

## EXECUTIVE SUMMARY

# Lifting the Weight

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

Consumer debt is ubiquitous. Although at any given time some Americans are debt-free, most of us carry debt some or even all of the time. We borrow for various reasons, and we are increasingly likely to incur debt also from non-loan sources (such as an out-of-pocket medical expense<sup>i</sup> or being assessed a governmental fine or fee<sup>ii</sup>). Consumer debt is not inherently bad (taking on debt can often be a sound financial decision), but it is a concern today because it has reached record levels, and its effects reach deeply into financial security, physical and mental health, as well as the broader economy. Consumer debt is a systemic problem with significant consequences, but there are systemic solutions.

With solutions ranging from product-level improvements to broader reforms, EPIC has identified options for stakeholders in every sector and for partnerships across sectors. Collectively, these solutions possess tremendous potential to address a critical dimension of household financial insecurity.

EPIC's research has identified seven specific consumer debt problems – all amenable to solutions – that result in financial insecurity and damage well-being. Four of the identified problems are general to consumer debt: households' lack of savings or financial cushion, restricted access to existing high-quality credit for specific groups of consumers, exposure to harmful loan terms and features, and detrimental delinquency, default, and collections practices. The other three problems relate to structural features of three specific types of debt: student loans, medical debt, and government fines and fees.



TABLE 1

## GOALS FOR SOLVING CONSUMER DEBT PROBLEMS

EPIC has developed a solutions framework to address all seven of these problems. The framework includes setting one or more tangible goals to achieve for each problem, and, for each goal, the solutions different sectors (financial services providers, governments, non-profits, employers, educational or medical institutions) can pursue.

For each of the seven problems identified in Table 1 the solutions framework includes: a) a summation of the problem; b) one or more tangible goals that solutions should achieve; and c) for each goal, what solutions different stakeholders (financial services providers, governments, non-profits, employers, educational or medical institutions, as relevant) can pursue. The solutions reflect a mix of policy remedies and actions that private firms can undertake voluntarily. Greater detail on each solution can be found in EPIC's full solutions framework report.

### LEGEND

**IN ADVANCE**  
● **Liability Prevented or  
Initial Amount Reduced**

**FRONT-END**  
■ **Liability Incurred at  
Best Possible Terms**

**BACK-END**  
▲ **Liability Resolved**

## PROBLEMS

## GOALS

### LACK OF FINANCIAL CUSHION

- People have enough liquid savings and access to earned income to provide a buffer between mismatches of income and expenses and cover unexpected expenses, thus preventing the need to borrow to pay for basic needs.

### RESTRICTED ACCESS TO EXISTING HIGH-QUALITY CREDIT

- People of color are offered and use credit on the same terms as similarly qualified white consumers.
- People with thin or no credit files are able to develop healthy credit profiles.
- People who lose access to affordable credit due to past problems have effective opportunities to rebuild their credit profiles and regain access to affordable credit.

### HARMFUL LOAN TERMS AND FEATURES

- The average credit products that both traditionally underserved and mainstream consumers can access are affordable and safe.

### DELINQUENCY, DEFAULT, AND COLLECTIONS PRACTICES

- People who become delinquent or default on debt payments are offered feasible opportunities to cure.
- People who have debt in collections have enhanced legal rights in dealing with debt collectors, debt buyers, and court systems, and cannot be arrested or jailed for inability to pay.

### STUDENT LOANS

- Post-secondary education is more affordable for students and more equitable in cost and benefit for people of color.
- Reduced financial burden and increased well-being for people with unaffordable student loan debt.

### MEDICAL DEBT

- Fewer people have medical debt, and amounts of medical debt ever incurred are reduced.
- Reduced financial burden and increased well-being for people with unaffordable medical debt.

### GOVERNMENT FINES AND FEES

- Fewer people are fined or charged fees, at lower amounts, by government agencies and court systems. Fines and fees that are assessed are commensurate with the seriousness of the infraction.
- People who have debt from these fines and fees are not punished in a manner that reduces their ability to pay or that impedes their livelihood.

①

# Lack of savings or financial cushion

## PROBLEM

Consumers who lack savings or a financial cushion face significantly higher risk of debt-related financial insecurity, leaving households with little choice but to borrow to make ends meet when income is not enough.

## GOAL

● IN ADVANCE

People have enough liquid savings and access to earned income to provide a buffer between mismatches of income and expenses and cover unexpected expenses, thus preventing the need to borrow to pay for basic needs.

## RECOMMENDATIONS FOR STAKEHOLDERS

### Financial Services Providers

- Develop innovative products and services that help accumulate, manage, grow, and replenish funds for consumption smoothing.
- Develop hybrid products that meet savings, credit, and transactional needs.

