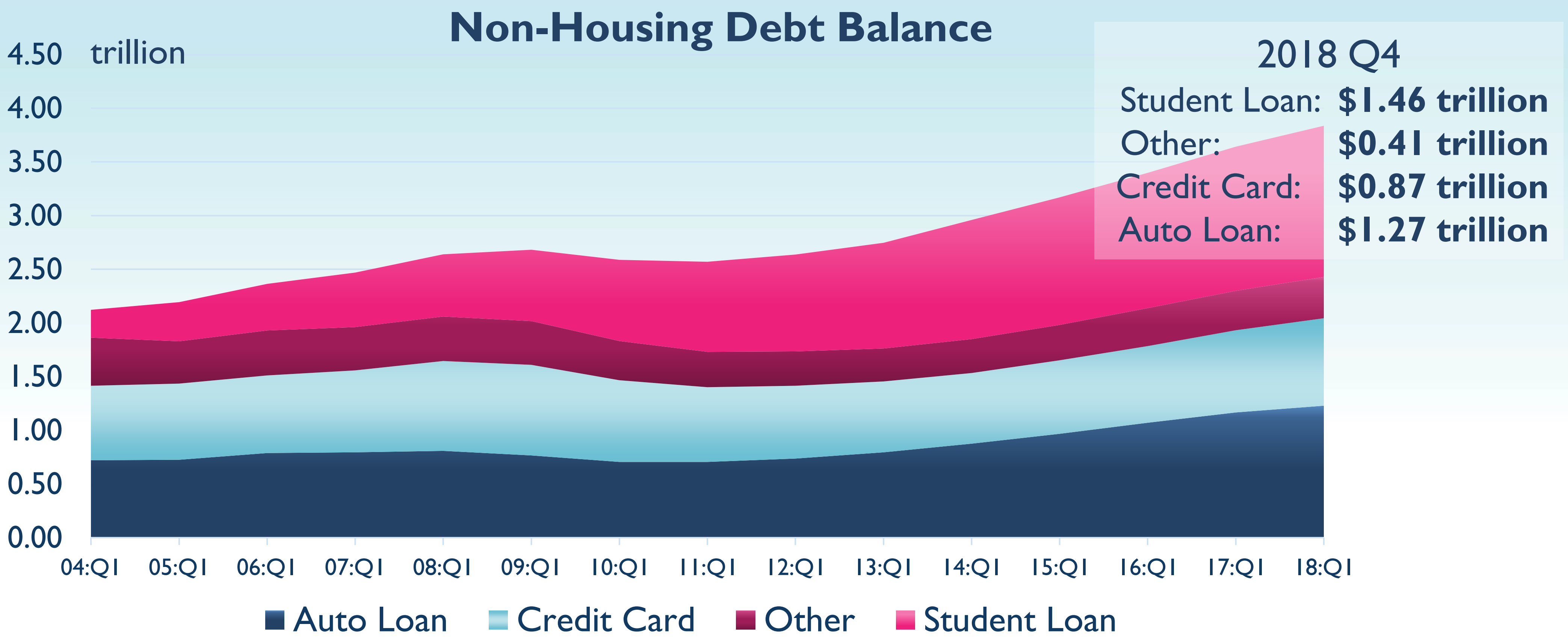
Lifting the Weight

SOLVING THE CONSUMER DEBT CRISIS FOR FAMILIES, COMMUNITIES & FUTURE GENERATIONS

@AspenFSP #AspenEPIC

CONSUMER DEBT TODAY

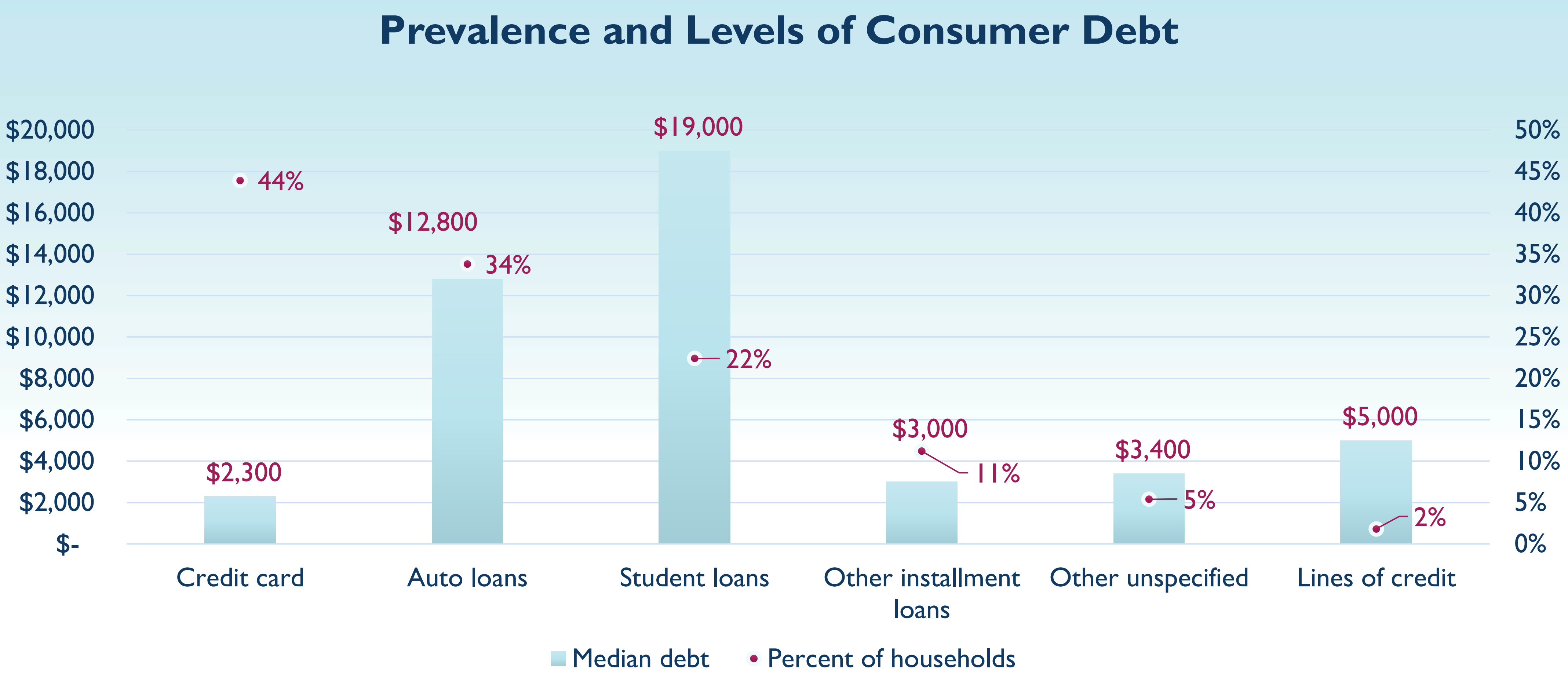
Aggregate Consumer Debt



Source: FRBNY Consumer Credit Panel/Equifax

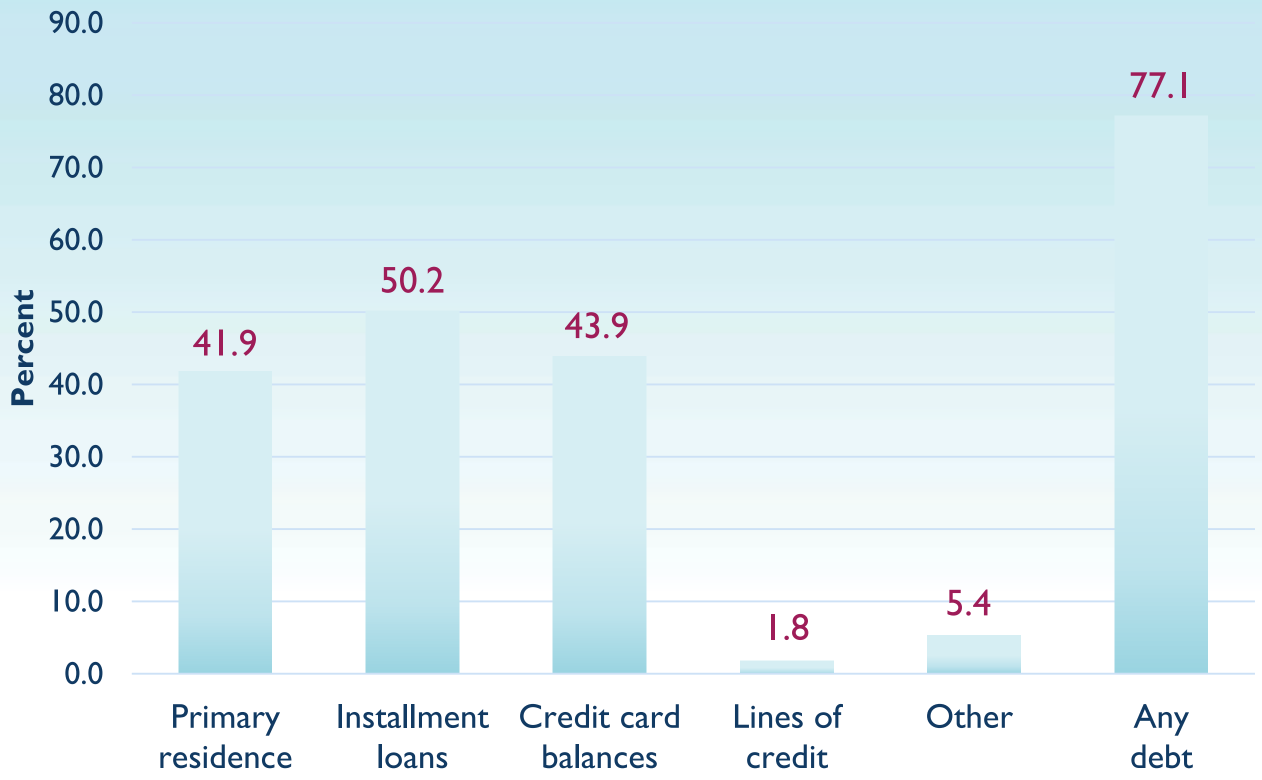
HOUSEHOLDS' CONSUMER DEBT

Median Debt by Product

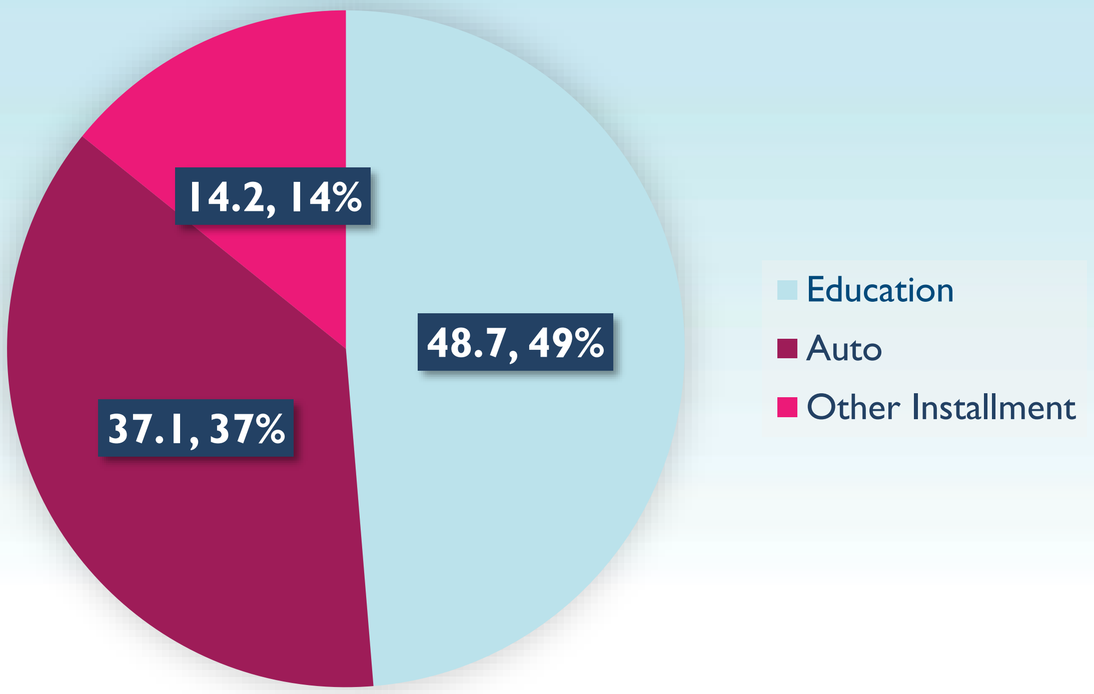


COMPOSITION OF CONSUMER DEBT

Percentage of Households with Debt



Composition of Installment Debt

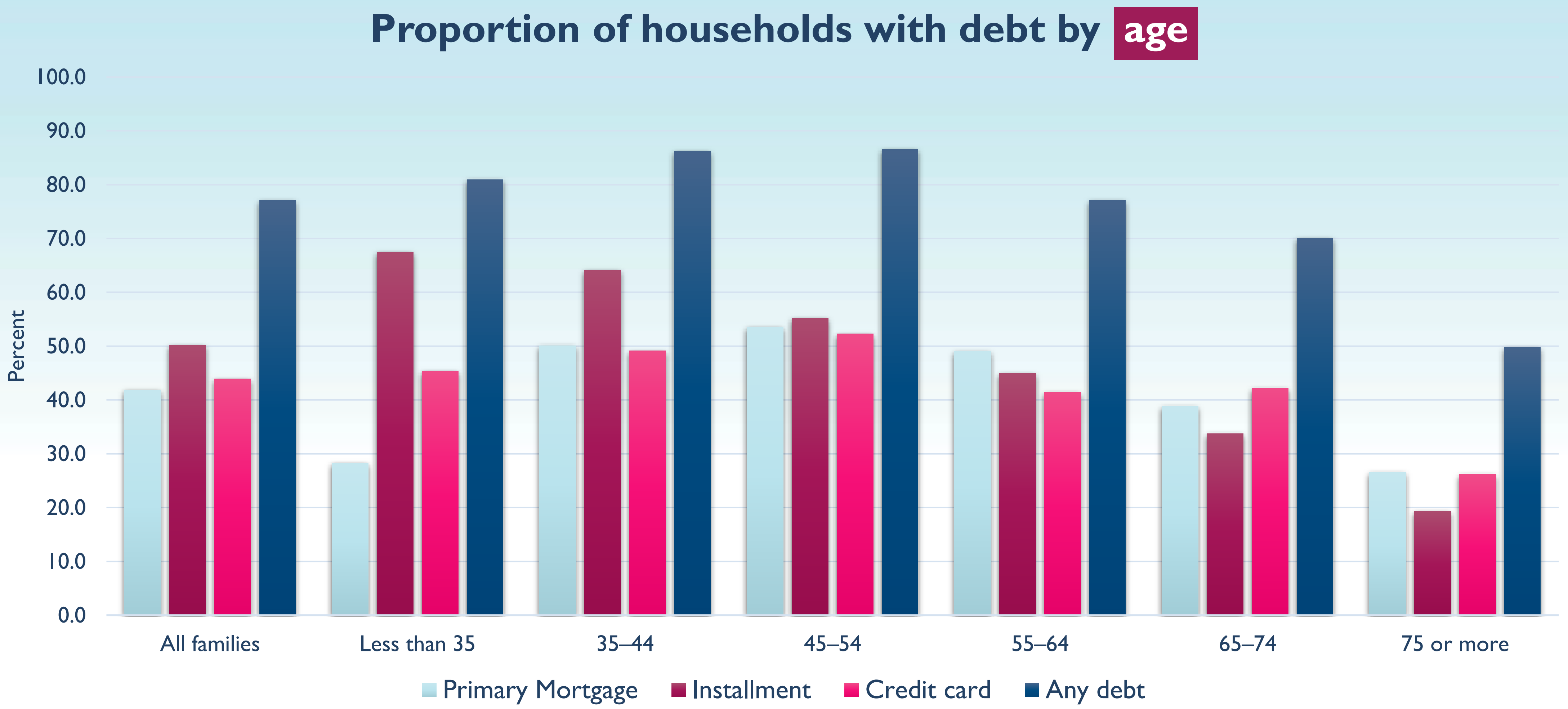


DEMOGRAPHIC DIFFERENCES

Experiences vary widely

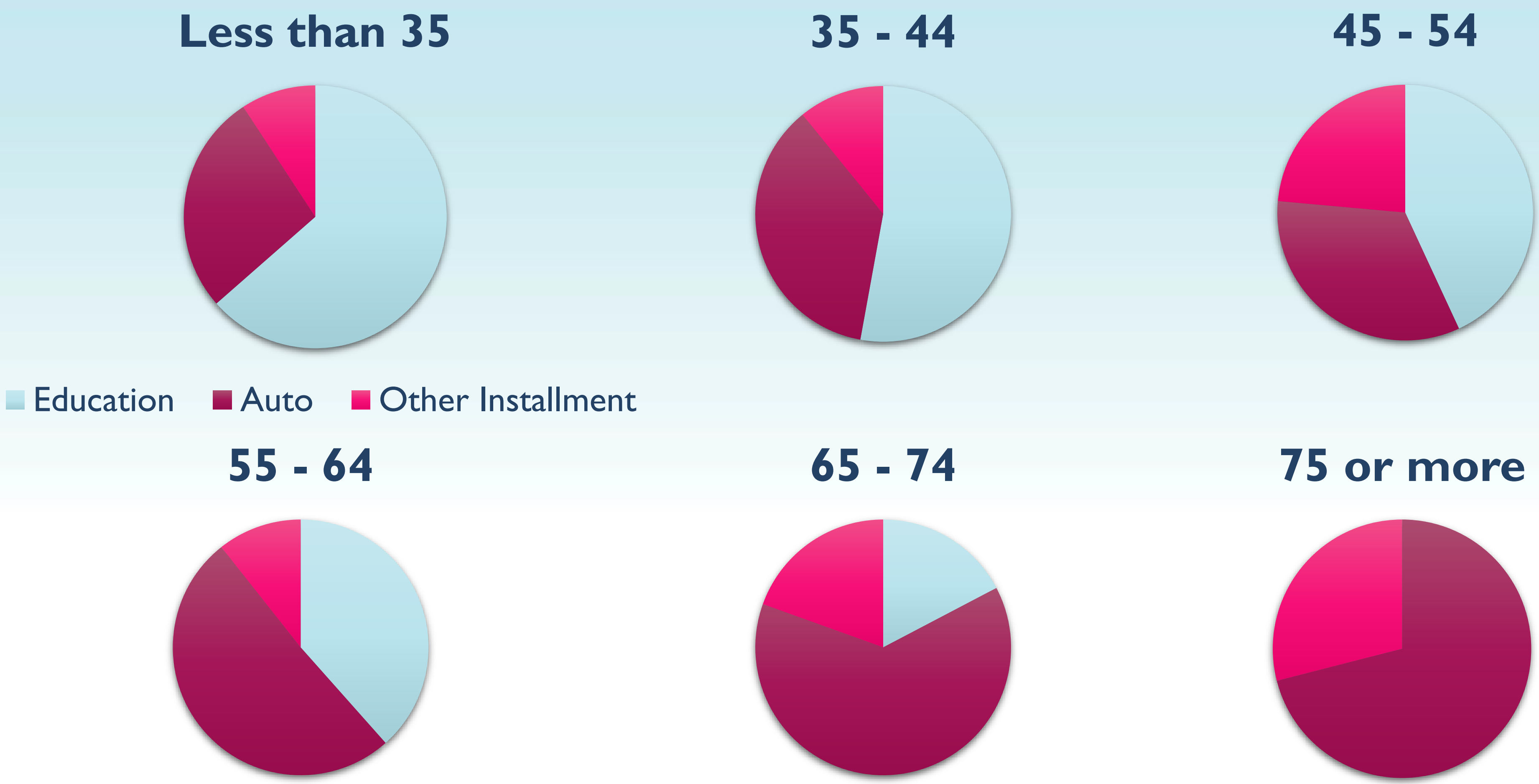
- Key demographic characteristics are **geographic location, age, race and ethnicity, and income**
- Can lead to **disparate outcomes**
