

Lifting the Weight

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



CONTENTS

ACKNOWLEDGMENTS	I
ABOUT EPIC	I
INTRODUCTION	2
THE SOLUTIONS FRAMEWORK	8
LIFTING THE WEIGHT: CONSUMER DEBT SOLUTIONS	11
1 Lack of Savings or Financial Cushion	11
2 Restricted Access to High-Quality Credit	17
3 Exposure to Harmful Loan Terms and Features	33
4 Detrimental Delinquency, Default, and Collections Practices	39
5 Student Loan Burdens	49
6 Medical Debt Burdens	60
7 Burdensome Government Fines and Fees	68
CONCLUSION	76
APPENDICES	77
ENDNOTES	89

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ABOUT EPIC

To learn more, visit AspenFSP.org, AspenEPIC.org, or follow [@AspenFSP](https://twitter.com/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 are 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.

INTRODUCTION

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 to go to school, to buy a home, to finance a car or furniture or appliances, to tide ourselves over in tough times. We are also increasingly likely to incur debt not from borrowing but from certain types of non-loan debt, including an out-of-pocket medical expense,¹ or being hit with a fine from local government for everything from parking tickets to jaywalking to court fees.²

Consumer debt is not necessarily bad; in fact, it would be very hard to live a full and financially secure life without owing money at some point. Taking on debt can often be a sound financial decision. Yet in many situations and circumstances, not borrowing is not a viable option. Student loan debt illustrates these tensions: borrowing to attend college is often an economically sound decision, but the high cost of higher education makes it a necessity not a choice.

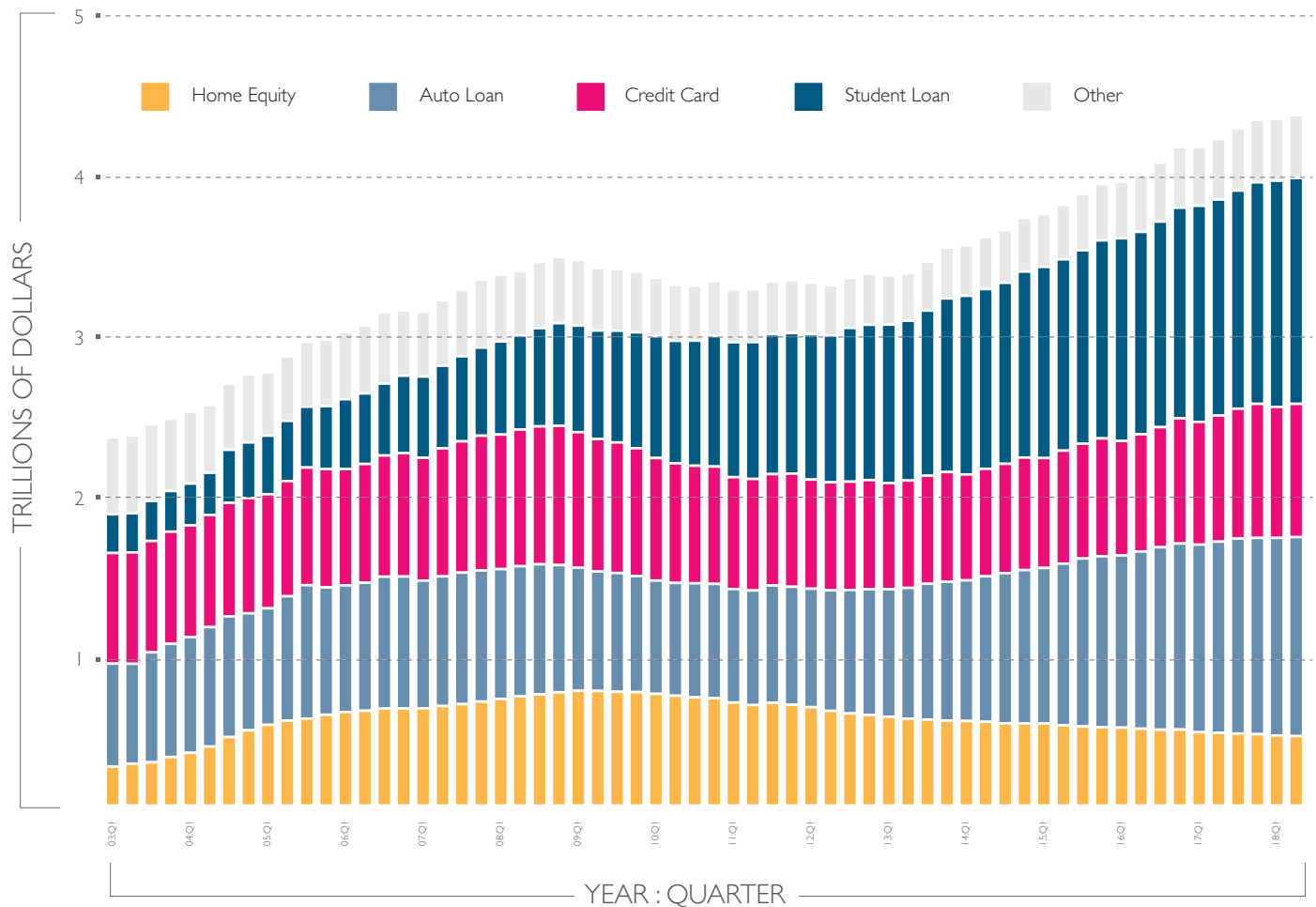
Consumer debt is a concern today because it has reached record levels³ and because its rise comes as powerful trends—such as stagnating incomes, new forms of credit availability, and structural changes in medical and education markets—shape how debt is incurred and the consequences it has for financial security. We see the issue of consumer debt as a new and emergent challenge, different in many ways than more widely understood mortgage debt (borrowing to buy a home) that precipitated the Great Recession. Our definition includes all forms of non-mortgage debt such as student and auto loans, credit cards, and non-loan obligations including medical debt and money owed to local governments that have come to use such fines and fees as a key revenue source. The scope of this mounting crisis is troubling: for example, debt in collections now appears on one-third of consumer credit reports.ⁱ

i For state- and county-level data on debt in collections, see the Urban Institute's Debt in America interactive mapping tool at: <https://apps.urban.org/features/debt-interactive-map/>.

FIGURE I

AGGREGATE NON-MORTGAGE DEBT, 2004 TO 2018

Source: Federal Reserve Bank of New York Center for Microeconomic Data

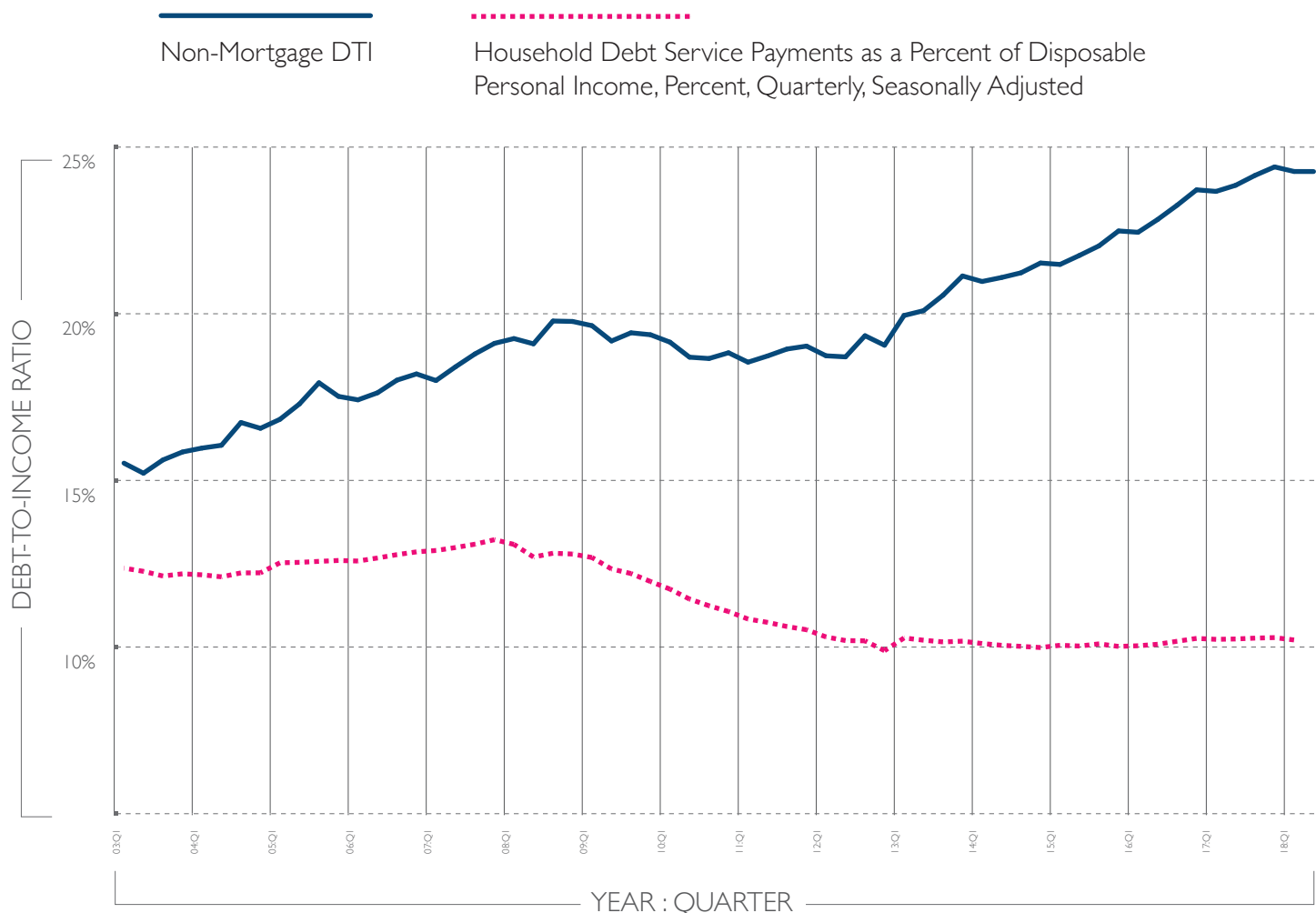


Consumer debt has significant consequences, especially for low- and moderate-income households and other financially vulnerable Americans. Debt payments reduce resources to both pay for basic needs and invest in opportunities to build security and wealth. The nature of a consumer's first debts influences later access to credit (for example, establishing a credit record through an unpaid medical bill can limit a consumer's future credit options to high-cost, riskier products).⁴ Current debt levels and composition appear to be taking a toll on physical and mental health.⁵ There also appear to be negative consequences for the economy as a whole, such as reduced rates of business formation⁶ and homeownership.⁷

FIGURE 2

DEBT-TO-INCOME RATIOS WITH AND WITHOUT HOUSING DEBT, 2001-2018

Sources: Federal Reserve Board of Governors, Household Debt Service and Financial Obligations Ratio (<https://www.federalreserve.gov/releases/housedebt/default.htm>); Federal Reserve Bank of St. Louis, Personal Income Statistics (<https://fred.stlouisfed.org/series/DPIC96>)



Consumer debt is a systemic problem, and there are systemic solutions. The Aspen Institute’s Expanding Prosperity Impact Collaborative (EPIC) has identified options for stakeholders in every sector and for partnerships across sectors. Solutions range from product-level improvements to broader reforms. Each is meaningful on its own, and collectively they possess tremendous potential to address a critical dimension of household financial insecurity.

THE SOLUTIONS FRAMEWORK

EPIC's research identified seven specific consumer debt problems that result in financial insecurity and damage well-being. They are all amendable to solutions.

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.

EPIC uses an interdisciplinary approach designed to uncover new and unconventional ways of understanding issues affecting household financial security and to build consensus among decisionmakers and influencers representing a wide variety of sectors and industries. Our work on consumer debt is grounded in collaboration with stakeholders representing a broad range of sectors, including fintech firms, large financial institutions, federal, state, and local governments, non-profits, universities, and think tanks. EPIC arrived at this solutions framework through an extensive process that involved:

- Convening an Advisory Group to connect us to leaders in the field and help us understand issues surrounding consumer debt from multiple perspectives.⁸
- Completing a research synthesis and publishing the results as *Consumer Debt: A Primer*.⁹
- Conducting two Delphi surveys, each in two waves, of experts from the private and non-profit sectors, government, academia, and think tanks:
 - The first two-wave survey examined views on the urgency, causes, and specific aspects of debt-driven financial insecurity.
 - The second two-wave survey focused on potential solutions and the institutions that could implement solutions.
- Hosting two multi-day convenings with cross-sector groups of stakeholders to discuss and analyze the major research findings and explore potential solutions in depth.
- Consulting dozens of experts individually.
- Conducting four focus groups with consumers struggling with debt to understand better the circumstances under which the debts were incurred, how these struggles affect them financially and otherwise, and to gain their perspectives on the types of solutions that would be most helpful.¹⁰

IDENTIFYING OPPORTUNITIES FOR INTERVENTION

As Table 1 illustrates, there are three key moments when solutions to harmful consumer debt can operate:

IN ADVANCE ● Liability Prevented or Initial Amount Reduced

Advance solutions can help shield consumers from liabilities. From both the consumer perspective and the stakeholder point of view, interventions implemented before consumers face liabilities are intended to reduce or even eliminate the need to borrow. Examples of these types of solutions include financial products and services that help people build liquid savings, so they do not have to borrow every time their income and expenses do not align, and public policies that reduce the cost of higher education, so students are not forced to borrow as much.