### Employers

- Help employees access products that stabilize cash flow.
- Help employees build liquid savings through payroll deductions.

### Government

- Allow automatic enrollment in savings accounts via payroll deductions. (Federal)
- Build infrastructure for emergency savings. (Federal, state)
- Provide matches on short-term savings. (Federal, state)

2

## Restricted access to high-quality credit

### PROBLEM

Access to high-quality credit is a prerequisite for debt to be a positive force in a household's financial life, yet access to affordable credit is racially inequitable and unnecessarily unavailable to many with limited credit histories or past problems.

### GOAL

■ FRONT-END

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

### RECOMMENDATIONS FOR STAKEHOLDERS

#### Financial Services Providers

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

#### Government

- Enforce laws that prohibit racial and gender disparities in access to and cost of credit. (Federal, state, local)

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2

## Restricted access to high-quality credit

### GOAL

■ FRONT-END

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

### RECOMMENDATIONS FOR STAKEHOLDERS

#### Financial Services Providers

- Expand the responsible use of alternative data to allow credit invisible consumers to access credit.
- Standardize full reporting of payments for utilities, telephone, and internet service, and rent, as well as transaction account data.

#### Government

- Allow financial services providers, with regulatory supervision, to experiment with consumer-friendly use of alternative data. (Federal, state)
- Encourage and incentivize credit bureaus to accept reporting of payments for utilities, telephone and internet service, and rent as well as cash flow data from transaction accounts. (Federal)

### GOAL

■ FRONT-END

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

### RECOMMENDATIONS FOR STAKEHOLDERS

#### Financial Services Providers

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

#### Non-profits

- Provide credit counseling and debt management programs.

#### Government

- Fund non-profit credit counseling services at scale. (Federal, state)
- Reform Chapter 13 bankruptcy payment plans. (Federal)

3

## Exposure to harmful loan terms and features

### PROBLEM

Exposure to harmful loan terms and features is a major risk factor for debt becoming a source of financial insecurity.

### GOAL



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

### RECOMMENDATIONS FOR STAKEHOLDERS

#### Financial Services Providers

- 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.

#### Employers

- Enable employee access to lower-costs credit through payroll-integrated loans.

#### Government

- Apply more stringent oversight to products and services that incorporate excessively expensive and/or harmful features. (Federal, state)

4

## Detrimental delinquency, default, and collections practices

### PROBLEM

When consumers fall behind on repaying debt, it can result in a snowball effect of higher interest rates, penalty charges, and collection actions. Consumers who become delinquent or default on debt or have bills in collections frequently experience systematically disadvantageous processes that cause disproportionate financial and legal distress, particularly for people of color.

### GOAL



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

### RECOMMENDATIONS FOR STAKEHOLDERS

#### Financial Services Providers

- Implement interventions in early-stage delinquency to help borrowers get back on track.
- Offer refinancing into products with more flexible payment terms.

#### Non-profits

- Provide financial coaching focused on credit and debt.

#### Government

- Government as a creditor can implement interventions in early-state delinquency to help borrowers get back on track. (State, local)



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4

## Detrimental delinquency, default, and collections practices

### GOAL

▲ BACK-END

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

### RECOMMENDATIONS FOR STAKEHOLDERS

#### Non-profits

- Provide legal assistance to consumers who are sued by debt collectors or debt buyers.

#### Government

- 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. (Federal, state)
- Fund or offer legal assistance to all consumers who are sued by debt collectors or debt buyers. (Federal, state)
- Reduce the rate of default judgments against debtors. (State, local)
- Eliminate use of arrest, imprisonment, or violation of parole as a debt collection tool. (Federal, state, local)

5

## Student loan burdens

### PROBLEM

The burden from record-level student loan debt reduces the ability of households to save and build wealth, and it has increased rather than narrowed the racial wealth gap.

### GOAL



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

### RECOMMENDATIONS FOR STAKEHOLDERS

#### Employers

- Offer tuition assistance as an employee benefit.

#### Colleges and Universities

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

#### Government

- Increase significantly grant aid for low-income students. (Federal)
- Implement debt-free college programs that target low income students. (Federal, state)
- Regulate tuition rates at public colleges and universities. (State)  
Prohibit institutions with a history of poor student outcomes from receiving federal assistance. (Federal)

CONTINUED

5

## Student loan burdens

### GOAL



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

### RECOMMENDATIONS FOR STAKEHOLDERS

#### Employers

- Offer employees student loan repayment benefits.

#### Colleges and Universities

- Establish hardship funds to assist financially insecure students with unexpected expenses they cannot pay without additional borrowing or leaving school.

#### Government

- Streamline and expand income-driven repayment plans and loan forgiveness programs. (Federal)
- Make more student loan dischargeable in bankruptcy. (Federal)

## 6

# Medical debt burdens

## PROBLEM

People often do not choose to incur debt for health care (a form of non-loan debt), being constrained both by medical necessity and a lack of pricing knowledge; moreover, there are racial disparities in the incidence of medical debt.