- **Racial inequity** is a major challenge

DEMOGRAPHIC DIFFERENCES



DEMOGRAPHIC DIFFERENCES

Proportion of households with debt by age



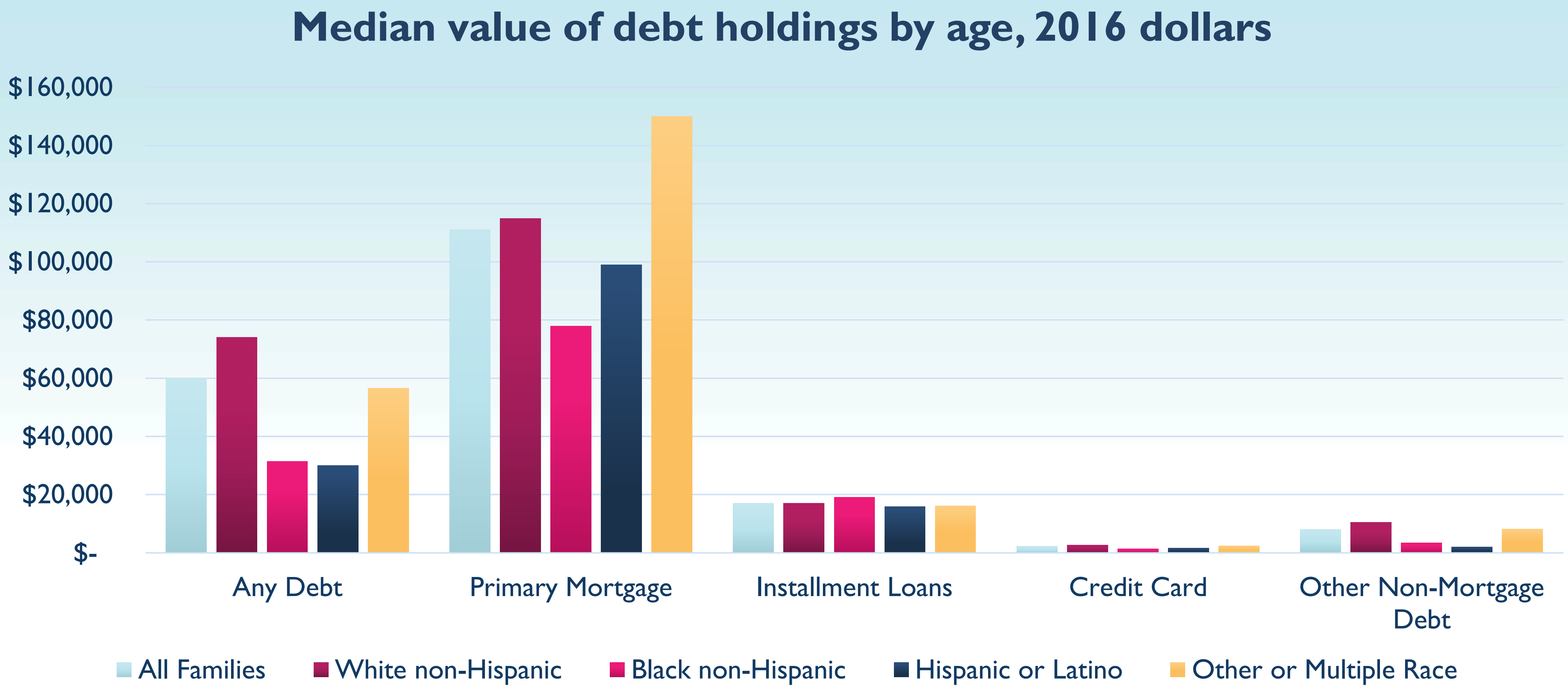
DEMOGRAPHIC DIFFERENCES

Race and Ethnicity

- Racial disparities are related to differences in **income, geographic location, public policy**
- Role of historical discrimination
- Impact of current structural barriers
- Challenging research and data limitations

DEMOGRAPHIC DIFFERENCES

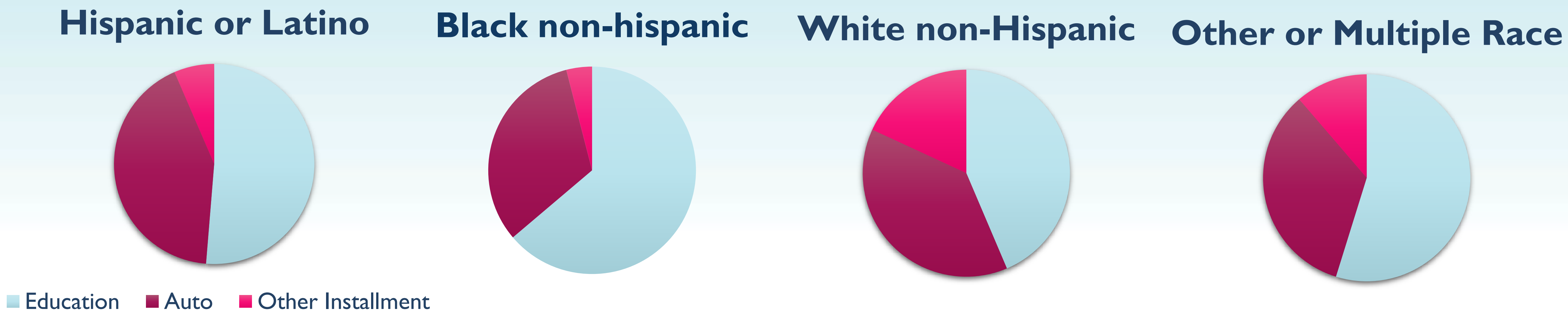
Race and Ethnicity



DEMOGRAPHIC DIFFERENCES

Race and Ethnicity

Composition of installment debt by race



DEMOGRAPHIC DIFFERENCES

Income

- Poor households carry **less debt but have higher DTI**
  - Only income group with DTI rise from 2013-2016
- Poor have **lower leverage ratio** than middle class due to **lack of assets**
- Middle class households largely doing well but impact of **student loans is big concern**

U.S. HOUSEHOLD FINANCIAL SECURITY

77% of households have debt

- **40% of households** get by on $33,000 or less
(Survey of consumer finances)

- 23% of households have **no emergency savings** at all
(Bankrate)

- Only about **1 in 3** Americans is financially healthy
(CFSI and CFPB's Financial Well-Being in America survey)

CONSUMER DEBT TODAY

Consumer Debt in Context

- Debt is nearly universal: **77% of people have it**
- Many households are doing well with debt
- **Low-income households and families of color experience more** debt-related financial distress
- Uncharted territory: booming economy, financially fragile households, unprecedented levels of debt

I think a lot of us do become **ashamed**.