FRONT-END ■ Liability Incurred at Best Possible Terms

Front-end solutions ensure that when consumers do incur debt, they do so at the best possible terms they can qualify for. For consumers, this means that non-loan debt, such as medical debt or government fines and fees, is relatively inexpensive and can be repaid without reducing their ability to earn a living or make ends meet, while debts that result from borrowing, such as credit card balances or student loans, are affordable, safe, and structured to facilitate successful payoff. From the stakeholder perspective, front-end solutions affect product design to better align the needs of creditors and consumers. Examples of front-end solutions include features such as interest rate reductions for borrowers with a history of on-time payments and (for government as a creditor) adjusting the dollar amount of fines and fees based on people's ability to repay.

BACK-END ▲ Liability Resolved

Back-end solutions are implemented when people struggle to repay debt. From the consumer perspective, this means that creditors offer flexibility and resources to help them stay on track with payments, recover from delinquency, and avoid collections. For stakeholders, this means that consumers who begin to struggle are offered opportunities to cure delinquent debt as quickly as possible, or that terms such as late fees or penalty interest rates are limited to avoid causing a snowball effect for the borrower.

The table below identifies how solutions can be implemented in these different stages and expresses the goals that solutions should achieve from the consumer perspective.

TABLE I

GOALS FOR SOLVING CONSUMER DEBT PROBLEMS

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.

REPORT STRUCTURE

For each of the seven problems identified in Table 1, the remainder of the solutions framework is structured as:

a) a description of the problem;

b) one or more tangible goals that solutions should achieve; and

c) for each goal, what solutions particular sectors can pursue, illustrated with concrete examples, including:

financial services providers,ⁱⁱ

governments,

non-profits,

employers, and

educational or medical institutions

ii Throughout this paper, “financial services providers” is meant broadly, encompassing traditional and non-traditional commercial entities, credit unions, community development financial institutions, and other non-profit organizations that provide financial products and services.

DISCLAIMER

The examples included in this report reflect promising solutions being implemented in the for-profit, non-profit, and public policy sectors. The Aspen Institute does not explicitly endorse firms, organizations, or specific legislation or regulation, but rather recognizes these promising efforts to meet consumers' needs through product innovation and policy reforms. These examples are illustrative rather than exhaustive; others may offer similar products, services, and proposed reforms, and the Aspen Institute does not intend to recommend any examples cited in this report over similar competing products or ideas.



LIFTING THE WEIGHT
CONSUMER DEBT SOLUTIONS

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.



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

Few families have sufficient savings to cope with financial volatility, the topic EPIC explored in depth in its first cycle.¹¹ Even a typical middle-income household has ready access to less than two-thirds of the liquid savings it needs to stabilize usual monthly fluctuations in income and spending.¹² Fewer than half of all households have sufficient savings to cover an average-sized dip in income, and the typical low-income household has fewer liquid assets¹³ than it would take to cover the loss of just two weeks of pay. In fact, households often have no emergency savings at all, requiring borrowing (incurring debt) simply to pay for necessities.¹⁴ For nearly half, covering an emergency expense of just \$400 (if covered at all) requires borrowing by credit card, from friends or family, or through a bank overdraft, a payday loan, or a bank loan.¹⁵ This challenge—and particularly the need to resort to alternative financial products and services—disproportionately impacts people of color and those with lower incomes.

FIGURE 3

LIQUID ASSETS NEEDED TO WEATHER INCOME AND EXPENSE VOLATILITY FOR ONE MONTH

Source: JPMorgan Chase Institute, <https://www.jpmorganchase.com/corporate/institute/report-weathering-volatility.htm>

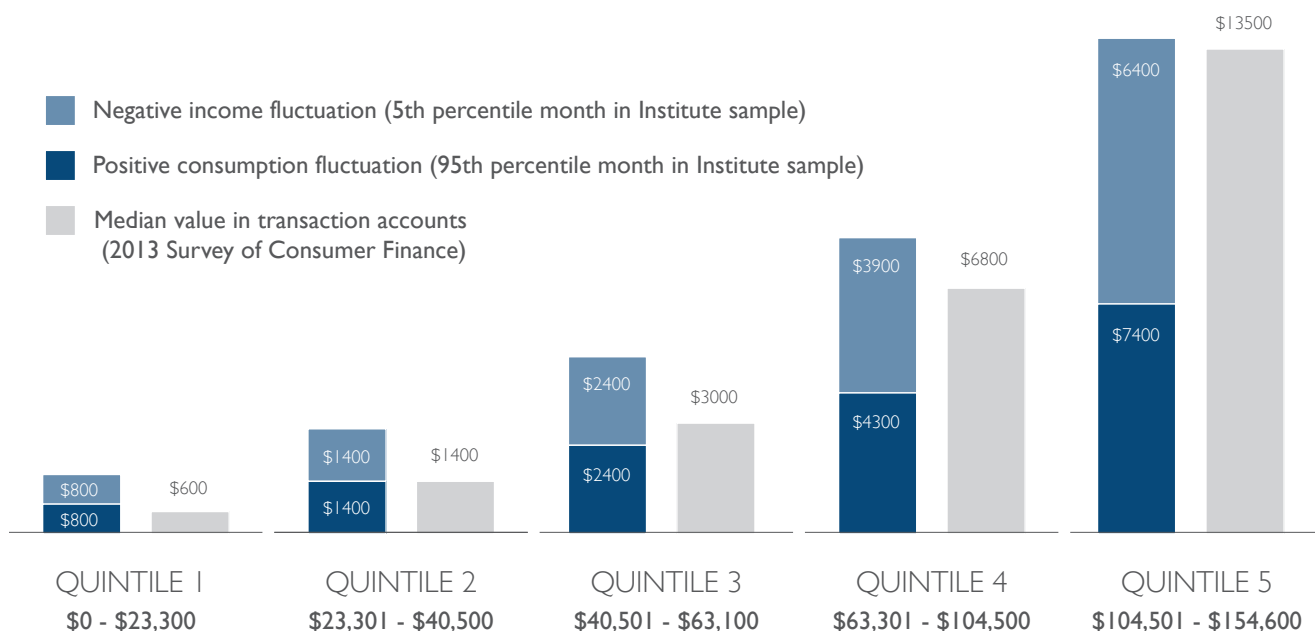


TABLE 2

SOLUTIONS THAT INCREASE LIQUID SAVINGS AND ACCESS TO EARNED INCOME

PROVIDER	EXAMPLE	GOAL
<div>  FINANCIAL SERVICE PROVIDERS </div> <ul style="list-style-type: none"> 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 	<p>EARN's Saver Life product Prudential's and NEST's "sidecar" saving pilot</p> <p>Walmart's MoneyCard with savings Vault Digit</p>	<div> GOAL <p>IN ADVANCE</p> <ul style="list-style-type: none"> Liability Prevented or Initial Amount Reduced </div> <p>People have sufficient liquid savings and access to earned income to buffer mismatches of income and expenses and cover unexpected expenses, precluding the need to borrow</p>
<div>  EMPLOYERS </div> <ul style="list-style-type: none"> Help workers access products that stabilize cash flow Help workers build liquid savings through payroll deductions 	<p>Even, FlexWage, and Payactiv provide access to earned income Many employers offer emergency cash grants to their workers</p> <p>United Way of Greater Austin's automatic savings benefit</p>	
<div>  GOVERNMENT </div> <ul style="list-style-type: none"> Allow automatic enrollment in savings accounts via payroll deductions Build infrastructure for emergency savings Provide matches on short-term savings 	<p>The Senate's proposed Strengthening Financial Security through Short-Term Savings Act</p> <p>Prosperity Now's proposed Rainy Day Savings Accounts</p> <p>The Save USA pilot program</p>	

People have sufficient liquid savings and access to earned income to buffer mismatches of income and expenses and cover unexpected expenses, precluding the need to borrow to pay for basic needs.

What Financial Services Providers Can Do

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

Having even a small amount of liquid assets can help maintain essential spending when income fluctuates.¹⁶ Accounts need to allow maintenance of low balances, offer ease of contribution, and provide easy access to funds when they are needed. EARN, for example, offers Saver Life accounts designed to encourage micro-saving of as little as \$20 a month.¹⁷ As described in more detail on the following page, Prudential and NEST have created a pilot product to help employees grow and replenish liquid savings.

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

Hybrid products help households replenish savings and reduce unnecessary borrowing without having to manage multiple products. Walmart's Money Card is a general purpose reloadable prepaid card with a savings subaccount feature called the Vault,¹⁸ and cardholders can move funds in and out of the Vault at any time. Users who save with Vault are eligible for prizes that can further boost their savings. Another app, Digit automatically moves money into savings when not immediately needed.¹⁹

What Employers Can Do

Help employees access products that stabilize cash flow.

The wages a worker has earned but not yet been paid can be seen as a cash reserve to be tapped when bills and payday do not align.²⁰ Employers can partner with companies such as Even, FlexWage, and Payactiv to give workers more rapid access to already earned wages.²¹ Emergency cash grant programs are another option; Georgetown University²² is among the hundreds of employers using workplace Emergency Assistance Funds²³ to aid workers faced with unexpected expenses due to life events such as natural disasters, accidents, illness, or death. These funds, unlike more common Employee Assistance Plans, focus on emergency cash assistance.

Help employees build liquid savings through payroll deductions.

Making savings automatic through payroll deduction has proven successful in building retirement savings, and it can be expanded through “rainy day”²⁴ or “sidecar”²⁵ accounts designed for emergency savings. These would help address the problem of retirement fund leakage: workers’ early withdrawal (and depletion) of funds from 401(k) and similar accounts to meet short-term financial needs. Prudential is currently piloting an emergency savings account with one of its client businesses, Kaneka North America, and NEST, a United Kingdom-based research agency.²⁶ United Way of Greater Austin not only offers payroll-based automatic savings to its own employees, but also its partner organizations’ staffs.²⁷ Options that employers could institute within the 401(k) environment include an after-tax employee contribution account or a deemed Roth IRA.²⁸

What Government Can Do

Allow automatic enrollment in savings accounts via payroll deductions. (Federal)

Federal laws and regulations set the permissible parameters of employer retirement plans. The proposed Strengthening Security Through Short-Term Savings Act (S. 3218)²⁹ would make it easier for employers offering retirement plans to set up emergency savings or rainy-day accounts to help workers take advantage of automatic payroll deductions for emergency savings.

Build infrastructure for emergency savings. (Federal, state)

Prosperity Now’s proposed Rainy Day EITC would allow taxpayers claiming the Earned Income Tax Credit to ask the IRS to allocate a portion of their tax refund into a short-term savings account and, if they leave the funds in savings for six months, receive a match of up to \$250 from the federal government.³⁰ This builds on the SaveUSA pilot programs in New York City, Newark, Tulsa, and San Antonio that helped taxpayers utilizing free tax return preparation programs put a portion of their tax refund into special bank or credit union savings accounts. Participants increased their savings by 30% and continued saving after the pilot ended.³¹ To scale up the SaveUSA model, federal or state governments would need to support residents’ access to savings accounts, appropriate funds for administration and matching savings; assistance to tax filers can be provided through the existing infrastructure that supports annual, free Volunteer Income Tax Assistance campaigns.

Provide matches on short-term savings. (Federal, state)

A key element of SaveUSA was offering a 50% match of saved tax refund dollars for participants who did not withdraw the funds for at least one year. Over the program’s three years, about two-thirds of participants received at least one savings match, with an average total match of \$365. The Rainy Day EITC proposal would scale up the program to the national level by providing a 50% match, up to \$250, for tax filers who choose to save part of their refund for at least six months.³²

Restricted Access to High-Quality Credit

2



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, however,
>> can place households on
shaky financial footing and
heighten the negative
potential of small
disruptions.



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.

The decades-long expansion of access to consumer credit had the benefit of making the positive potential of debt available to a wider population. However, broader access to credit has also fueled the growth in consumer debt. Today, numerous high-quality credit products are broadly available to most consumers who have good credit scores. Yet several groups tend to be locked out of access to the best products: African-Americans and Latinos, “credit invisible” consumers, and those who formerly had access but lost it due to past financial troubles.³³ As a result, individual members of these groups are more likely only to have access to forms of credit that create more risk than opportunity.

