully considering how design features may disproportionately disadvantage Black, Latinx, and indigenous people and communities. For example, programs that are tied to larger, more established employers may miss Black or Latinx workers who are more likely to be self-employed or work with smaller employers. Programs that require online applications and have no paper options are a barrier to communities experiencing poverty or those who live in places without access to high-speed internet (a problem in particular for rural indigenous communities). Likewise, programs that rely on clients having bank accounts exclude those who are unbanked—disproportionately Black, Latinx, and indigenous people. Access to programs, information, and even the design of forms all can become barriers. Programs also need to pay deeper attention to issues of immigrants, refugees, and undocumented workers who are often left out of public services and tend to be overlooked.

5. Lessons from the Front Lines of Financial Resilience Should Support Systems Changes

Strategies to help people cope with unexpected, short-term drops in income and increases in expenses are critical for families facing a financial emergency. Some people also need comprehensive supports, not just short-term stabilizers.[50] Emergency financial tools are a bridge from a place of relatively stable income and expenses to a future state of stability, not a long-run solution for low wages or instability. A wide range of polices could help people prepare for financial emergencies.[51] Financial resilience programs can become advocates for policy changes that can help people access savings, affordable loans, cash assistance, and insurance. Other policy changes, such as expanded health care coverage, sick leave, family and medical leave, child care, and income supports, could help reduce the occurrence of financial shocks.

CHECKLIST FOR DEVELOPING A FINANCIAL EMERGENCY TOOLKIT

Expanding access to short-term financial resilience programs can help people pursue their financial goals and achieve higher levels of financial well-being.[52] Based on the lessons from this research, funders and financial capability programs should consider:

- ☑ How can coaching and related services help people make financial resilience or contingency plans and navigate financial products and services?
- ☑ What networks can connect people to emergency financial services when they need help?
- ☑ How can emergency savings platforms connect to people through employers or other networks?
- ☑ Do programs have referral systems in place for people who need short-term credit (sources of affordable loans) that can be accessed quickly?
- ☑ Are financial capability programs incorporating education and counseling on insurance options, as well as navigating public benefits, into services?
- ☑ How can research-based advocacy transform lessons from community-based programs into improvements in employer practices and public policies?
- ☑ Are programs and services being designed to be inclusive of Black, Latinx, and indigenous families and communities, including addressing inequitable administrative processes, program rules, and discrimination in credit markets and the financial services marketplace?
- ☑ Similarly, are programs and services being designed to include immigrants and other populations who are often excluded from public services?

RECOMMENDATIONS FOR FUNDERS

Leaders in philanthropy can enhance support for interventions that help families overcome short-term financial emergencies. At the same time, funders should consider investing in advocacy, pilot programs, and research that can inform public policy changes needed to create financial security more broadly. Based on research and insights from practitioners, funders seeking to invest in financial resilience programs should consider several recommendations.

Fill in Gaps

Research your landscape and assess the financial services ecosystem that supports short-term financial security in the area or among the populations you serve. Does it include Buffers, Borrowing, Benefits, and Backstops? Are those interventions accessible and affordable? What barriers for the target audience need to be overcome or reduced? What is missing? How could you invest in filling the gaps?

Invest in infrastructure

Infrastructure is needed across communities and within community-based organizations. Help organizations develop networks with economically vulnerable populations and partnerships with financial service providers, fintech companies, and payment systems. Funding staff development, training, and technology will position organizations to be more efficient and effective. Help organizations make services easily accessible for customers.

Transform Evidence into Action

Programs that work with families facing financial shocks are learning lessons about employee benefits, financial products and systems, public benefits, and consumer protection and regulation. These lessons can be aggregated at a community, state, or national level to inform best practices and support broader system changes. Funder investments efforts to build evidence across the field are essential. In particular, funders could help support data collection, technology tools for tracking data, and longer-term evaluations across programs.

Apply a Racial Equity Lens

Deep racial and ethnic inequities related to short-term financial resilience and long-term financial security persist. While system-level changes are needed to remedy those inequities, an opportunity exists to use an intentional equity framework with all interventions to address short-term financial stability. Using a racial equity framework to inform investments, funders should consider several key steps: (a) look for programs and products that intentionally focus on Black, Latinx, indigenous, and immigrant communities; (b) focus on strengthening organizations that are led by people from those communities and actively working with and listening to these communities; and (c) provide financial support to organizations for tracking and reporting outcomes by race. These steps are important for all types of programs, but particularly for financial resilience programs, to ensure change is happening equitably.

Focus

Funding and support focused on short-term financial stability and resilience increased significantly during the pandemic, but the types of financial shocks families face are constant. Programs may also aim to prevent financial emergencies by stabilizing wages and benefits, but financial resilience programs always need to be in place to provide help when a financial shock occurs. Short-term resilience programs help people navigate a financial emergency and get back on track toward their financial goals. A focused approach facilitates short-term stabilization without becoming bogged down addressing every factor that limits economic mobilty.

CONCLUSION

Financial resilience strategies can help people manage financial setbacks through access to Buffers, Borrowing, Benefits, and Backstops—interventions that make up a financial emergency toolkit. Funders can support the development of a comprehensive, community-based system to connect families to financial resilience services that allow them to achieve greater long-run financial security, especially Black, Latinx, indigenous, and immigrant households that are both at a higher risk of having a financial emergency and also less likely to have access to the financial emergency tools they need.

Collectively, the lessons learned from practitioners and clients can be a powerful voice for changing systems.

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