We don’t even have enough to make our ends meet. Being in debt is not living life.

FOCUS GROUP PARTICIPANT WITH UNAFFORDABLE DEBT
WASHINGTON, DC | *JULY 2018*

I tried to cancel [the yoga class].

It's a debt that has touched so many other parts of my life.

It's just crazy.

FOCUS GROUP PARTICIPANT WHO OWES MORE THAN $1,000 DUE TO AN UNPAID YOGA STUDIO BILL

BALTIMORE, MD | *JULY 2018*

I was about $30,000 in debt, but because of my income,

there's no way that I can meet my needs, live, and pay debt too.

Bankruptcy was my choice.

FOCUS GROUP PARTICIPANT WHO SUCCESSFULLY COMPLETED CHAPTER 13 BANKRUPTCY

WASHINGTON, DC | *JULY 2018*

If I could do it all over again,

I would not have gone to school...

I wish I could take that back.

FOCUS GROUP PARTICIPANT WITH UNAFFORDABLE STUDENT LOANS

BALTIMORE, MD | *JULY 2018*

EXPANDING
PROSPERITY
IMPACT
COLLABORATIVE

THE ASPEN INSTITUTE
epic EXPANDING PROSPERITY IMPACT COLLABORATIVE

deeply explores one issue at a time, with the goal of **illuminating** and solving critical dimensions of household financial insecurity

THE ASPEN INSTITUTE FINANCIAL SECURITY PROGRAM

The Aspen Institute **Financial Security Program's** mission is to illuminate and solve the most critical financial challenges facing American households and to make financial security for all a top national priority.

how epic WORKS

DISCOVERY	SOLUTIONS	ACCELERATOR
Research Synthesis	Research Synthesis	Refining Solutions
Dialogues	Dialogues	Content Production
Surveys + Consumer Insights	Surveys + Consumer Insights	Roundtables + Public Events on Solutions
SHARED UNDERSTANDINGS OF THE PROBLEM	**DEVELOPMENT OF SOLUTIONS FRAMEWORK**	**INCREASED AWARENESS**
	CONVERGENCE AROUND SOLUTIONS THAT MATCH THE PROBLEM	**LEADERSHIP BUILDING**
		ACTION ON POLICY, PROGRAM + PRODUCTS

The Consumer Debt Crisis

Consumer Debt

includes all forms of

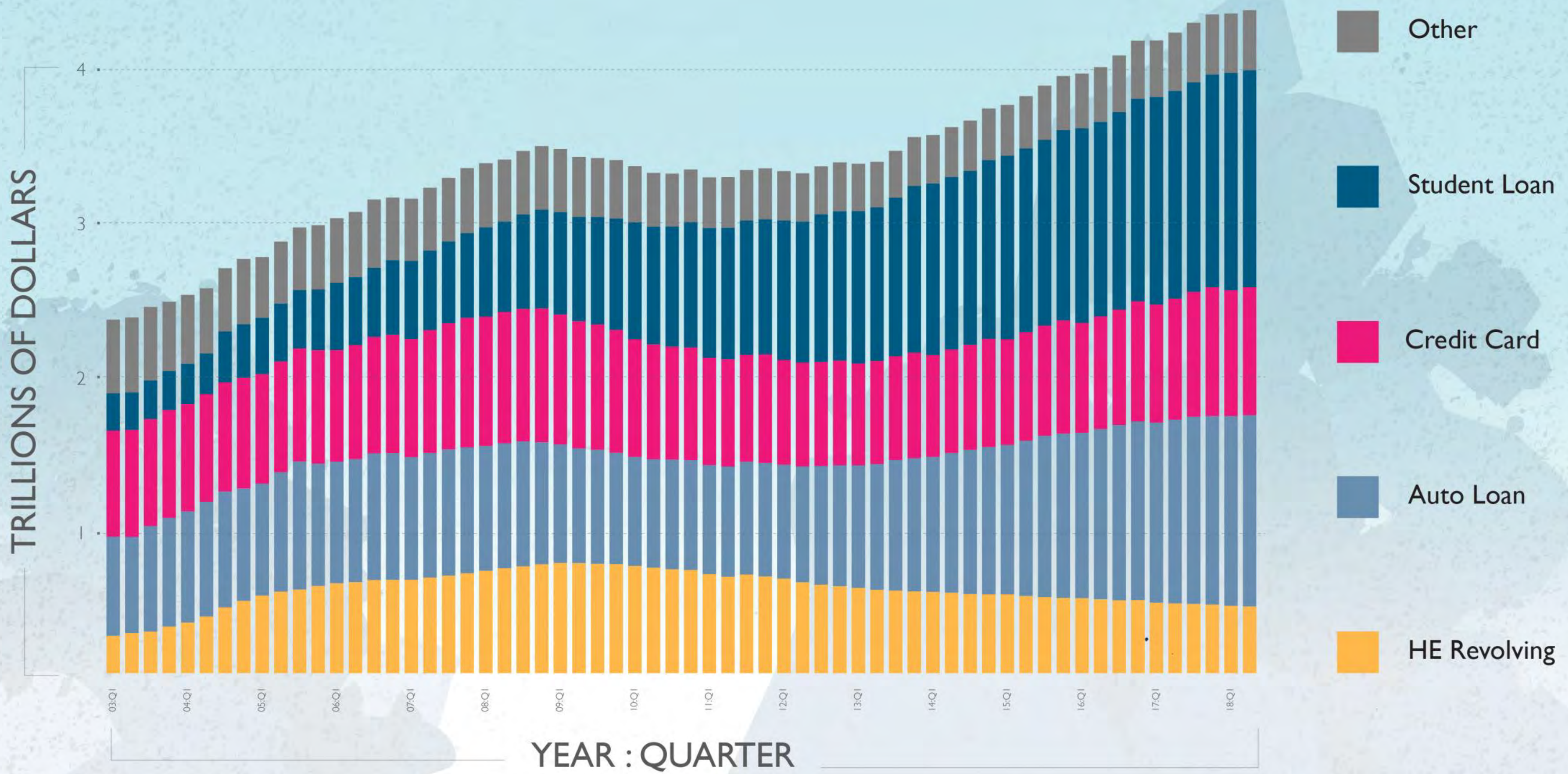
non-mortgage debt, such as:

- student loans
- auto loans
- credit cards
- non-loan obligations

  like medical debt and money owed to local or state governments


Consumer debt has reached *record* levels
$4.29T
$2.29T
Q1 2003
Q2 2018

AGGREGATE NON-MORTGAGE DEBT, 2003 - 2018



The ***consequences*** of consumer debt pile up on households.

The **weight** of consumer debt can crush a household's ability to pay for basic needs and limit investments in their financial futures.

Debt-stressed consumers...

are over

2X

as likely to suffer from ***depression and anxiety disorders***

have worse ***physical health***

The stress of debt poses a ***hazard*** to the nation as a whole.

Debt-stressed Americans spend less, experience higher healthcare costs, and may rely more heavily on public assistance in retirement for lack of savings.

LOW
HAZARD

HIGH
HAZARD

The consumer debt crisis places entire communities at risk, too.

The debt crisis is a ***systemic*** problem.

Economic shifts have made a college degree necessary for many good jobs making student loans a necessity rather than a choice for many.

State and municipal governments increasingly rely on fees and fines to make up for revenue shortfalls, often *snowballing* onto already vulnerable households.

Many households simply don't have enough to *weather a rainy day,* forcing them to take on debt when the unexpected occurs.

But, the problem is ***solvable***.

THE PROBLEMS

1 Lack of Savings or Financial Cushion

2 Restricted Access to Existing High-Quality Credit

3 Harmful Loan Terms & Features

4 Delinquency, Default, and Collections Practices

5 Student Loans

6 Medical Debt

7 Government Fines & Fees

The solutions framework addresses these problems at different ***points in time***.