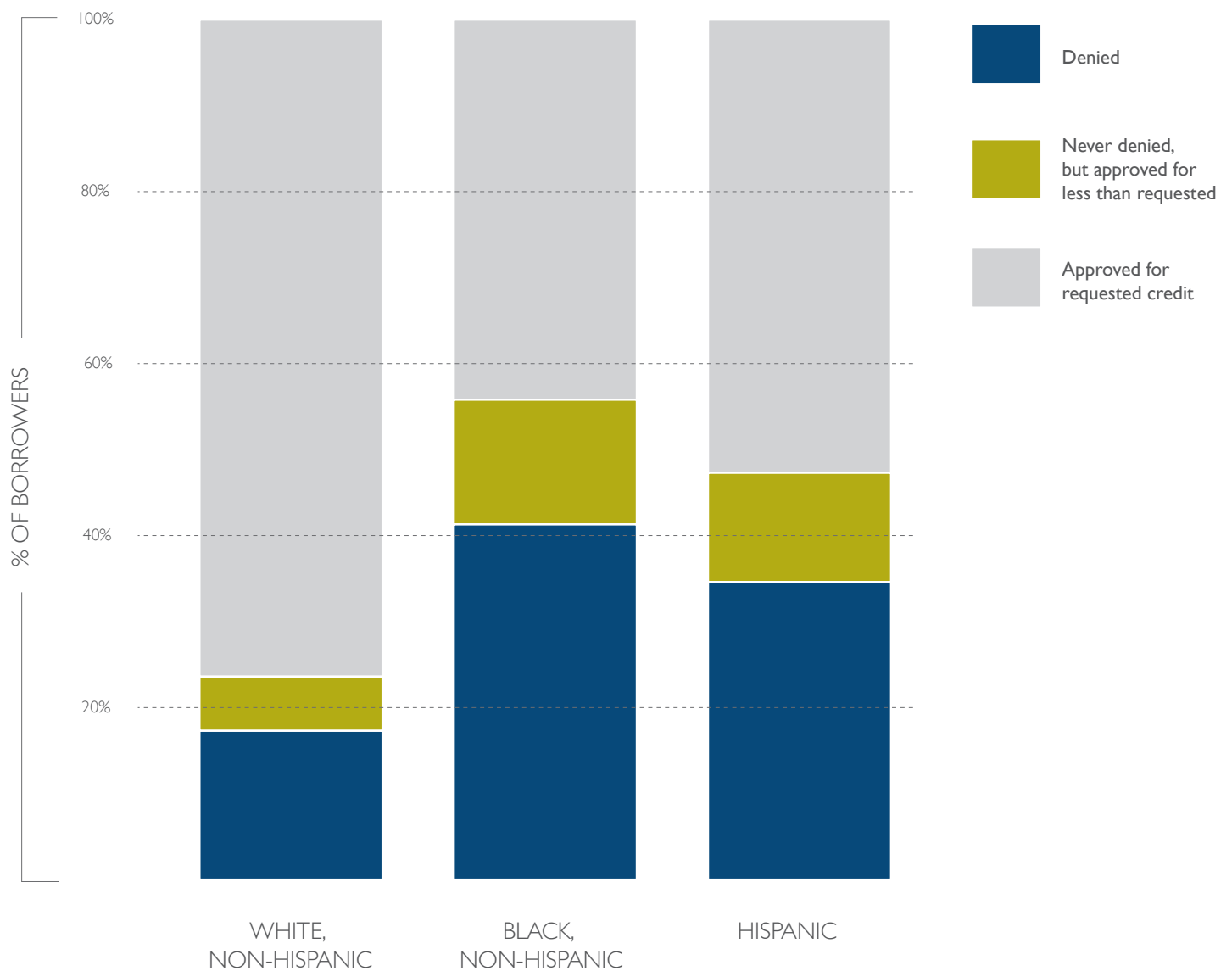
Black and Latino consumers are limited by both overt and statistical racial discrimination in credit markets. Borrowers of different races with substantially similar income, assets, credit scores, and other financial characteristics are denied loans at different rates and, when approved, are charged different amounts of interest and fees.³⁴ In recent years, research has identified discrimination against black and Latino consumers in both the mortgage³⁵ and auto³⁶ loan markets. Interest rates and charges that differ substantially by race limit access to credit and consequentially the ability of people of color, especially African-Americans, to accumulate wealth.³⁷ The resulting deficit in financial reserves heightens the negative potential of small disruptions; even failing to pay a single speeding ticket can cascade into financial disaster.³⁸

Traditional credit scores exhibit significant racial disparities, with multiple studies showing that African-Americans and Latinos have lower scores as a group.³⁹ This is due to racial wealth and income gaps and historic discrimination, which make it harder for communities of color to withstand and recover from financial shocks. The ongoing usage of credit scores with racially disparate impacts perpetuates these disparities.

FIGURE 4

CREDIT APPLICANTS WHO WERE DENIED OR OFFERED LESS CREDIT THAN REQUESTED (BY RACE/ETHNICITY)

Source: Federal Reserve Board of Governors, Report on the Economic Well-Being of US Households in 2016 (<https://www.federalreserve.gov/publications/2017-economic-well-being-of-us-households-in-2016-banking-credit.htm>)



Across all racial and ethnic groups, the challenge for some is “credit invisibility” (not having a credit record at one of the three nationwide credit reporting companies) or being “unscorable” (having an insufficient credit record to generate a score).⁴⁰ Increased computing power and new sources of data—such as bill payments for mobile phones and rent, and electronic transactions such as deposits, withdrawals, and transfers—can broaden the ability for many to establish creditworthiness.⁴¹ At the same time, this “full reporting” could have adverse effects; for example, surfacing seriously delinquent utility accounts,⁴² or even exacerbating racial disparities in access to credit.⁴³

For others, the problem is not invisibility but past credit troubles casting long shadows. While a problematic history can reasonably influence assessments of creditworthiness, the stigma assumes outsized importance if there are no effective opportunities to recover.⁴⁴

TABLE 3
SOLUTIONS TO EXPAND ACCESS TO HIGH-QUALITY CREDIT

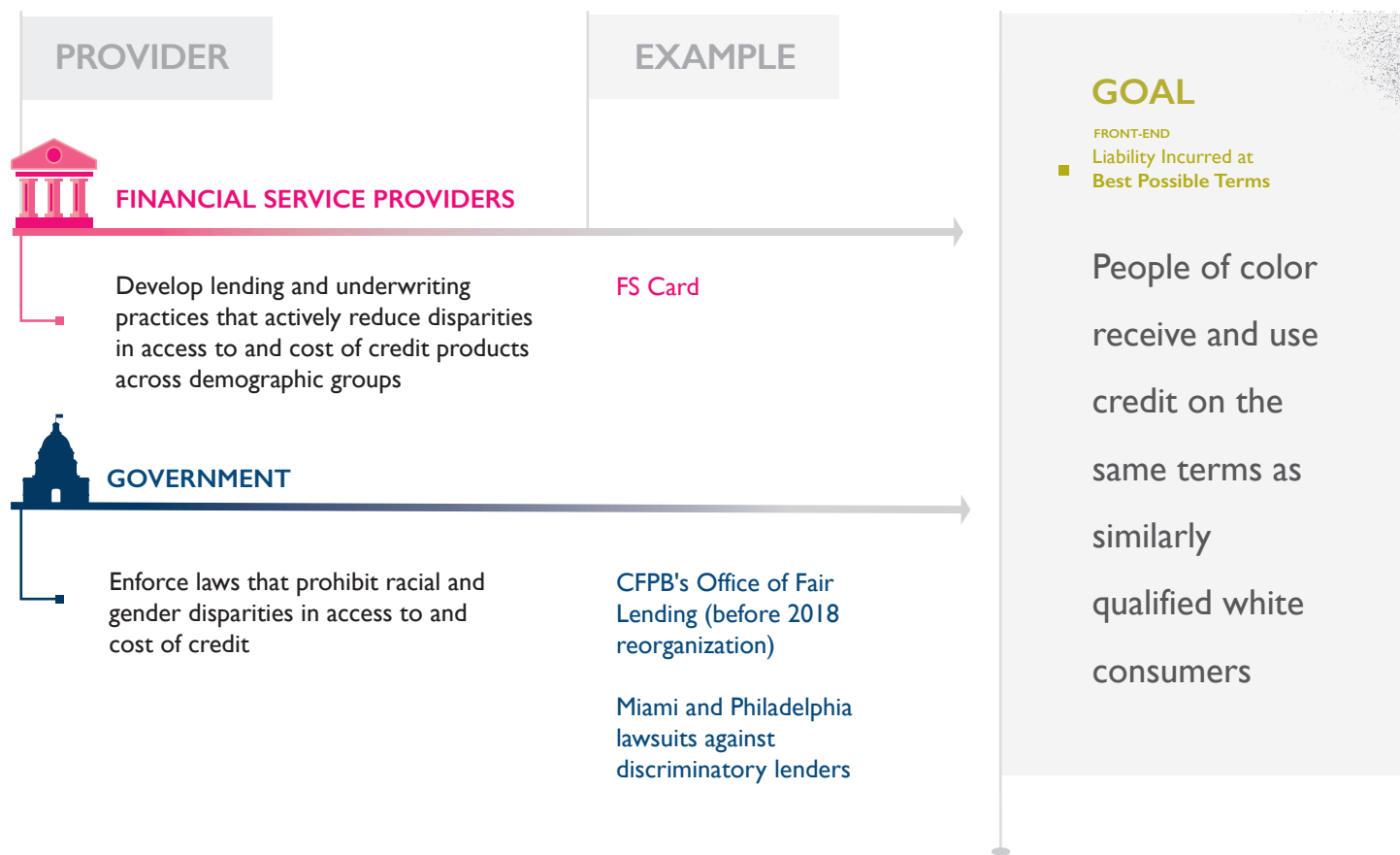


TABLE 3, CONTINUED

SOLUTIONS TO EXPAND ACCESS TO HIGH-QUALITY CREDIT






PROVIDER	EXAMPLE	GOAL
 FINANCIAL SERVICE PROVIDERS		GOAL <small>FRONT-END</small> ■ Liability Incurred at Best Possible Terms
<ul style="list-style-type: none"> Expand responsible use of alternative data to allow credit invisible consumers to build credit 	<p>Many leading fintech lenders use alternative data</p> <p>Credit Builders Alliance helps nonprofit lenders furnish data to credit bureaus</p>	<p>People with thin or no credit files can develop healthy credit profiles</p>
<ul style="list-style-type: none"> Standardize full reporting of payments for utilities, telephone and internet service, and rent and transaction account data 	<p>VantageScore is able to score one-third of thin-file consumers</p> <p>Ultra FICO, debuting in 2019, analyzes transaction account data</p>	
 GOVERNMENT		
<ul style="list-style-type: none"> Allow financial services providers, with regulatory supervision, to experiment with consumer-friendly use of alternative data 	CFPB's Office of Innovation	
<ul style="list-style-type: none"> 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 	The Credit Access and Inclusion Act (H.R. 235, S. 3040)	

TABLE 3, CONTINUED
SOLUTIONS TO EXPAND ACCESS TO HIGH-QUALITY CREDIT

PROVIDER	EXAMPLE	GOAL
<div>  FINANCIAL SERVICE PROVIDERS </div> <div> Fund and partner with non-profit credit counseling and financial coaching services </div>	<div> Most large banks fund local credit counseling agencies but not at the necessary scale </div>	<div> GOAL FRONT-END Liability Incurred at Best Possible Terms </div> <div> People who experience credit problems have effective opportunities to rebuild their credit profiles and regain access to affordable credit </div>
<div>  NON-PROFITS </div> <div> Provide credit counseling, credit repair, and debt management programs </div>	<div> Organizations affiliated with the National Foundation for Credit Counseling The Financial Clinic's Change Machine resources and curricula for practitioners </div>	
<div>  GOVERNMENT </div> <div> Fund non-profit credit counseling at scale Reform Chapter 13 Bankruptcy payment plans </div>	<div> HUD-certified homeownership counseling is effective and widely available </div>	

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

What Financial Services Providers Can Do

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

Those extending credit can — on their own, without governmental intervention — work to eliminate unequal access to their own products. Although many firms are reticent to analyze the racial and other demographic disparities in their portfolios and practices due to concerns about equal lending regulations, these attempts at “color blindness” exacerbate rather than address the problems. Some lenders, such as subprime credit card provider FS Card,⁴⁵ have adopted replicable approaches to reduce disparities across income and credit tiers.

What Government Can Do

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

Many protections against racial and gender discrimination are already on the books. Past actions by the Bureau of Consumer Financial Protection’s (CFPB) Office of Fair Lending and Equal Opportunity demonstrate the potential of using a broad set of statutorily-authorized enforcement tools.⁴⁶ These include rulemaking, risk-based prioritization of supervision and enforcement activity, and outreach to industry, advocates, consumers, and other stakeholders. The Office also pioneered methods to detect disparate impact in vehicle lending markets and new enforcement strategies to correct disparities.⁴⁷ Although these strategies achieved notable successes that should inform other regulators’ efforts, the Bureau has recently reduced the role of fair lending enforcement,⁴⁸ and Congress overturned the vehicle lending rules in May 2018.⁴⁹

Local governments can take legal measures against lenders whose discriminatory activities cause harm to the community. Municipalities can adapt the strategy Miami and Philadelphia have successfully pursued to address discriminatory mortgage lending.⁵⁰ The cities pointed to the financial burdens they incurred due to lenders’ actions, including reduced property tax revenues and increased municipal costs.⁵¹ Local governments can construct similar arguments related to discrimination in other forms of lending.

The Role of the Federal Bureau of Consumer Financial Protection

The Bureau of Consumer Financial Protection is the primary federal regulator for most of the major statutes governing consumer credit and debt. It was established under the name Consumer Financial Protection Bureau as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act in 2010, and changed its name in 2018. The Bureau has authority to supervise firms, issue regulations and guidance, and enforce the laws on consumer financial products and markets, with the mission of ensuring these products and markets are both robust and safe for consumers.

Throughout this report, we use the commonly recognized abbreviation “CFPB” to refer to the Bureau when we do not use the agency’s full name.

With regard to consumer credit and debt, CFPB has primary responsibility for implementing and enforcing the following statutes:

- Fair Debt Collection Practices Act (FDCPA)
- Fair Credit Reporting Act (FCRA)
- Equal Credit Opportunity Act (ECOA)
- Truth in Lending Act (TILA)

As such, the CFPB has an enormous role to play in ensuring that credit and debt markets are safe for consumers, including credit cards, personal loans, student loans, certain auto loans, and mortgages.