## GOAL

● IN ADVANCE

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

## RECOMMENDATIONS FOR STAKEHOLDERS

### Medical Providers and Insurers

- Increase cost transparency to enable informed financial decisions about medical care and harness competition to control costs.

### Government

- 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. (Federal, state)
- Fully implement Medicaid expansion. (State)
- Establish single-payer health care systems. (Federal, state)

## GOAL

▲ BACK-END

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

## RECOMMENDATIONS FOR STAKEHOLDERS

### Medical Providers and Insurers

- Offer reasonable payment plans and connect patients to repayment assistance resources before referring bills to collections; do not sell medical debt to debt buyers.

### Government

- Enforce requirements that medical providers connect patients to repayment assistance resources before referring bills to collectors. (Federal, state)

7

# Burdensome government fines and fees

## PROBLEM

State and local government fines and fees have been rising in both frequency and amount and have disproportionately affected people of color, and fines and fees that go unpaid become debt to a government that has broad powers to enforce collection.

## GOAL

● IN ADVANCE

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

## RECOMMENDATIONS FOR STAKEHOLDERS

### Government

- Reform state and municipal laws and regulations that enable frivolous or unfair civil fines and fees. (State, local)
- Explore alternative public funding models to reduce need to rely on fines and fees for revenue. (State, local)
- Assess fines and fees at levels proportional to seriousness of offenses and ability to repay. (State, local)

## GOAL

▲ BACK-END

Collection processes for government fines and fees do not impede a debtor's livelihood or reduce the ability to pay.

## RECOMMENDATIONS FOR STAKEHOLDERS

### Government

- Implement new strategies for states and municipalities to collect fines and fees. (State, local)
- Offer non-financial repayment options. (State, local)
- Eliminate punishments that impede livelihood. (State, local)
- Reduce or eliminate criminal justice system practices that can result in imprisonment solely for lack of ability to pay. (State, local)

*Stakeholders can take these specific actions now to create meaningful change and demonstrate that the consumer debt problem is solvable. As we at EPIC turn to our next phase of work to support the acceleration of solutions to the consumer debt crisis, we invite leaders across all sectors to reach out to our team and consider us a resource in your own efforts to lift the weight of consumer debt from families, communities, and future generations of Americans.*

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- i Current data: Board of Governors of the Federal Reserve System. “Report on the Economic Well-Being of U.S. Households in 2017.” May 2018. <https://www.federalreserve.gov/publications/files/2017-report-economic-well-being-us-households-201805.pdf>. Historical data: Board of Governors of the Federal Reserve System. “Survey of Household Economics and Decisionmaking.” [https://www.federalreserve.gov/consumerscommunities/shed\\_publications.htm](https://www.federalreserve.gov/consumerscommunities/shed_publications.htm).
- ii US Department of Justice Civil Rights Division. “Investigation of the Ferguson Police Department.” 4 March 2015. [https://www.justice.gov/sites/default/files/opa/press-releases/attachments/2015/03/04/ferguson\\_police\\_department\\_report.pdf](https://www.justice.gov/sites/default/files/opa/press-releases/attachments/2015/03/04/ferguson_police_department_report.pdf).

## ABOUT EPIC

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AspenFSP.org, AspenEPIC.  
org, or follow @AspenFSP  
on Twitter.

The Aspen Institute's Expanding Prosperity Impact Collaborative (EPIC) is a first-of-its-kind initiative in the field of consumer finance, designed to harness the knowledge of a wide cross-section of experts working in applied, academic, government, and industry settings toward the goal of illuminating and solving critical dimensions of household financial insecurity.

As part of Aspen's Financial Security Program (FSP), EPIC deeply explores one issue at a time, focusing on challenges that are critical to Americans' financial security but under-recognized or poorly understood. EPIC uses an interdisciplinary approach designed to uncover new, unconventional ways of understanding the issue and build consensus among decisionmakers and influencers representing a wide variety of sectors and industries. The ultimate goal of EPIC is to generate deeply informed analyses and forecasts that help stakeholders (1) understand and prioritize critical financial security issues, and (2) forge consensus and broad support to implement solutions that can improve the financial lives of millions of people. Our first issue was income volatility, followed by the current initiative on consumer debt.

The 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. We aim for nothing less than a more inclusive economy with reduced wealth inequality and shared prosperity. We believe that transformational change requires innovation, trust, leadership, and entrepreneurial thinking. FSP galvanizes a diverse set of leaders through deep, deliberate private and public dialogues and by elevating evidence-based research and solutions that will strengthen the financial health and security of financially vulnerable Americans.



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