IN ADVANCE Liability **Prevented** or Initial Amount **Reduced**	Lack of Savings or Financial Cushion		Student Loans	Medical Debt	Government Fines & Fees
FRONT-END Liability **Incurred** at Best Possible Terms	Delinquency, Default, and Collections Practices	Restricted Access to Existing High-Quality Credit	Student Loans		
BACK-END Liability **Resolved**	Harmful Loan Terms & Features		Student Loans	Medical Debt	Government Fines & Fees

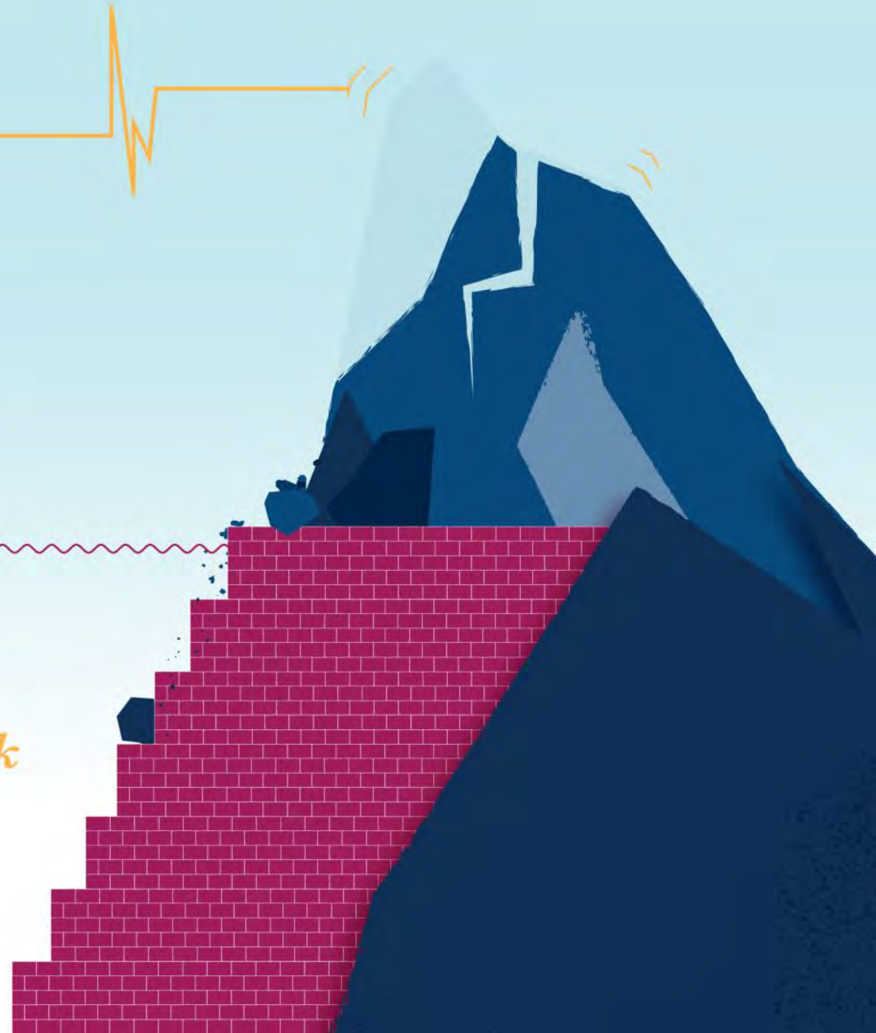
1 Lack of Savings or Financial Cushion

FINANCIAL SHOCKS

affect all households, but place financially vulnerable families at increased risk of falling under the ***weight of unwanted debt***

LIQUID SAVINGS

can serve as a **protective barrier** to minimize the impact of a ***financial shock***



Without a ***financial cushion***, households may be forced into debt due to income and expense ***volatility***.

GOAL

People have ***sufficient liquid savings*** and ***access to earned income*** to buffer mismatches of income and expenses and cover unexpected expenses, pre-cluding the need to borrow

WHEN?

IN ADVANCE

Liability **Prevented** or Initial Amount **Reduced**

WHO CAN ACT?

Financial Service Providers

Government

Employers

FINANCIAL SERVICE PROVIDERS *SHOULD*

Develop innovative savings products and services that help accumulate, manage, grow, and replenish micro-savings for consumption smoothing

Develop hybrid products that meet savings, credit, and transactional needs

EXAMPLES

EARN's Saver Life product Prudential's and NEST's "sidecar" saving pilot

Walmart's MoneyCard with savings Vault

Digit

EMPLOYERS CAN

EXAMPLES

Help workers access products that stabilize cash flow

Even, FlexWage, and Payactiv provide access to earned income

Many employers offer emergency cash grants to their workers

Help workers build liquid savings through payroll deductions

United Way of Greater Austin's automatic savings benefit

GOVERNMENT *CAN*

Policies for automatic enrollment in savings accounts via payroll deductions

Build infrastructure for emergency savings

Provide matches on short-term savings

EXAMPLES

The Senate's proposed Strengthening Financial Security through Short-Term Savings Act

Prosperity Now's proposed Rainy Day Savings Accounts

The Save USA pilot program

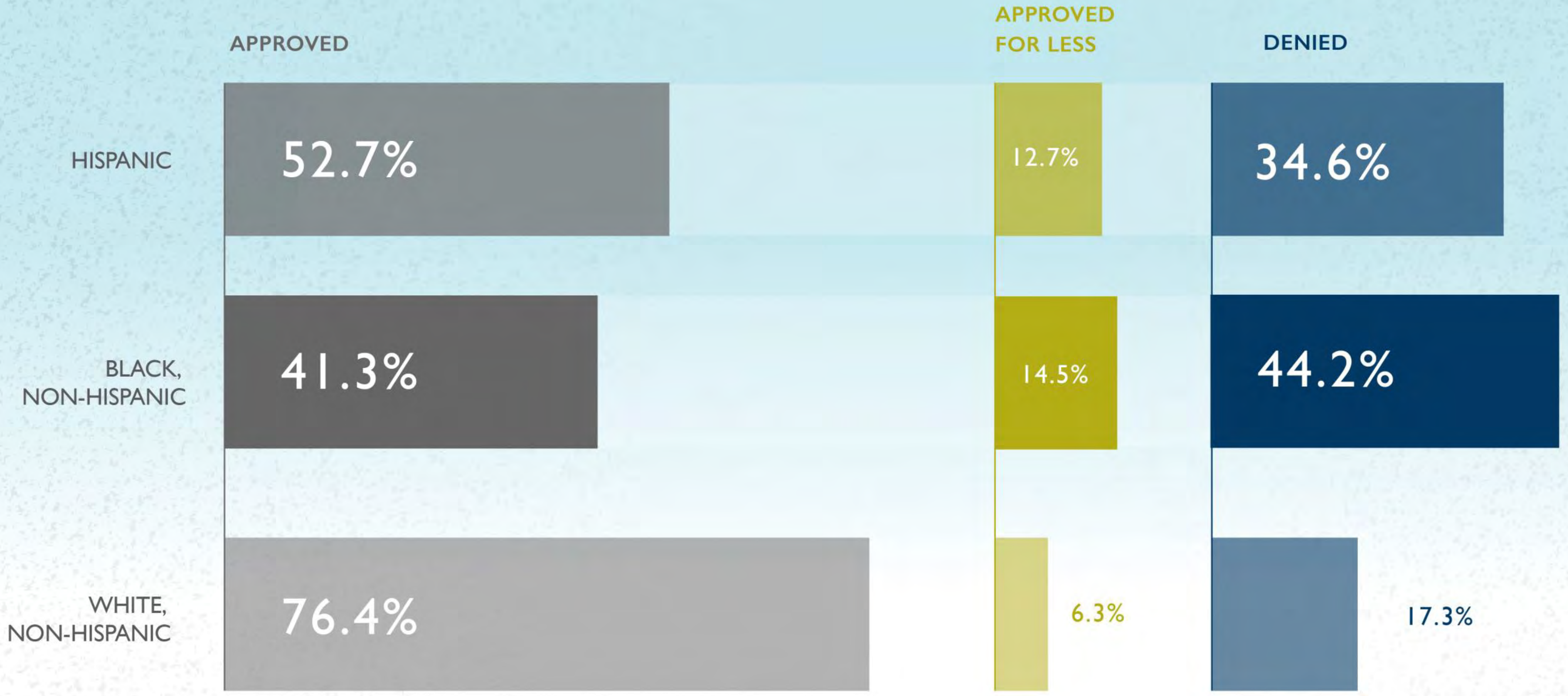
2 Restricted Access to High-Quality Credit

Building credit requires taking on debt.

Sometimes, affordable credit can serve as a ***solid foundation*** on which to build a household's financial life.

Unaffordable credit can place households on ***shaky financial footing*** and heighten the negative potential of small disruptions.

People of color seeking credit are more likely to be ***denied*** or approved for ***less credit than requested***.



GOAL

People of color ***receive and use credit*** on the same terms as similarly qualified white consumers

WHEN?

FRONT-END

Liability Incurred at **Best Possible Terms**

WHO CAN ACT?

Financial Service Providers

Government

FINANCIAL SERVICE PROVIDERS *SHOULD*

Develop lending and underwriting practices that actively reduce disparities in access to and cost of credit products across demographic groups

EXAMPLES

FS Card

GOVERNMENT *CAN*

Enforce laws that prohibit racial and gender disparities in access to and cost of credit

EXAMPLES

CFPB's Office of Fair Lending (before 2018 reorganization)

Miami and Philadelphia lawsuits against discriminatory lenders

GOAL

People with thin or no credit files can ***develop healthy credit profiles***

WHEN?

FRONT-END

Liability Incurred at **Best Possible Terms**

WHO CAN ACT?