The Bureau’s renaming is one of many changes that have been implemented in the past year. The Bureau also reduced its focus on fair lending enforcement and in specific markets, such as student loans. Some of these changes are cause for concern, as other financial regulators lack the authority and expertise to implement elements of the CFPB’s mission.

Despite these developments, many of the federal policy recommendations in this report targeting federal policymakers are most relevant to the Bureau due to its essential role as the financial regulator tasked with looking out for consumers’ wellbeing.

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

What Financial Services Providers Can Do

Expand the responsible use of alternative data to allow credit invisible consumers to access credit.

Several non-traditional sources of data could reflect creditworthiness. Non-bank fintech lenders are more likely than traditional banks and credit unions to use data sources such as payment histories with utilities and online vendors, medical and insurance claims, and social networks to identify consumers with poor FICO scores who are sufficiently creditworthy to access credit and on better terms. Some of these data sources raise their own concerns about fairness, privacy rights, and racial disparities. Firms should choose to rely solely on data that is predictive and produces an equitable distribution of scores. These firms are rapidly adopting the use of transaction account data that enables cash-flow underwriting, which may be a more appropriate risk measure. Alternative data is also influencing secured lending: a recent auto loan sector analysis found that 50% of auto finance firms now use alternative data when assessing thin-file consumers.⁵²

Non-profit lenders are a critical source of credit for thin-file and credit invisible consumers, but most lack the portfolio volume and security infrastructure to furnish borrowers' payment data to the credit bureaus. This limits consumers' ability to build robust credit reports and good scores. To address this problem, the non-profit Credit Builders Alliance compiles its members' payment reports and furnishes the data to Experian, TransUnion, LexisNexis, and other consumer credit bureaus.⁵³

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

The United States consumer reporting system is voluntary for data furnishers and consumer credit bureaus.⁵⁴ Furnishers can choose whether to submit any or all payment data and credit bureaus may choose not to accept certain types of data or information from specific furnishers. This constrains policymakers' ability to shift the market through legislation or regulation. More could be done by creating voluntary industry-wide practices to facilitate the use of alternative data. VantageScore 3.0, developed jointly by Experian, Equifax, and TransUnion, combines traditional credit reporting data with more granular data from consumer histories (including utilities and rent) to generate scores for a third of those with "thin files." This model is tested and proven to be predictive, but many lenders continue to rely on more conservative, limited models such as the traditional FICO score.⁵⁵ To address this, FICO is beginning to test a supplemental score based on checking and savings account data.⁵⁶ Lenders will be able to use this new Ultra FICO score as a supplement to the traditional FICO scores they are already using.

What Government Can Do

Allow financial services providers, with regulatory supervision, to experiment with consumer-friendly use of alternative data. (Federal, state)

Several government agencies in the US and other countries have developed new regulatory programs to support financial innovation. The regulator will work closely with a financial services provider developing a new product or service that falls outside traditional frameworks or that relies on new technology to monitor and glean insights about the impact on customers. Sometimes referred to as “regulatory sandbox,” this approach provides a controlled experimental environment that can benefit consumers.⁵⁷ It plays an important role in addressing concerns about data sharing, inaccurate data, and computerized decision-making, working to harness the potential value of “big data” while safeguarding consumers from discrimination and unwarranted negative consequences. Arizona has used the regulatory sandbox approach to create space for fintech companies to test innovative financial products and services. CFPB’s Office of Innovation has looked at developing a regulatory framework to facilitate firms’ efforts to develop innovative new products and services related to cryptocurrencies, blockchain technologies, microlending, and peer-to-peer lending⁵⁸

All policy efforts to support expanded use of alternative data should be paired with robust oversight to ensure that it is not harmful to consumers, used inappropriately, or creates new privacy risks. Regulators, including sandboxes and offices of innovation, should supervise the implementation of alternative data underwriting to ensure it reduces rather than exacerbates disparate impact concerns.

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)

The Fair Credit Reporting Act (FCRA) is the federal statute that governs what information may be included in consumer credit reports and how the information can be used in lending. It has not been substantially updated since the 1990s. FCRA reforms and/or regulatory guidance can promote widespread yet appropriate use of alternative credit data. Proposed federal legislation, the bipartisan Credit Access and Inclusion Act (H.R. 235, S. 3040),⁵⁹ encourages credit bureaus to embrace alternative credit scoring models in ways that are beneficial and not harmful to consumers. Future legislation could go further by providing concrete incentives to credit bureaus that take action, preempting current law in some states that prohibits data furnishers from reporting certain types of alternative data, and requiring greater consumer control over which data is reported (such as limiting alternative data to positive payment histories); these measures amount to meaningful reform while maintaining the voluntary nature of the credit reporting system.

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

What Financial Services Providers Can Do

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

Credit counseling agencies, and related programs like financial coaching, have demonstrated success in improving client financial outcomes, especially in coaching models where the client is a partner in producing the outcomes.⁶⁰ Although many financial institutions already provide some funding for these non-profit services, the organizations doing the work require funding at a greater scale to be available to all consumers in need to help rebuild their credit profiles.⁶¹ One innovative new opportunity for financial services providers is to work with the non-profit FinRegLab, an organization that fills a similar function by testing and analyzing the risks and benefits of new financial products and services.⁶²

What Non-profits Can Do

Provide credit counseling and debt management programs.

The demonstrated success of credit counseling and financial coaching programs warrants replication.⁶³ National Foundation for Credit Counseling (NFCC) member agencies provide a variety of free and/or affordable counseling services addressing credit and debt, student loans, mortgage loans, bankruptcy, and other issues.⁶⁴ The New York-based Financial Clinic provides resources and curricula to financial coaching non-profits across the country through its Change Machine platform.⁶⁵ These non-profit programs, which require credentials to provide, are distinct from the “credit repair” services that exist in the private sector. For-profit credit repair services offer to help a consumer to reduce debts and remove errors from credit reports. These services are, however, paid for by the consumer and have a low track-record of success with few mechanisms for recourse when consumers receive no benefits from the service they’ve paid for.⁶⁶ While reforms in this sector are possible and necessary, the greater opportunity lies in expanding proven non-profit services like those above.

What Government Can Do

Fund non-profit credit counseling services at scale. (Federal, state, local)

The federal government has the reach and resources to support robust service delivery. For example, the US Department of Housing and Urban Development funds homebuyer counseling that is often required for first-time homebuyers and participants in homeownership programs;⁶⁷ multiple evaluations have demonstrated its effectiveness.⁶⁸ This model of providing research-backed curricula and funding to non-profit organizations could be adapted for credit counseling and repair services, perhaps by the CFPB, Treasury Department, Federal Reserve Board, or other agencies charged with contributing to the informed decision-making of US borrowers. At the local level, the Cities for Financial Empowerment (CFE) Fund works with municipal governments to establish and build the capacity of local agencies and non-profit partners to provide these types of services. States could adopt this model at a larger scale.

Reform Chapter 13 bankruptcy payment plans. (Federal)

Chapter 13 bankruptcy – where filers obtain a court-ordered payment plan that restructures and reduces their debt but requires devoting all disposable income to creditor repayment for three to five years – can have positive financial and health outcomes; however, more than half of Chapter 13 filers are unsuccessful with their payment plans and become liable again for their full debts, resulting in repeat bankruptcy filings.⁶⁹ The federal government should implement new guidelines for bankruptcy judges to make repayment plans more feasible and affordable, such as reducing the proportion of disposable income that must be dedicated to repayment or instituting a grace period to prevent a single missed payment from leading to failure.

“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**

Bankruptcy Policy Reforms

Bankruptcy is a cross-cutting issue that relates to several of the seven debt problems addressed in this report, including Restricted Access to High-Quality Credit, Exposure to Harmful Loan Terms and Conditions, Student Loan Debt, and Medical Debt. This sidebar provides a brief overview of US bankruptcy law and summarizes recommendations related to bankruptcy that appear throughout this report.

Bankruptcy is a legal process carried out through the court system which enables a person or firm to legally restructure their debts due to inability to pay. Bankruptcy can lead to the partial or full discharge of debts and resolution of obligations to creditors.

All levels of government play a role in consumer bankruptcies. The federal government has authority, under Article I, Section 8 of the United States Constitution, to enact a uniform bankruptcy law for the nation, which is currently implemented under the Bankruptcy Code of 1978 and subsequent amendments. State and local governments operate the bankruptcy court systems and states may affect bankruptcy filings and outcomes through policies related to debt collection, wage garnishment, asset seizure, or regulation of specific types of debt.

Much like debt itself, bankruptcy can be either a problem or a solution depending on the consumer's context. Thus, problems with bankruptcy cannot simply be solved by avoiding it altogether. In general, the best way to reduce the financial pain of bankruptcy is through responsible lending and collections practices that help consumers maintain sustainable levels of debt. It is inevitable, however, that some consumers will suffer financial setbacks that reduce their ability to manage their debt, and bankruptcy is an important tool to support robust credit markets while protecting consumers from long-term insolvency.

Also like debt, bankruptcy-related interventions can be implemented in three key moments: in advance of incurring a liability, at the front-end, and at the back-end. This framework is used below to summarize the various bankruptcy-related recommendations that appear in this report:

● ADVANCE SOLUTIONS

Non-profits can provide credit counseling and debt management programs. Financial services providers and governments can fund these programs at scale.

PROBLEM 2. Restricted access to high-quality credit (pages 29 - 30)

Certain credit counseling and financial coaching programs have proven capacity to help clients reduce debt and navigate bankruptcy, among other issues. This advance solution reduces consumers' need to rely on high-cost and high-risk forms of credit but is also demonstrated to reduce bankruptcy filings. Expanding access to credit counseling and financial coaching programs that are backed by rigorous evaluations can help the millions of people who have lost access to high-quality credit due to past financial problems both regain that access and avoid bankruptcy when that would be beneficial.

State governments can fully implement Medicaid expansion.

PROBLEM 6. Medical debt burdens (page 64)

Consumers in bankruptcy frequently cite crushing medical debt as their reason for filing. Medical debts are non-loan debts, or liabilities incurred without the consumer making an affirmative decision to borrow money. Consumers are often unable to determine the costs of treatment in advance, and medical bills are not determined through underwriting, leaving many with bills that they can never hope to repay. When insolvency is the direct result of receiving medical treatment rather than a fundamental misalignment of income and expenses, avoiding bankruptcy is generally the better option for both consumers and creditors. States that have adopted the Affordable Care Act's expansion of Medicaid (the federal/state program supporting free or low-cost health care for low-income populations and disabled people), have experienced a reduction in bankruptcy filings (and other debt-related improvements to financial security). Fully expanding Medicaid is an advance solution that would reduce the incidence and amount of liability incurred through medical treatment; implementing this reform is also likely to further reduce bankruptcy rates.

■ FRONT-END SOLUTION

Federal government can make more student debt dischargeable in bankruptcy.

PROBLEM 5. Student loan burdens (page 58)

Student loan creditors—both private lenders and the federal Department of Education—enjoy special protections against having their debts discharged by bankruptcy courts. Lenders argue that the exemption is justified, as it supports the flow of credit that is not underwritten based on risk, which is supposed to ensure equal access to higher education. This front-end solution would change the terms on which students borrow, ensuring they are able to restructure or eliminate student loans in bankruptcy if they are able to prove total inability to pay. For many insolvent debtors, student loans represent their largest debts, yet are impossible to discharge, leaving them with no pathway to future financial security. Such reforms would benefit many of the 11% of student loan borrowers who are currently in default and could help millions more of the 40% of current borrowers who the Brookings Institution predicts will have defaulted at some point by 2023.^{iv}

▲ BACK-END SOLUTION

Federal government can reform Chapter 13 bankruptcy payment plans.

PROBLEM 2. Restricted access to high-quality credit (page 30)

Chapter 13 bankruptcy is the most common type of consumer bankruptcy, in which filers obtain a court-ordered payment plan that restructures and reduces their debt but requires devoting all disposable income to creditor repayment for three to five years. More than half of Chapter 13 filers, however, are unsuccessful with their payment plans. This back-end solution would improve the consumer experience once they are unable to pay their debts. Opportunities to boost the success rate of Chapter 13 payment plans as well as the financial security of filers include reducing the proportion of disposable income that must be dedicated to repayment or instituting a grace period to prevent a single missed payment from leading to failure.

iii Administrative Office of the United States Courts. "Bankruptcy Basics." Revised November 2011. <http://www.uscourts.gov/sites/default/files/bankbasics-post10172005.pdf>.

iv Scott Clayton, Judith. "The looming student loan default crisis is worse than we thought." Evidence Speaks Reports, 2 (34), January 10, 2018. Brookings Institution. <https://www.brookings.edu/wp-content/uploads/2018/01/scott-clayton-report.pdf>

Exposure to Harmful Loan Terms and Features

Extremely high interest rates, excessive penalties for late payment, and use of balloon payments places households at higher risk of suffering from financial insecurity due to debt.

3







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

Harmful loan terms and features include extremely high interest rates, excessive penalties for late payment, and use of balloon payments. According to the Center for Financial Services Innovation (CFSI), high-quality credit products feature affordability, transparent marketing, fair pricing, support repayment without repeat borrowing, and help borrowers build credit; in their analysis most small-dollar credit products—including payday, pawn, auto title, and non-bank installment loans—do not meet these conditions.⁷⁰ Only 14% of payday borrowers can afford to repay the average loan, and 41% report needing a cash infusion to pay off the advance.⁷¹ These loans, which carry an average annual interest rate of 391%, are explicitly structured to encourage borrowers to roll over into new debt.⁷² Even credit products that have affordable front-end terms may have harmful back-end terms and features, such as rapidly-escalating fees and penalty interest rates, mandatory arbitration to resolve disputes, and prepayment penalties.