Financial Service Providers

Government

FINANCIAL SERVICE PROVIDERS *SHOULD*

Expand responsible use of alternative data to allow credit invisible consumers to build credit

Standardize full reporting of payments for utilities, telephone and internet service, and rent and transaction account data

EXAMPLES

Many leading fintech lenders use alternative data

Credit Builders Alliance helps nonprofit lenders furnish data to credit bureaus

VantageScore is able to score one-third of thin-file consumers

Ultra FICO, debuting in 2019, analyzes transaction account data

GOVERNMENT *CAN*

Allow financial services providers, with regulatory supervision, to experiment with consumer-friendly use of alternative data

Encourage credit bureaus to accept reporting of payments for utilities, telephone and internet service, and rent as well as cash flow data from transaction accounts

EXAMPLES

CFPB's Office of Innovation

The Credit Access and Inclusion Act (H.R. 235, S. 3040)

GOAL

People who experience credit problems have effective opportunities to ***rebuild their credit profiles*** and regain access to affordable credit

WHEN?

FRONT-END

Liability Incurred at **Best Possible Terms**

WHO CAN ACT?

Financial Service Providers

Non-profits

Government

FINANCIAL SERVICE PROVIDERS *SHOULD*

Fund and partner with non-profit credit counseling and financial coaching services

EXAMPLES

Most large banks fund local credit counseling agencies but not at the necessary scale

NON-PROFITS *CAN*

Provide credit counseling, credit repair, and debt management programs

EXAMPLES

Organizations affiliated with the National Foundation for Credit Counseling

The Financial Clinic's Change Machine resources and curricula for practitioners

GOVERNMENT *CAN*

Fund non-profit credit counseling at scale

Reform Chapter 13 Bankruptcy payment plans

EXAMPLES

HUD-certified homeownership counseling is effective and widely available

3 Exposure to Harmful Loan Terms and Features

High interest rates, excessive penalties, and balloon payments risk ***destabilizing*** households' financial security.

For example, payday borrowers routinely struggle to meet expenses.

only
14%
of payday borrowers
can ***afford to repay*** the average loan

41%
of payday borrowers
would need a ***cash advance*** to pay off the loan

Cash infusions to cover payday loan payments often come from the same sources borrowers might have used instead of payday loans in the first place.

GOAL

The typical financial products that both traditionally underserved and mainstream consumers can access are more ***affordable and safe***

WHEN?

BACK-END

Liability Resolved

WHO CAN ACT?

- Financial Service Providers
- Employers
- Government

FINANCIAL SERVICE PROVIDERS *SHOULD*

Modify products and operations to better align the firm's financial interests with consumers' interests and needs

Create innovative new products and services designed for consumers with limited access to high-quality credit

Expand use of cash-flow underwriting for thin and no-file consumers

EXAMPLES

CFSI's Compass Principals provide guidelines for financial firms

USAA's secured credit cards

Credit Union Payday Alternative Loan program

US Bank Simple Loan

Petal

EMPLOYERS CAN

Enable workers to access lower-cost credit through payroll-integrated loans provided or underwritten by a third party

EXAMPLES

TrueConnect Loans partners with employers to provide employee loans

GOVERNMENT *CAN*

Apply more stringent regulation to products and services that incorporate excessively expensive and/or predatory features

EXAMPLES

Federal Ability to Repay (ATR) underwriting standards for mortgages and small dollar loans

Massachusetts and Delaware ATR standards for auto loans

4 Detrimental, Delinquency, Default, and Collections Practices

When consumers fall behind on repaying debt, ***interest rates, penalty charges, and collection actions*** can pile up.

71 million Americans have debt in collections.

60% - 90%

of those who are sued by debt collectors ***receive judgments*** against them

GOAL

People who become delinquent or default on debt payments are offered ***feasible opportunities to cure***

WHEN?

BACK-END

Liability **Resolved**

WHO CAN ACT?

- Financial Service Providers
- Non-Profits
- Government

FINANCIAL SERVICE PROVIDERS *SHOULD*

Implement interventions in early-stage delinquency to help borrowers get back on track, such as more flexible payment options

Offer refinancing into products with more flexible repayment terms

EXAMPLES

New research finds early interventions effective in curing recently delinquent credit card debt

LendStreet

NON-PROFITS *CAN*

Provide financial coaching with a focus on credit and debt

EXAMPLES

The Financial Clinic's and Branches' financial coaching programs

GOVERNMENT *CAN*

Government as a creditor can implement interventions in early-stage delinquency to help borrowers get back on track

EXAMPLES

The City of St. Louis is launching low-cost payment plans for traffic and parking tickets

GOAL

People with debt in collections enjoy ***full protection*** of their legal rights and suffer no loss of liberty due to inability to pay

WHEN?

BACK-END

Liability **Resolved**

WHO CAN ACT?

Non-Profits

Government

NON-PROFITS *CAN*

Provide legal assistance or representation to consumers who are sued by debt collectors/buyers

EXAMPLES

NCLC maintains a directory of more than 60 legal aid organizations providing this type of assistance

GOVERNMENT *CAN*

EXAMPLES

Prohibit creditors/first-party collectors, third-party collectors, and debt buyers from initiating collections actions or suing debtors without verification that the consumer legitimately owes the debt

New York, Maryland, and North Carolina require verification before suits are filed

Fund or offer legal assistance or representation to all consumers who are sued by debt collectors/buyers

New Hampshire's Periodic Payments Clinic

Reduce the rate of default judgments against debtors

CRL recommends state governments tighten evidentiary requirements for filing suit and obtaining judgment

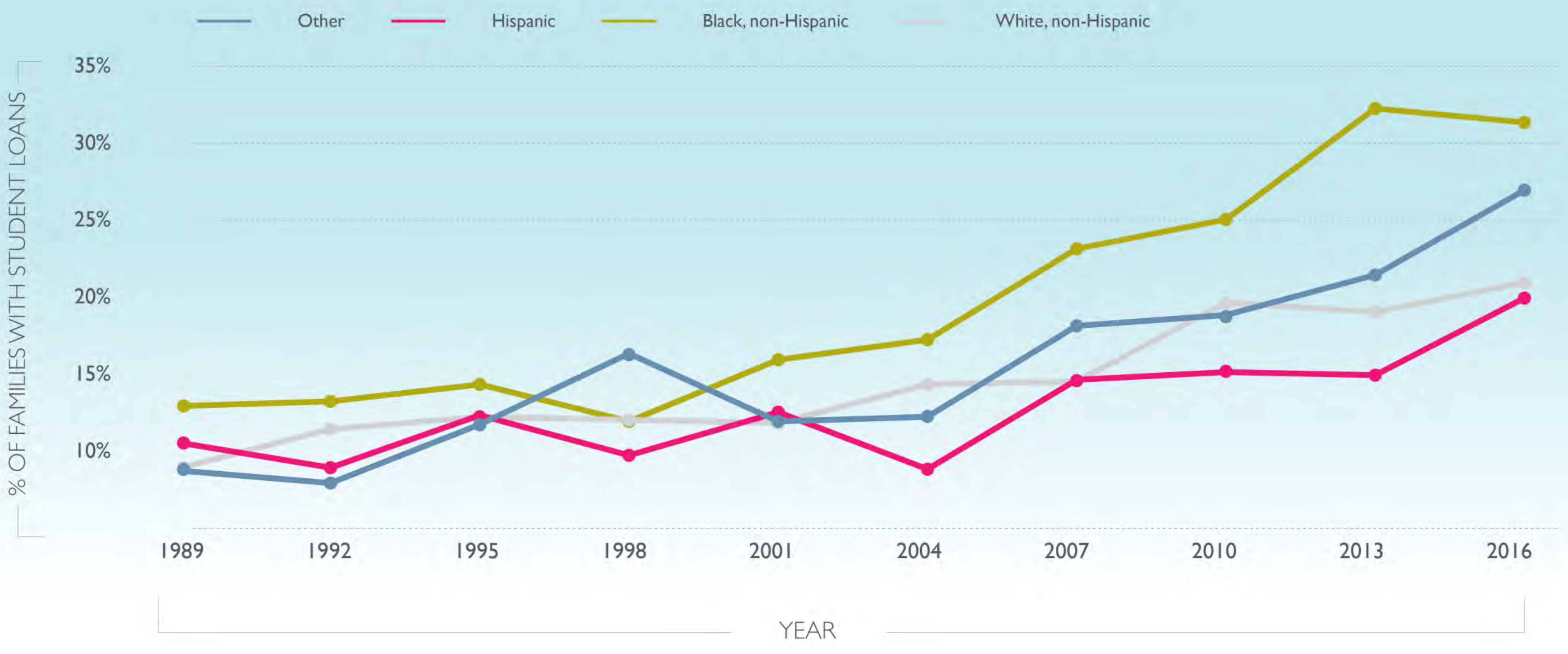
Eliminate use of arrest, imprisonment, or violation of parole as a debt collection too

Maryland's S.B. 725 would prohibit body attachments for unpaid debts

5 Student Loan Debt

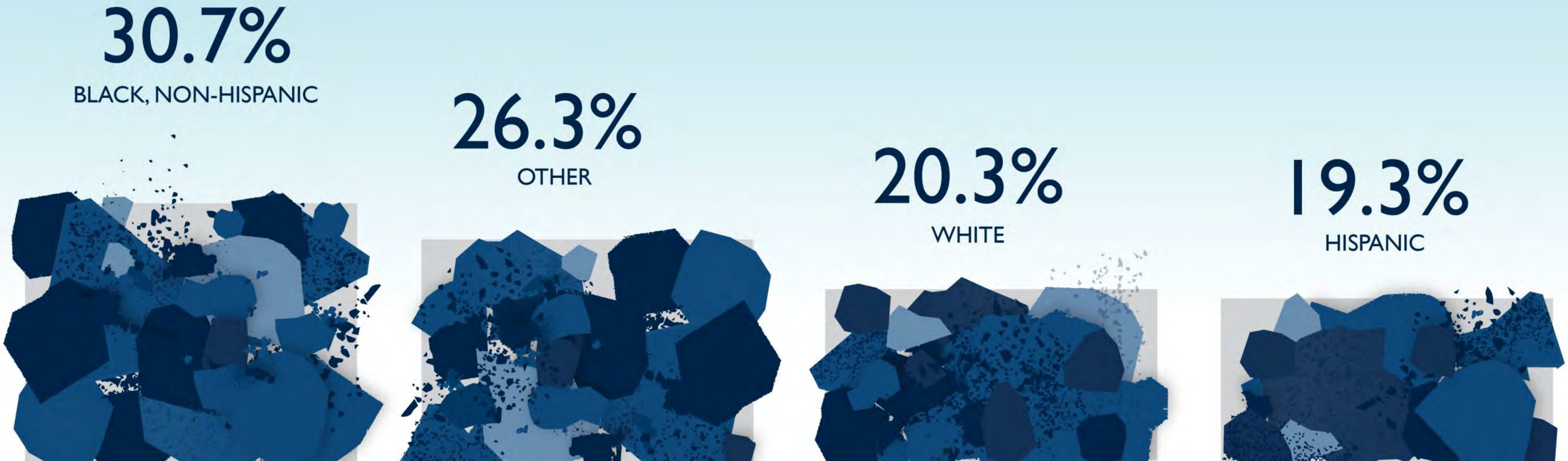
The burden from record-level student loan debt reduces households' ability to save and build wealth.

PROPORTION OF HOUSEHOLDS WITH STUDENT LOANS, BY RACE AND ETHNICITY



Students of color are at the greatest risk of financial hardship.

In 2016, Black families held the highest levels of educational debt.



GOAL

Post-secondary education is ***more affordable*** for students and ***more equitable*** in cost and benefit for people of color

WHEN?

IN ADVANCE

Liability **Prevented** or Initial Amount **Reduced**

FRONT-END

Liability Incurred at **Best Possible Terms**

WHO CAN ACT?

- Employers
- Government
- Colleges and Universities

EMPLOYERS CAN

Offer tuition assistance as an employee benefit

EXAMPLES

Starbucks as US military

GOVERNMENT *CAN*	EXAMPLES
Dramatically increase federal grant aid for low-income students	Double funding for the federal Pell Grant program
Implement debt-free public college programs that reach low-income students	Programs in New York and Tennessee reduce borrowing but fail to reach low-income students
Regulate tuition rates at public colleges and universities	Maryland Tuition Stabilization Account
Prohibit institutions with a history of poor outcomes for students from receiving federal loan funds in the future	Department of Education's Gainful Employment Rule establishes these rules but is not enforced

COLLEGES & UNIVERSITIES *CAN*

Increase institutional grant aid and tuition waivers for low- and moderate-income students

EXAMPLES

Stanford University

Harvard University

University of Illinois

University of Michigan

GOAL

Reduced ***financial burden*** and increased ***well-being*** for people with unaffordable student loan debt

WHEN?

BACK-END

Liability **Resolved**

WHO CAN ACT?

Employers

Government

Colleges and Universities

EMPLOYERS CAN

Offer student loan repayment benefits to employees

EXAMPLES

Hewlett Packard, Staples, U.S. Department of Justice, City of Memphis, TN

GOVERNMENT *CAN*

Streamline and expand income-driven repayment plans and loan forgiveness programs

Make more student debt dischargeable in bankruptcy

EXAMPLES

Institute for College Access & Success and the Urban Institute have proposed reforms

Some federal judges are discharging more bankruptcy filers' student loan debt

COLLEGES & UNIVERSITIES *CAN*

Establish hardship funds to assist financially insecure students facing expenses they cannot pay without additional borrowing or leaving school

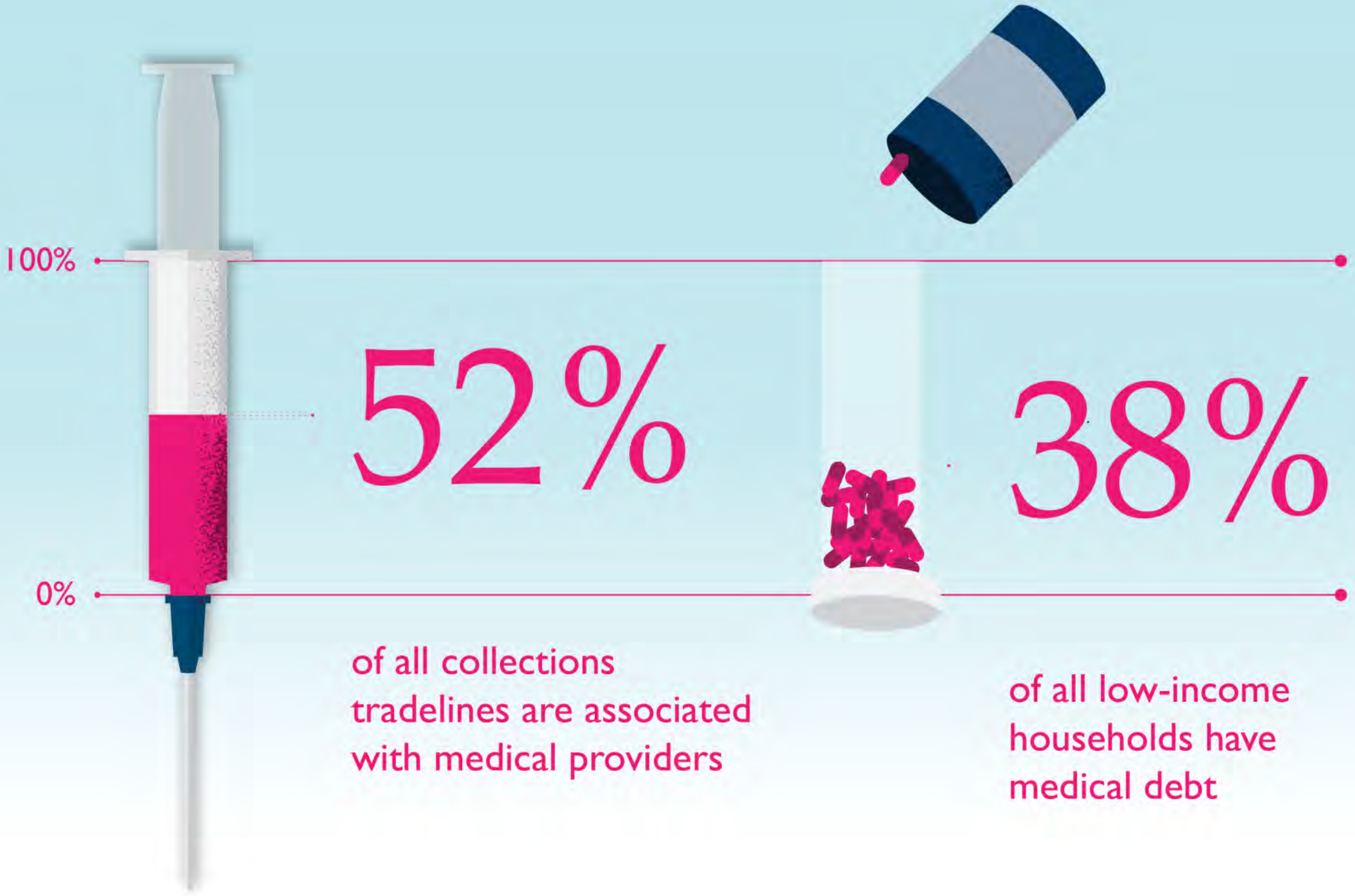
EXAMPLES

University of Massachusetts Boston's U-ACCESS emergency aid program

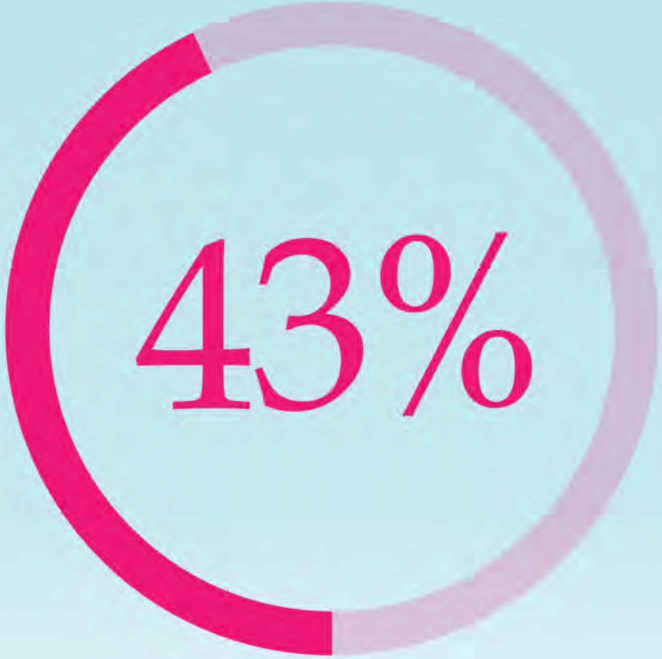
6 Medical Debt Burdens

People often ***do not choose*** to incur debt for health care, being constrained both by medical necessity and a lack of pricing knowledge.