TABLE 4

SOLUTIONS TO REDUCE CONSUMERS’ EXPOSURE TO HARMFUL LOAN TERMS AND FEATURES

PROVIDER	EXAMPLE	GOAL
 FINANCIAL SERVICE PROVIDERS		The typical financial products that both traditionally underserved and mainstream consumers can access are more affordable and safe
Modify products and operations to better align the firm’s financial interests with consumers’ interests and needs	CFSI’s Compass Principals provide guidelines for financial firms USAA’s secured credit cards	
Create innovative new products and services designed for consumers with limited access to high-quality credit	Credit Union Payday Alternative Loan program US Bank Simple Loan	
Expand use of cash-flow underwriting for thin and no-file consumers	Petal	
 EMPLOYERS		
Enable workers to access lower-cost credit through payroll-integrated loans provided or underwritten by a third party	TrueConnect Loans partners with employers to provide employee loans	
 GOVERNMENT		
Apply more stringent regulation to products and services that incorporate excessively expensive and/or predatory features	Federal Ability to Repay (ATR) underwriting standards for mortgages and small dollar loans Massachusetts and Delaware ATR standards for auto loans	

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

What Financial Services Providers Can Do

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

Secured credit cards, which require borrowers to provide a deposit equal to their credit limit to mitigate default risk, provide an example. According to CFSI, these relatively underutilized products can, if designed appropriately, meet subprime and thin-file consumers' short-term cash flow and long-term credit-building needs.⁷³ If these products are not well-designed, however, they can be far more expensive and less beneficial than traditional credit cards. CFSI's "Compass Principles" for secured credit cards provide good guidelines for design and implementation of consumer-friendly products. High-quality secured credit cards have a limited number of reasonably affordable fees, all of which are clearly communicated to the cardholder; facilitate communication with cardholders; report all payments to the national credit bureaus; and have policies in place to "graduate" successful users to traditional credit cards. USAA offers secured credit cards with interest rates well below average credit cards, passing the benefits of reduced risk on to the consumer.⁷⁴

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

Several recent innovations make product and service design a promising area for consumer-friendly solutions. Lenders are reducing interest rates on existing loans, capping fees, and developing early warning systems to stave off delinquencies. The National Credit Union Administration (NCUA) allows federal credit unions to offer payday alternative loans of \$200 to \$1,000 for one to six months with a maximum application fee of \$20 and no balance rollovers.⁷⁵ US Bank recently launched its Simple Loan, a payday advance-type product of up to \$1,000 that is repaid in 3 equal monthly installments.⁷⁶ The bank advertises the loans as high-cost products (70% APR) and alerts customers about less expensive credit they may be able to access. JPMorgan Chase is considering new customer incentives such as lowering the interest rates on personal loans for borrowers who demonstrate timely repayments.⁷⁷

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

For people who have stable finances but blemished credit, cash-flow underwriting may better predict default risk than reliance on credit scores alone. Using bank account data to determine how much a borrower can afford to pay on a monthly basis allows lenders to responsibly expand access to affordable credit. Lenders and other financial institutions are now able to aggregate data on individual consumers from a variety of sources, including the consumers' transaction accounts.⁷⁸ The budgeting app Mint was an early adopter of this approach: with a user's permission, the app accesses information from as many of their financial accounts as they choose to connect. Lenders can now take a similar approach to assess risk and ability to pay using more up-to-date and detailed information than traditional credit reports provide.⁷⁹ Petal, a fintech lender, offers prospective borrowers an app that plugs into their bank accounts to assess creditworthiness based on monthly cash flow.⁸⁰

What Employers Can Do

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

Payroll-integrated loans can reduce costs by reducing the risk of default: when borrowers repay through their employers' payroll systems, the lender is assured of repayment as long as the employee remains in their job.⁸¹ TrueConnect partners with employers to offer a voluntary employee benefit that gives access to safe, regulated bank loans of up to \$3,000 that are repaid over a year through automated payroll deductions.⁸² London-based Salary Finance, which helps workers save automatically and offers small, payroll-integrated installment loans, recently moved into the US market through a partnership with United Way.⁸³

What Government Can Do

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

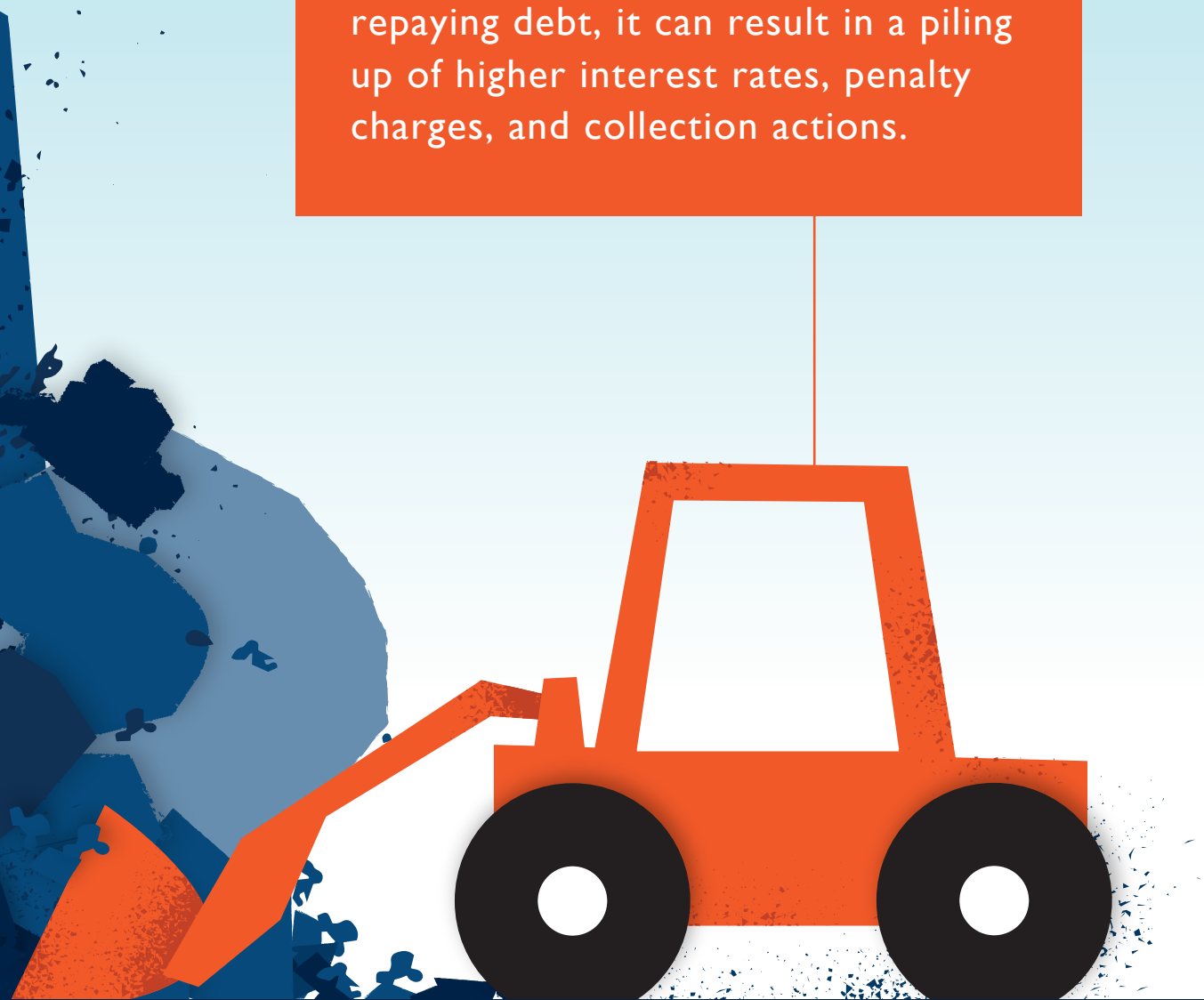
Government oversight can protect those whose credit constraints lead them to higher-cost, higher-risk products. Underwriting firmly grounded on the borrower's ability to repay has transformed mortgage lending since the Great Recession,⁸⁴ and a similar principle should guide regulation of subprime and small-dollar lending⁸⁵ (such as payday and auto title loans). A duty of suitability places the burden of prevention on those making the products and services available. Unconscionability – which has proven to be a controversial aspect of Colorado's regulation of payday lending that started in 2000⁸⁶ – relates to requiring lender assessment of a borrower's ability to repay. The CFPB has proposed varying levels of stringency for ability-to-repay review based on the type and size of the loan.⁸⁷ In 2017, Massachusetts and Delaware reached legal settlements with indirect auto lenders resulting in application of ability-to-repay standards for auto loan underwriting.⁸⁸

Detrimental Delinquency, Default, and Collections Practices

4



When consumers fall behind on repaying debt, it can result in a piling up of higher interest rates, penalty charges, and collection actions.



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.

About 5% of outstanding debt is 90 days or more delinquent,⁸⁹ and an estimated 71 million adults in the US have debt in collections.⁹⁰ Companies now routinely use courts to pursue consumers over even small debts. About one in seven of those contacted by debt collectors are sued. The overwhelming majority of debt collection lawsuits result in default judgments even though consumers may have legitimate defenses.⁹¹

One reason for high rates of default judgments is that consumers rarely have access to legal help when responding to debt collectors. This is indicative of a general lack of affordable civil legal assistance: Legal Aid organizations report 60% to 80% of eligible people's needs are unmet, and those who request help must be turned away about half the time due to lack of funding.⁹² Analysis of five years of court judgments in three metropolitan areas showed that, even controlling for income, the rate of judgments was twice as high in mostly black neighborhoods than in mostly white.⁹³

Court judgments can result in loss of income due to wage garnishment (most common among workers making \$25,000-\$40,000)⁹⁴ and arrest or imprisonment (Maryland has seen an increase in creditor-requested "body attachments" to arrest and jail debtors who have failed to appear in court).⁹⁵ The methods to collect debt arising from the criminal justice system can be draconian; this is discussed further in the section on Burdensome Government Fines and Fees.

The federal and state governments each regulate debt collection. At the federal level, the Fair Debt Collection Practices Act (FDCPA) governs how collectors may interact with consumers, how consumers can dispute a debt, and sets minimum standards for wage and other forms of garnishment.⁹⁶ Each state and the District of Columbia maintains its own debt collection regulations that address these issues, may provide more robust

TABLE 5
SOLUTIONS TO IMPROVE CONSUMER OUTCOMES IN DELINQUENCY, DEFAULT, AND COLLECTIONS

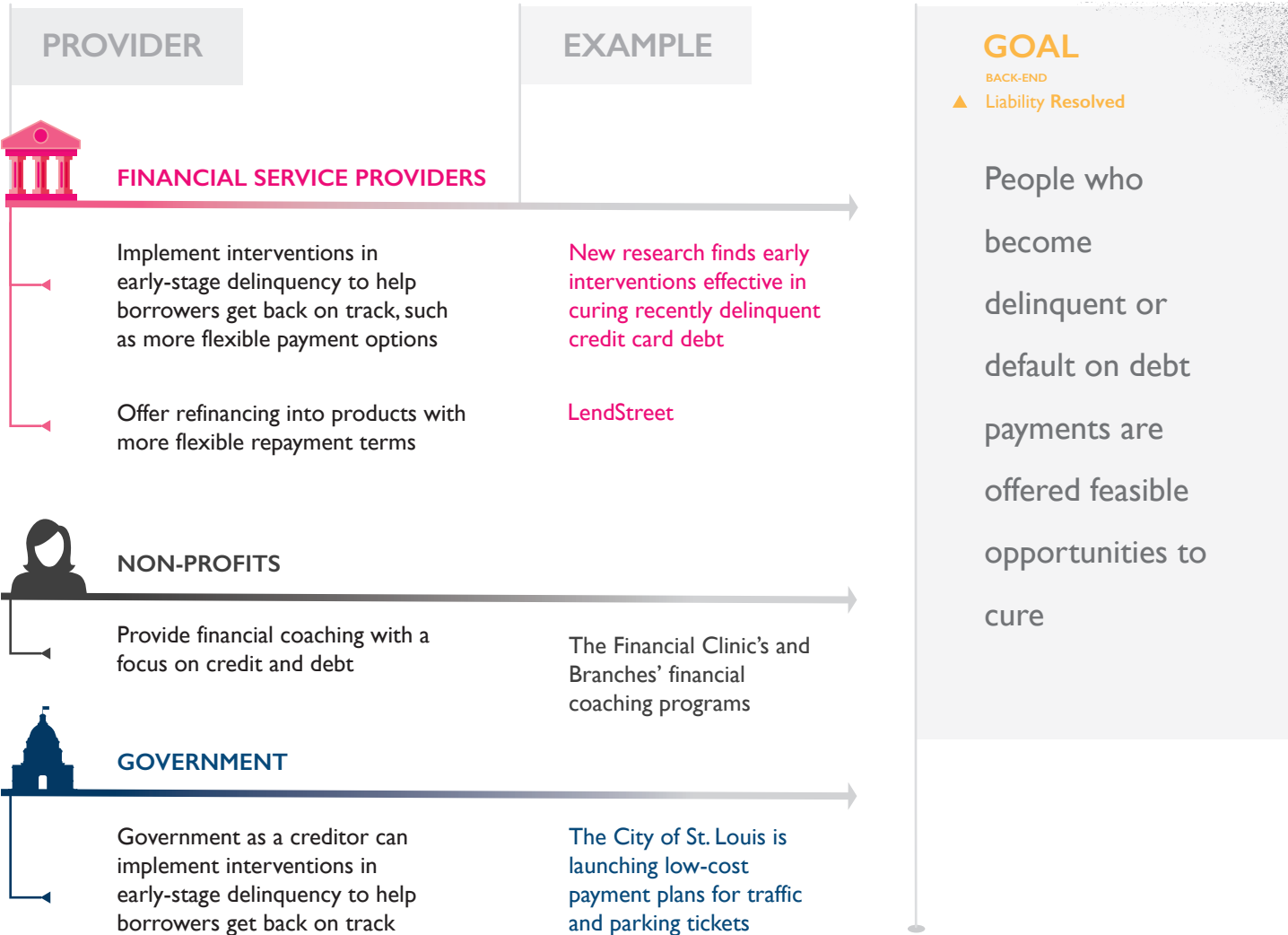




TABLE 5, CONTINUED

SOLUTIONS TO IMPROVE CONSUMER OUTCOMES IN DELINQUENCY, DEFAULT, AND COLLECTIONS

PROVIDER	EXAMPLE	GOAL
 NON-PROFITS		GOAL <small>BACK-END</small> ▲ Liability Resolved People with debt in collections enjoy full protection of their legal rights and suffer no loss of liberty due to inability to pay
Provide legal assistance or representation to consumers who are sued by debt collectors/buyers	NCLC maintains a directory of more than 60 legal aid organizations providing this type of assistance	
 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	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 tool	Maryland's S.B. 725 would prohibit body attachments for unpaid debts	