In 2015, nearly a 25% of non-elderly households reported having ***medical debt***.



Although most states require hospitals to report price information, it is often ***unavailable when seeking care***.



of those with medical bill problems say there was a time in the past year when they or a family member did not get a recommended medical test or treatment because of the cost

GOAL

Fewer people have medical debt and amounts of medical debt ever incurred are ***reduced***

WHEN?

IN ADVANCE

Liability **Prevented** or Initial Amount **Reduced**

WHO CAN ACT?

Medical Providers

Government

MEDICAL PROVIDERS CAN

Increase transparency of out-of-pocket costs

EXAMPLES

The American College of Physicians has endorsed cost-transparency policies

GOVERNMENT *CAN*

Require greater cost transparency to equip consumers with critical information about their medical care and, more importantly, to push prices down and lessen consumer debt

Fully implement Medicaid expansion

Establish single-payer healthcare systems

EXAMPLES

Colorado, Maine, and New Hampshire all have laws requiring price transparency from health care providers or insurers

Medicaid expansion in Michigan reduced enrollees' medical debts and incidence of maxed-out credit cards

The California Senate passed single-payer legislation in 2017 and will consider it again in 2019
Nevada passed but did not enact "Medicaid buy-in"

GOAL

Reduced ***financial burden*** and increased ***well-being*** for people with unaffordable medical debt

WHEN?

BACK-END

Liability **Resolved**

WHO CAN ACT?

Medical Providers

Government

MEDICAL PROVIDERS CAN

Connect all patients to repayment assistance resources before referring bills to collections; do not sell medical debt to debt buyers

Offer payment plans designed to meet consumers' needs (e.g. accepting partial payments, self-selecting monthly payment due date)

EXAMPLES

NCLC's proposed Medical Debt Protection Act would achieve this

GOVERNMENT *CAN*

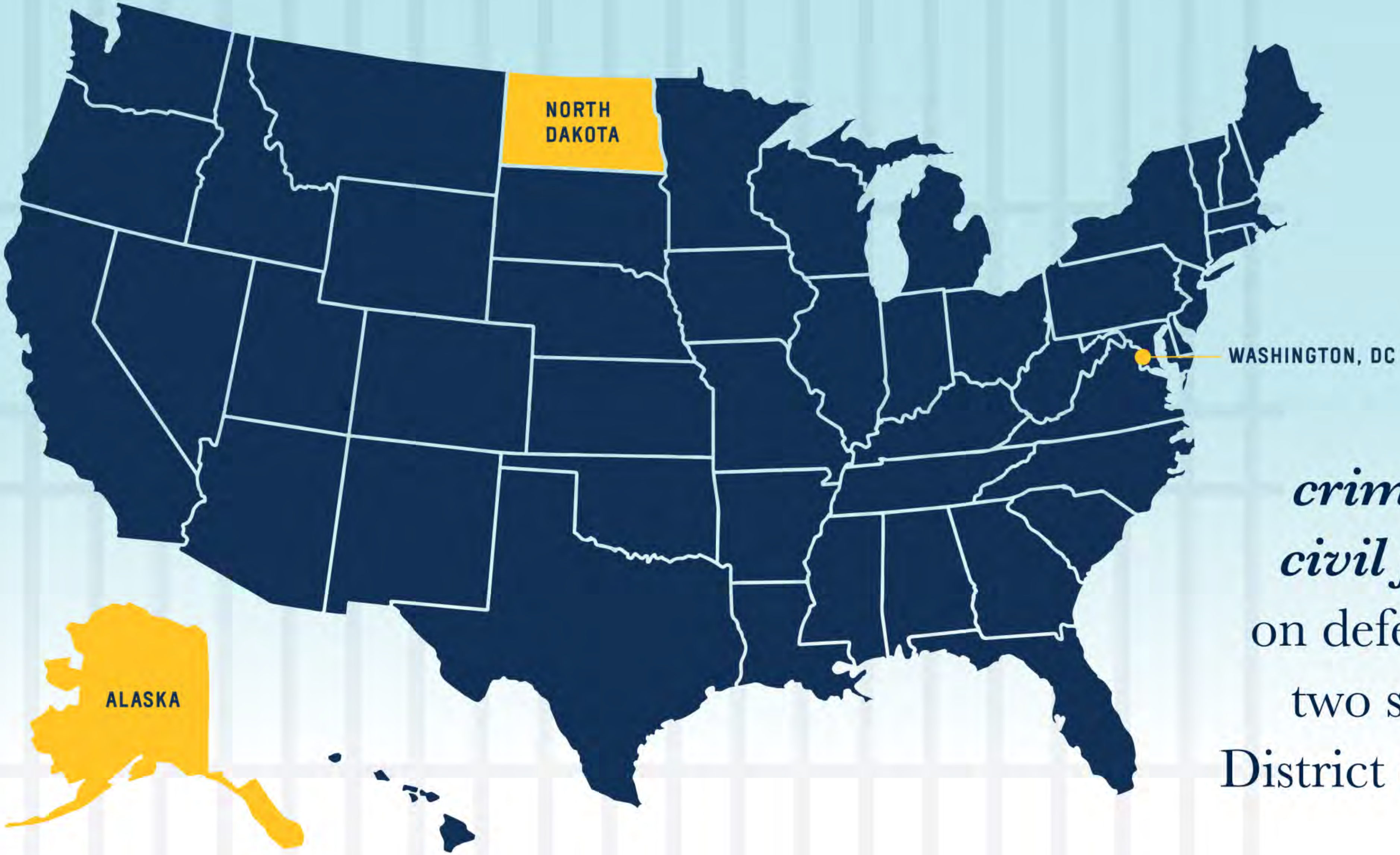
Enforce requirements that medical providers connect all patients to repayment assistance resources before referring bills to collections

EXAMPLES

NCLC's proposed Medical Debt Protection Act

7 Government Fines and Fees

State and local government fines and fees have been steadily rising and governments employ aggressive measures to enforce collection.



Between 2010 - 2017,

48

states increased ***criminal and/or civil fees*** assessed on defendants; only two states and the District of Columbia did not.

GOAL

Government agencies and court systems impose ***fewer and smaller fines and fees***

WHEN?

IN ADVANCE

Liability **Prevented** or
Initial Amount **Reduced**

WHO CAN ACT?

Government

GOVERNMENT *CAN*

Reform state and municipal laws and regulations that enable frivolous or unfair civil fines and fees

Explore alternative public funding models to reduce need to rely on fines and fees for revenue

Fines and fees are assessed at levels proportional to the seriousness of the offense and ability to repay

EXAMPLES

San Francisco's Financial Justice Project recommends eliminating fines for loitering, blocking sidewalks, and similar offenses

Proposed by the Fines and Fees Justice Center

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Costs to Cities of Household Financial Security

Unpaid property taxes

- Decrease city revenue
- Tax foreclosures (secondary effect)

Foreclosures

- Neighborhood disinvestment
- Lower property values
- Vacant property demolition costs (Dewar, Seymour, and Druta 2014)

Unpaid utility bills

- Reduce the revenue of city-owned utilities
- Generate costs from shutting off services

Evictions

- Homelessness (United States Conference of Mayors 2015)
  - Increases local housing expenditures (Tull and Macy-Hurley 2008)
- Residential instability
  - Further instability for families, communities, and schools (Desmond 2015)

Source: The Urban Institute, McKernan, Signe-Mary, Caroline Ratcliffe, Breno Braga, and Emma Kalish. "Thriving Residents, Thriving Cities." Urban Institute. April (2016).

Costs to Cities of Household Financial Security

Financial Insecurity ⟶ Cities Lose Revenue, Incur Other Costs

- Unpaid property taxes* (e.g. in Detroit) ⟶ tax foreclosures
- Foreclosures
    - Neighborhood disinvestment
    - Lower property values
    - Vacant property demolition costs
- Unpaid utility bills* ⟶ generate costs from shutting off services
- Evictions ⟶ homelessness ⟶ increases local housing expenditures

*also reduce revenue

Source: The Urban Institute, McKernan, Signe-Mary, Caroline Ratcliffe, Breno Braga, and Emma Kalish. "Thriving Residents, Thriving Cities." Urban Institute. April (2016).