consumer protections and/or garnishment policies, and establish legal processes for creditors and debt buyers to pursue borrowers through the courts. State laws regulating debt buyers vary widely.

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

What Financial Services Providers Can Do

Implement interventions in early-stage delinquency to help borrowers get back on track.

Slowing down the timeline of events triggered by delinquency — in a sense, creating speed bumps on the road to collections — can provide mutually beneficial opportunities to cure default. A recent study by researchers at Boston University, Tulane University, and Duke University found that a major retail chain that implemented an early intervention significantly boosted the proportion of its store credit card holders who cured recently delinquent debt.⁹⁷ The low-cost intervention used an interactive voice response system to reach out to delinquent customers within a few days to help them plan when they would make the overdue payment.”

Offer refinancing into products with more flexible payment terms.

Because delinquency does not equate to a permanent or persistent cessation of payment, alternative repayment options (such as accepting partial payments or offering a flexible payment schedule) can be effective tools to cure default. Some lenders already take advantage of this, resetting in roughly 40% of cases the terms for delinquent borrowers rather than imposing penalties.⁹⁸ LendStreet Financial is a debt relief firm that pairs struggling consumers with debt settlement companies and then acts as an intermediary lender that consumers repay through multi-year installments.⁹⁹

What Non-profits Can Do

Provide financial coaching focused on credit and debt.

Financial coaching is a one-on-one process helping consumers pursue and achieve their own economic goals. The track record of post-purchase housing counseling aimed at mitigating foreclosure demonstrates the effectiveness and importance of non-profit interventions in the early stages of default.¹⁰⁰ This model has also proven effective when applied to past-due consumer debts, though such programs operate on a smaller scale than HUD-certified housing counseling.¹⁰¹ The Financial Clinic, a New York-based financial coaching provider, reports that its coaching enabled clients to reduce the amount of debt from court judgments by 10% and the amount of debt in collections by 6%. Both the Financial Clinic and Branches, a Miami-based non-profit, offer financial coaching programs that was proved in a randomized control trial to effectively help clients cure overdue debt payments.¹⁰² These approaches could be readily adapted by other non-profit organizations.¹⁰³

What Government Can Do

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

A significant amount of consumer debt is owed to governmental entities. In Missouri, as in many other states, unpaid parking tickets and traffic citations can lead to a suspended license. To help St. Louis residents keep their licenses, which are essential for access to jobs in the area, the city treasurer is developing a program of low-cost payment plans that help debtors avoid both collections and license suspension (to view City Treasurer Tishaura Jones discuss this, see www.aspenepic.org/get-involved/debt-streaming-event/).

“I really wish we had more programs for people with low or bad credit... *We’re trying.* You know our history.”

FOCUS GROUP PARTICIPANT WITH PREVIOUS CREDIT CARD DEFAULTS, BALTIMORE, JULY 2018

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

What Non-profits Can Do

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

NCLC has documented the work of 64 legal services organizations representing people being sued for debt.¹⁰⁴ Before a suit is ever filed, access to legal advice can play a critical role in alerting consumers to their rights; the Equal Justice Coalition in Massachusetts is among the groups working to ensure that low-income people have access to help with civil legal problems such as debt collection.¹⁰⁵ Skilled legal representation is essential protection for consumers in debt collection lawsuits, because it dramatically improves outcomes (such as the likelihood that an improper suit is dismissed).

What Government Can Do

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)

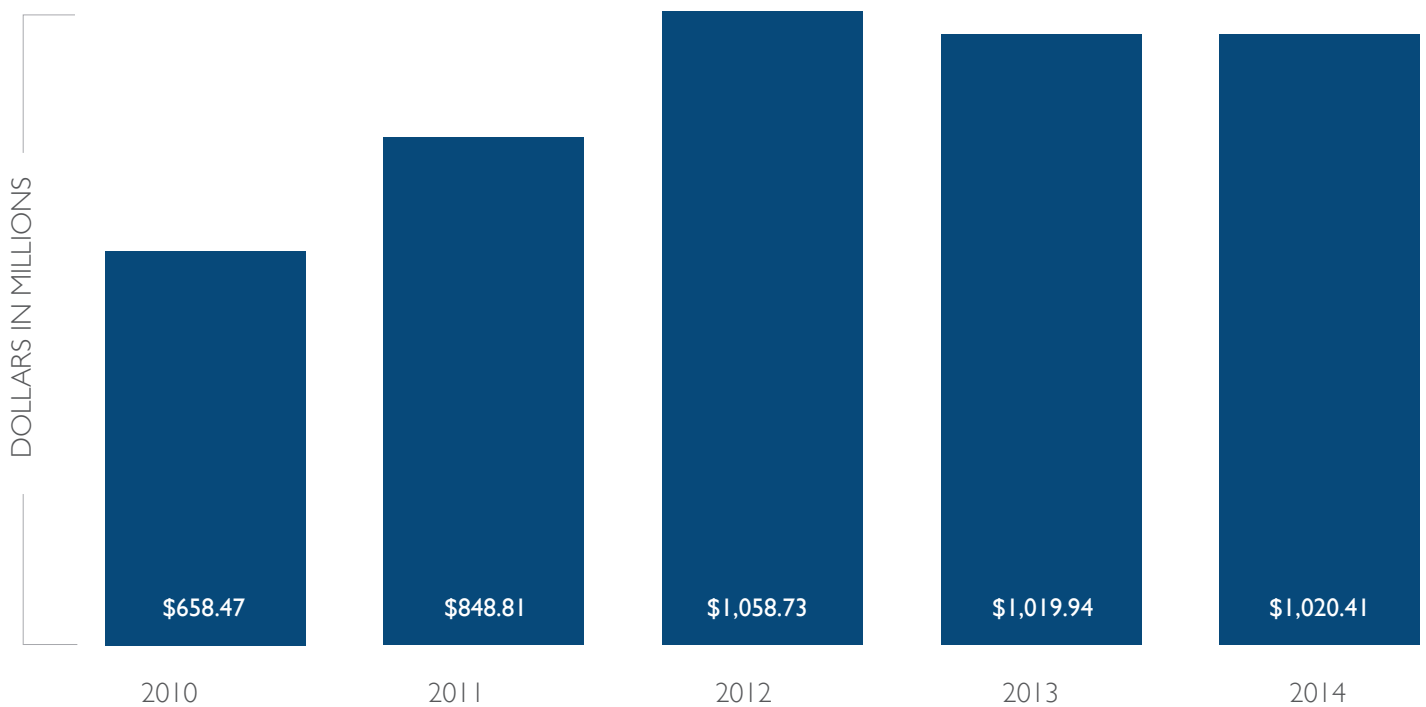
Companies purchasing past-due accounts from creditors aggressively use the courts to pursue collection. New York, Maryland, and North Carolina have implemented reforms requiring sufficient verification that a debt is legitimately owed before a collection suit can be filed. Despite concerns to the contrary, these and related debt collection reforms have not resulted in consumers losing access to credit.¹⁰⁶ Implementing this solution federally would require amending the FDCPA to: extend coverage to creditors themselves (acting as first-party collectors) as well as third-party collectors; implement stringent standards for documentation of debts owed and payment statuses that apply to all parties including debt buyers; and address state and local court procedures. States can also act independently on these measures.

Fund or offer legal assistance to all consumers who are sued by debt collectors or debt buyers. (Federal, state)

A dramatic expansion of public funding for Legal Aid organizations would go a long way toward leveling the playing field for consumers being sued over debt. In New Hampshire, the state-supported Periodic Payment Clinic uses “limited appearance” court procedures to help protect the rights of very poor residents (a defendant without counsel can work with a pro-bono lawyer to ensure that payment plans recognize all exemptions to which the defendant is entitled).¹⁰⁷ To reduce default judgments, mediation between creditors and debtors could be required before a lawsuit can proceed (as proved effective during the foreclosure crisis, when some cities and states implemented mandatory mediation programs to avert court proceedings for property seizures).¹⁰⁸ This strategy is not only good for debtors, but it can also benefit state and local governments: A Boston Bar Association study found that dollars spent on civil legal aid can result in net savings by reducing demand for state services.¹⁰⁹

FIGURE 5
PROCEEDS FROM LEGAL COLLECTIONS

Source: Center for Responsible Lending (https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl_past_due_debt_apr2016.pdf)



Reduce the rate of default judgments against debtors. (State, local)

A default judgment results when someone being sued does not mount a defense. The Center for Responsible Lending has recommended actions state officials can take to protect consumers from facing default judgments on debt they do not owe.¹¹⁰ These include court rules to ensure that those filing suit to collect debts possess and provide complete and accurate information on those debts and their right to pursue payment. Once in court, the debt collector must establish proof of adequate notification to the debtor and meet tighter evidentiary requirements for obtaining a default or summary judgment. Another critical reform would be to reduce the statute of limitations prohibiting collections efforts on old debts; this would entail a three- to four-year limit after which the debt would be not merely uncollectable, but extinguished under the law. Both state and county court systems can take action on these recommendations.

Eliminate use of arrest, imprisonment, or violation of parole as a debt collection tool. (State, local)

Debt collection lawsuits are typically civil actions rather than criminal prosecutions. The American Civil Liberties Union's recommendations for civil debt collection proceedings include prohibiting courts from issuing arrest warrants for failure to pay or to appear and precluding debt collectors from seeking arrest or jailing of alleged debtors in pursuit of payment.¹¹¹ Proposed legislation in Maryland would eliminate jail time for debt.¹¹²

Student Loan Burdens

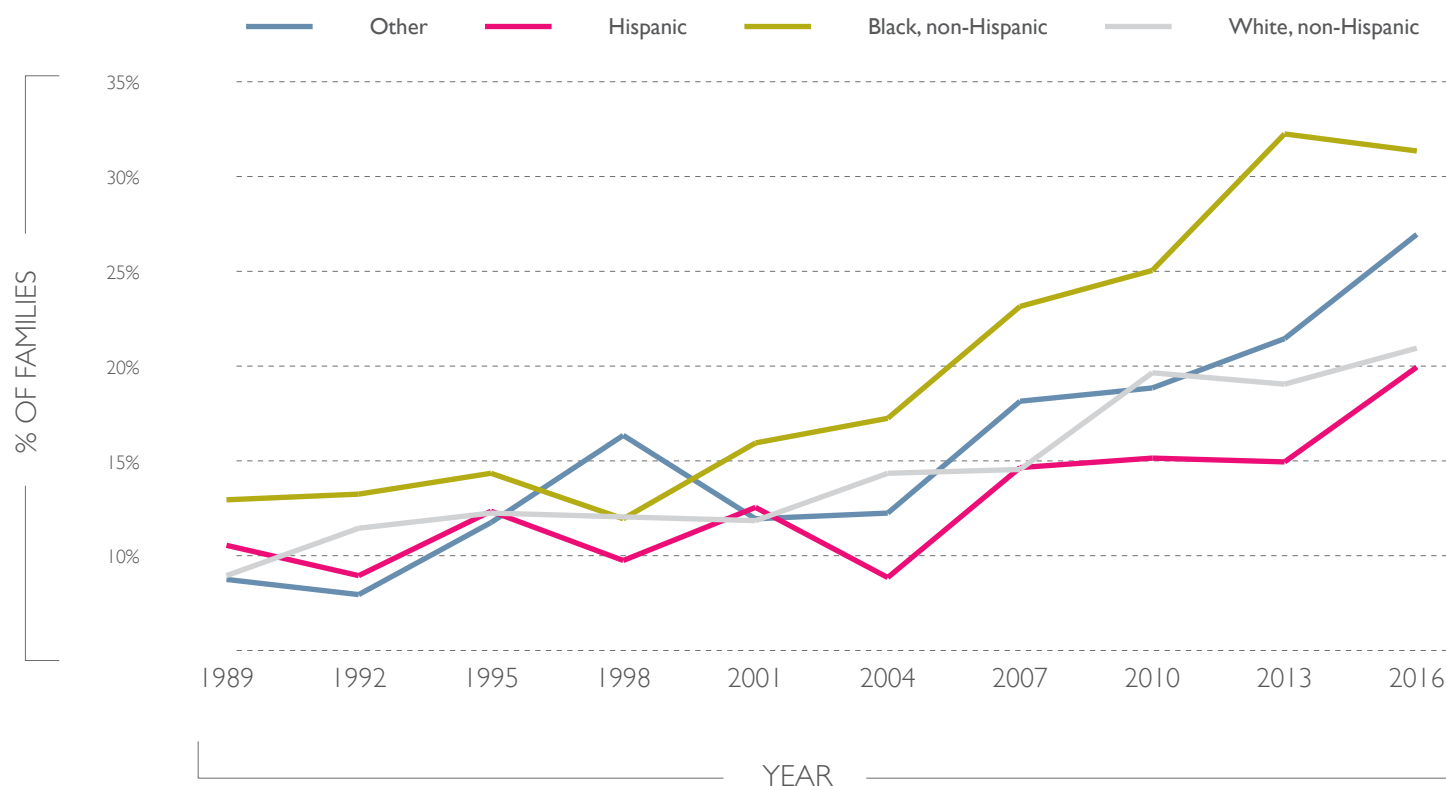
5

An illustration featuring a large, dark blue mountain on the left side of the page. From the top and sides of the mountain, several black graduation caps with red tassels are falling or flying off. In the air to the right of the mountain, there are several open books and white sheets of paper, also appearing to be falling or floating. At the base of the mountain, on the right, there is a small brown rectangular box or platform with more graduation caps and papers scattered around it. The background is a solid light blue color.

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.

FIGURE 6
PROPORTION OF HOUSEHOLDS WITH STUDENT LOANS,
BY RACE AND ETHNICITY

Source: Federal Reserve Board of Governors, Survey of Consumer Finances 2016 (<https://www.federalreserve.gov/econres/files/BulletinCharts.pdf>)



“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, JULY 2018

The cost of post-secondary education has risen dramatically in recent decades. Tuition at public four-year institutions has increased faster than the rate of inflation every year since 1980.¹¹³ From January 2006 to July 2016, the Consumer Price Index for college tuition and fees increased 63%, compared with overall inflation of 21%, while textbook prices increased 88% and housing at school went up by 51%.¹¹⁴

As a result, the proportion of students taking out education loans now exceeds 50%, double the rate in the 1980s. In 2017, half of outstanding federal education loan debt was held by the 12% of borrowers who owed \$60,000 or more.¹¹⁵

Signs point to this debt burden being unsustainable. As of June 2018, \$149 billion of the nearly \$1.4 trillion in outstanding federal student loan debt (about 11%) was in default.¹¹⁶ Twelve years after entering college, 27% of borrowers who first enrolled in 2003-04 had defaulted on at least one student loan.¹¹⁷ Variation by educational attainment was particularly sharp: 44% of those obtaining an undergraduate certificate had a student loan default, compared to 22% of those receiving associate's degrees and 8% of bachelor's degree holders.¹¹⁸

Outstanding student debt can jeopardize financial stability in the short run and limit wealth accumulation over the long run.¹¹⁹ More student debt is associated with greater difficulty staying current on other loan obligations, a higher probability of restricted access to credit, and a greater likelihood of declaring bankruptcy.¹²⁰ Student loan burdens appear to have contributed to a slowdown in household formation and a decline in homeownership.¹²¹

Because students of color disproportionately attend for-profit institutions, borrow more, and have lower graduation rates, they are at the greatest risk of financial hardship and experience disproportionate harm.¹²² Even black students who graduate college are at particular peril: four years after graduation, nearly half experience negative amortization on their federal undergraduate loans — meaning they owe more than when they left school — compared to just 17% of whites.¹²³

FIGURE 7 STUDENT LOAN DEFAULT RATES, BY LEVEL OF EDUCATION COMPLETED

Source: National Center for Education Statistics (<https://nces.ed.gov/fastfacts/display.asp?id=900>)

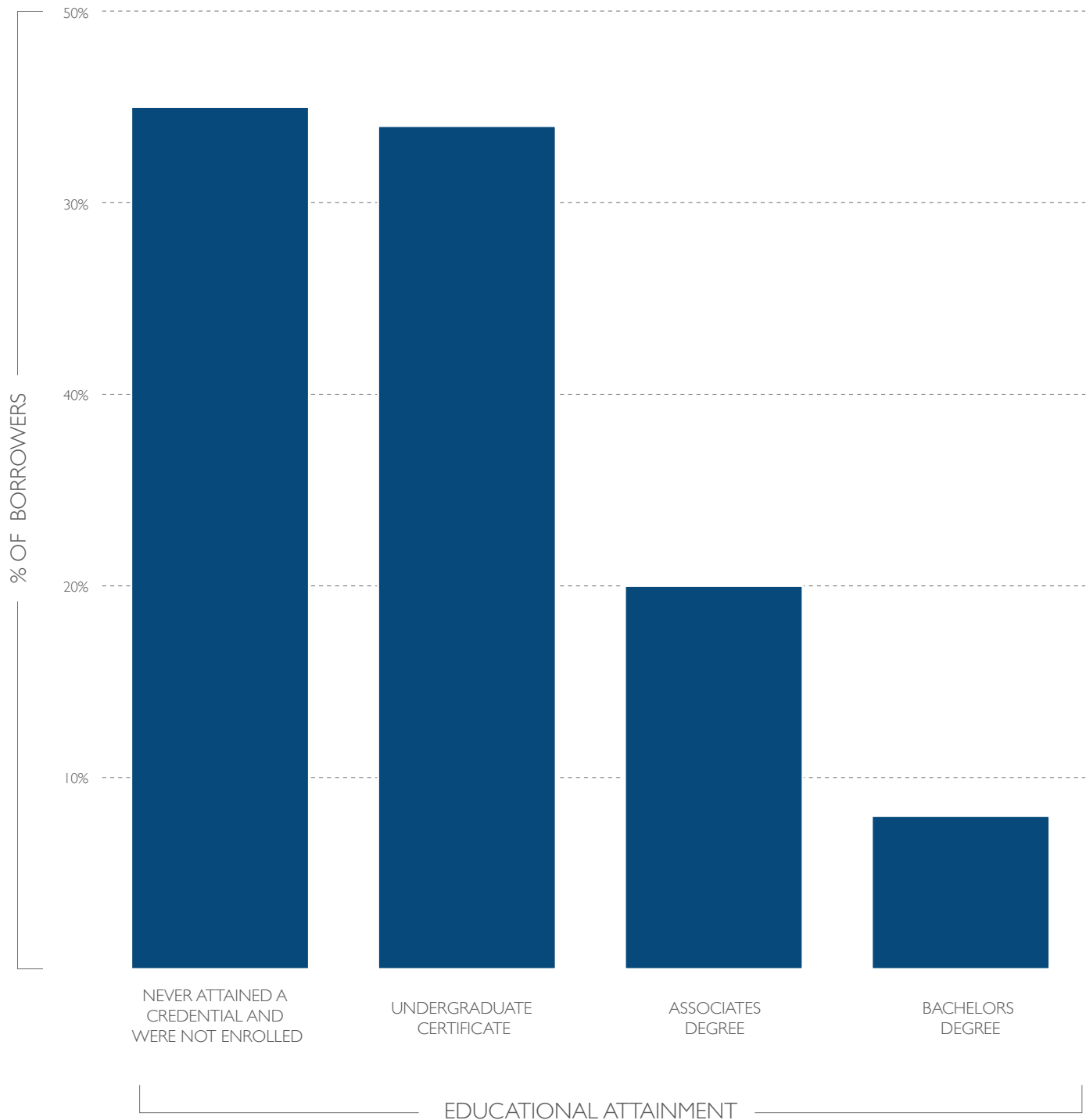


TABLE 6
SOLUTIONS TO REDUCE THE BURDEN OF STUDENT LOANS







PROVIDER	EXAMPLE	GOAL
<div>  EMPLOYERS </div>		<div> FRONT-END ■ Liability Incurred at Best Possible Terms </div> <div> IN ADVANCE ● Liability Prevented or Initial Amount Reduced </div> <div> Post-secondary education is more affordable for students and more equitable in cost and benefit for people of color </div>
<div>  GOVERNMENT </div>		
<div> Offer tuition assistance as an employee benefit </div>	Starbucks and US military	
<div> Dramatically increase federal grant aid for low-income students </div>	Double funding for the federal Pell Grant program	
<div> Implement debt-free public college programs that reach low-income students </div>	Programs in New York and Tennessee reduce borrowing but fail to reach low-income students	
<div> Regulate tuition rates at public colleges and universities </div>	Maryland Tuition Stabilization Account	
<div> Prohibit institutions with a history of poor outcomes for students from receiving federal loan funds in the future </div>	Department of Education's Gainful Employment Rule establishes these rules but is not enforced	
<div>  COLLEGES AND UNIVERSITIES </div>		
<div> Increase institutional grant aid and tuition waivers for low- and moderate-income students </div>	Stanford University Harvard University University of Illinois University of Michigan	

TABLE 6, CONTINUED

SOLUTIONS TO REDUCE THE BURDEN OF STUDENT LOANS

PROVIDER	EXAMPLE	GOAL
 EMPLOYERS		Reduced financial burden and increased well-being for people with unaffordable student loan debt
Offer student loan repayment benefits to employees	Hewlett Packard, Staples, U.S. Department of Justice, City of Memphis, TN	
 GOVERNMENT		
Streamline and expand income-driven repayment plans and loan forgiveness programs	Institute for College Access & Success and the Urban Institute have proposed reforms	
Make more student debt dischargeable in bankruptcy	Some federal judges are discharging more bankruptcy filers' student loan debt	
 COLLEGES AND UNIVERSITIES		
Establish hardship funds to assist financially insecure students facing expenses they cannot pay without additional borrowing or leaving school	University of Massachusetts Boston's U-ACCESS emergency aid program	

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

What Employers Can Do

Offer tuition assistance as an employee benefit.

Tuition assistance (an employer helping out with paying for college courses) is less common than it once was, but it remains a valuable resource to help students avoid taking on debt. These benefits are frequently restricted to higher-skill workers pursuing graduate studies, but some large firms have larger programs. Starbucks, for example, partners with Arizona State University to offer all its part- and full-time benefits-eligible US employees full tuition coverage for online coursework toward a bachelor's degree.¹²⁴ In the public sector, US Military active duty, National Guard, and Reserve service members can take advantage of the Military Tuition Assistance program that pays 100% of tuition expenses for post-secondary coursework (costing \$250 or less per semester hour).¹²⁵

What Colleges and Universities Can Do

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

"No Loans" financial aid policies (some requiring a minimum student contribution or part-time employment, and some requiring a parental contribution) are most feasible for the wide range of schools with relatively large endowments.¹²⁶ At Stanford, the program is for parents with income below \$125,000, and there is no parental contribution if income is below \$65,000 (there is a required student contribution from summer income, part-time work during school year, and savings).¹²⁷ The Harvard Financial Aid Initiative is similar, leading the school to state: "Ninety percent of American families would pay the same or less to send their children to Harvard as they would a state school."¹²⁸ While most public colleges and universities lack the billion-dollar endowments to support similar aid programs, some—including the University of Illinois¹²⁹ and University of Michigan¹³⁰—are committing funds to make tuition-free or debt-free education more broadly available.

What Government Can Do

Increase significantly grant aid for low-income students. (Federal)

Funding for Pell Grants—the primary federal program assisting low-income post-secondary students (over half of whom are age 24 or older, married, or have children)—should be significantly expanded and become an entitlement not subject to annual appropriations.¹³¹ The Brookings Institution finds that the program would need to more than double in size to fully meet students’ needs.¹³² Additional Pell Grant reforms proposed by the Brookings Institution include augmenting grant funds with tailored guidance and support services, dramatically simplifying the eligibility and application process, and strengthening incentives for students to complete degrees in a timely manner.

Implement debt-free college programs that target low-income students. (Federal, state)

Debt-free college programs reduce or eliminate tuition for certain residents with the goals of increasing access to higher education and reducing student loan burdens for low-income students. They have been implemented in several states, and are under consideration in others. New York’s Excelsior Scholarship, for example, makes tuition-free attendance at the City and State Universities of New York available to households with incomes up to \$125,000.¹³³ Tennessee Promise offers two years of tuition-free enrollment in the state’s community colleges. However, both programs are struggling to serve the low-income students they are designed for and seem instead to be channeling scarce resources to middle-income students without alleviating barriers for the poor. More piloting is necessary to develop effective debt-free college programs before existing models are expanded. The Institute for Higher Education Policy has a series of detailed recommendations, including providing low-income students with financial support for their non-tuition education expenses.¹³⁴

*“When I was applying to colleges **before the financial crisis, everyone said that student loan debt is an investment in your future.** Now, you need to think twice before you sign those loans.”*

FOCUS GROUP PARTICIPANT WHO DEFAULTED ON STUDENT LOANS, WASHINGTON, DC, JULY 2018

Regulate tuition rates at public colleges and universities. (State)

Tuition policy for public institutions is a key tool states have to influence post-secondary access and affordability. Several states place limits on the amount tuition can increase year to year, tied in some cases to an economic measure such as the rate of inflation.¹³⁵ To be effective, tuition regulation must be paired with increases in state funding for higher education. One such model is the Maryland Tuition Stabilization Account, a state-appropriated fund intended to limit tuition increases to the rate of growth in state median income.¹³⁶

Prohibit institutions with a history of poor student outcomes from receiving federal assistance. (Federal)

The federal government, provider of many of the grants and loans students use to finance their educations, can affect institutional behavior through its qualification rules for receiving assistance dollars. The Obama Administration created two rules to limit federal assistance to poor-outcome institutions: Borrower Defense (discharging loans of borrowers who were misled or mistreated by their schools), and Gainful Employment (setting minimum ratios for post-attendance earnings to debt).¹³⁷ In January 2017, the Department of Education estimated that about 10% of all covered programs would have failed to meet the Gainful Employment rule; 98% of the failing programs were at for-profit institutions.¹³⁸ While the Borrower Defense and Gainful Employment rules could do much to help struggling borrowers and reduce defaults, the Trump Administration has rolled back the Borrower Defense regulations and proposed elimination of the Gainful Employment rule.¹³⁹

Reduced financial burden and increased wellbeing for people with unaffordable student loan debt.

What Employers Can Do

Offer employees student loan repayment benefits.

Because of the link between high student loan burdens and low retirement savings, some employers have identified an innovative employee benefit opportunity: help for workers paying off student loans. Though just 4% of employers currently offer some sort of student loan repayment assistance, the numbers are growing.¹⁴⁰ Fidelity recently launched a Student Debt Employer Contribution benefit available both to its own employees and in employee benefit plans sold to client firms.¹⁴¹ Other benefit providers have entered the market, including Vault and tuition.io. Large companies offering these benefits include Hewlett Packard, Staples, and LiveNation. Student loan repayment benefits can take several forms, which impact the tax status of the benefit. Federal agencies can make direct payments to lenders on the workers' behalf, up to \$10,000 a year (with an overall cap of \$60,000), as a recruitment or retention incentive for job candidates or current employees.¹⁴² Memphis, Tennessee, recently became the first city to offer a student loan repayment benefit.¹⁴³ These benefits do not currently have the tax-exempt status of other employee benefits, but an alternative approach of providing the match as an employer contribution to the worker's retirement account could receive favorable tax treatment.

What Colleges and Universities Can Do

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

More than 70% of institutions of higher education offer some form of emergency aid program, which can range from food pantries to vouchers for on-campus dining or bookstores, emergency loans, completion scholarships, and both restricted and unrestricted grants.¹⁴⁴ However, for most colleges the need is greater than available resources, and program availability is known predominantly through word-of-mouth. UMass-Boston's U-ACCESS program offers a food pantry, case management, and information and resource referral to students suffering financial hardship due to chronic poverty, temporary homelessness, or emancipation from foster care.¹⁴⁵ One modest but meaningful opportunity for expansion would be increasing alumni financial support for emergency aid.

What Government Can Do

Streamline and expand income-driven repayment plans and loan forgiveness programs. (Federal)

Income-driven repayment (IDR) plans protect borrowers from default by linking payment to income. There are currently at least five federal IDR plans with varying eligibility requirements, costs, and benefits.¹⁴⁶ An obstacle currently being addressed is enabling multi-year data sharing consent to streamline and automate the annual reapplication process.¹⁴⁷ A proposal by the Institute for College Access & Success and the Urban Institute would streamline the multiple IDR plans into a single plan that would cap monthly payments at 10% of income, provide tax-free loan forgiveness after twenty years of payments, and prevent high-debt borrowers with high incomes who could afford to pay more from receiving forgiveness.¹⁴⁸ IDR can operate through payroll withholding, and it could be made the opt-out (or even sole) repayment option.¹⁴⁹

Make more student debt dischargeable in bankruptcy. (Federal)

Student loan creditors enjoy special protections against having their debts discharged by bankruptcy courts. Some federal judges, frustrated with bankruptcy filers exiting the process still burdened with large education debt, have begun using financial hardship tests to forgive or adjust more student debt.¹⁵⁰ Addressing the problem at scale will require Congressional action. Private student loans could be treated similarly to credit card and other unsecured debt and automatically discharged unless the bankruptcy filing is found to be in bad faith, or loans could be discharged if the lender had not verified the borrower's ability to repay.¹⁵¹ Federal loans could be discharged or reduced to affordable levels based on the bankruptcy filer's income and other obligations.

Medical Debt Burdens



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.

Out-of-pocket spending (what consumers must pay directly for medical care, rather than what they pay for health insurance, or what insurers pay on behalf of consumers) represents 11% of national health expenditures.¹⁵² Health care is not a normal consumer good: it is most frequently not a matter of choice, the price is often not known in advance,¹⁵³ and there is confusion about final costs due to insurance coverage variations, discounts, and other marketplace quirks.¹⁵⁴ Although most states require hospitals to report price information, it is often unavailable when seeking care: a 2016 study found that 44% of hospitals could not provide price quotes for a hip replacement.¹⁵⁵

In 2015, nearly a quarter of non-elderly households reported having medical debt, driven primarily by out-of-pocket spending.¹⁵⁶ The majority incurred all the debt while insured.¹⁵⁷ Nearly one-fifth of all consumers in the credit reporting system have a medical debt collection tradeline, and more than half of those have otherwise clean credit histories.¹⁵⁸ A JPMorgan Chase Institute analysis found that common consumer responses to receiving large medical bills is to delay payment until they receive tax returns.¹⁵⁹ Although aggressive debt collection practices—such as negatively reporting patients to credit agencies, placing liens on property, and garnishing wages—are now banned, one in five hospitals continue to use them. Less than half of hospitals comply with the Patient Protection and Affordable Care Act (ACA) requirement to notify patients about potential eligibility for charity care before resorting to collection.¹⁶⁰

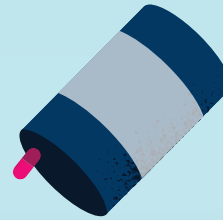
A higher proportion of black Americans age 18 to 64 (one in three) have past-due medical bills than the population at large (one in four).¹⁶¹ High cost-sharing particularly impacts people of color, who on the whole have lower incomes and less ability to rely on assets such as housing equity. The average family deductibles for health insurance exchange plans are unaffordable for many African-American and Latino households, leaving them unable to access care without incurring debt, despite having insurance.¹⁶² These expenses compound the physical and mental health challenges these racial groups face due to lack of access to care.

FIGURE 8
MEDICAL DEBT FACTS AND FIGURES



52%

of all collections
tradelines are associated
with medical providers^v



38%



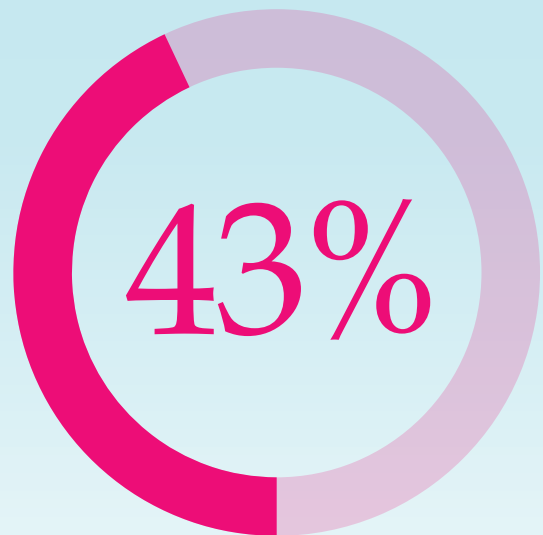
of all low-income households
have medical debt^{vi}



On average, an individual with
overdue medical debt owes^{vii}



\$1,766



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^{viii}

v https://files.consumerfinance.gov/f/201412_cfpb_reports_consumer-credit-medical-and-non-medical-collections.pdf

vi <http://www.aspenepic.org/epic-issues/consumer-debt/consumer-debt-primer/>

vii https://files.consumerfinance.gov/f/201412_cfpb_reports_consumer-credit-medical-and-non-medical-collections.pdf

viii <https://kaiserfamilyfoundation.files.wordpress.com/2016/01/8806-the-burden-of-medical-debt-results-from-the-kaiser-family-foundation-new-york-times-medical-bills-survey.pdf>

TABLE 7
SOLUTIONS TO REDUCE MEDICAL DEBT



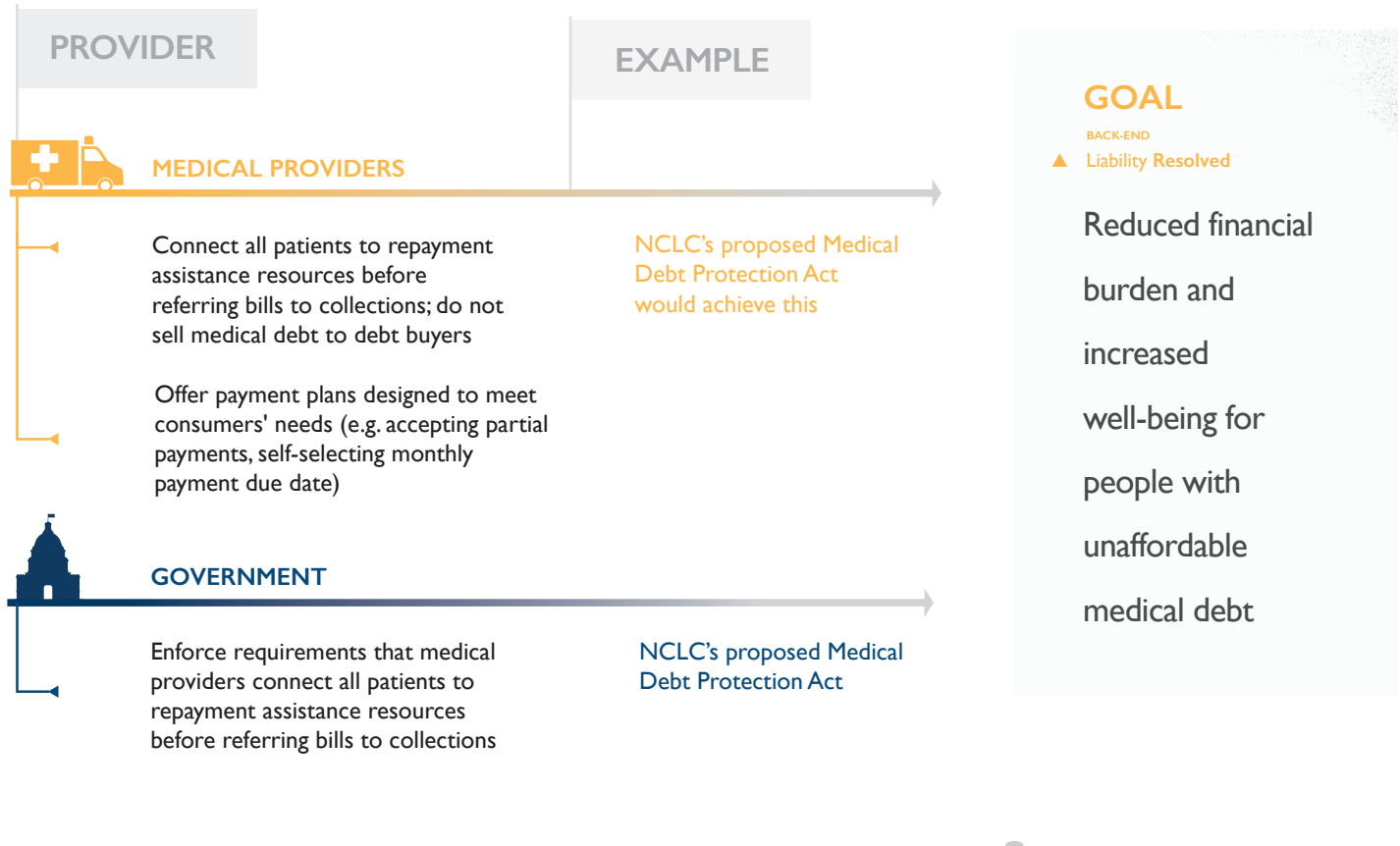
PROVIDER	EXAMPLE	GOAL
<div>  <div>MEDICAL PROVIDERS</div> </div>		
<div> <div>  <div>GOVERNMENT</div> </div> </div>		
<div> <div> <div> <div></div> <div>Increase transparency of out-of-pocket costs</div> </div> </div> </div>	<div> <div> <div></div> <div>The American College of Physicians has endorsed cost-transparency policies</div> </div> </div>	<div> <div>GOAL</div> <div> <div>Fewer people have medical debt and amounts of medical debt ever incurred are reduced</div> </div> </div>
<div> <div> <div></div> <div>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</div> </div> </div>	<div> <div> <div></div> <div>Colorado, Maine, and New Hampshire all have laws requiring price transparency from health care providers or insurers</div> </div> </div>	
<div> <div> <div></div> <div>Fully implement Medicaid expansion</div> </div> </div>	<div> <div> <div></div> <div>Medicaid expansion in Michigan reduced enrollees' medical debts and incidence of maxed-out credit cards</div> </div> </div>	
<div> <div> <div></div> <div>Establish single-payer healthcare systems</div> </div> </div>	<div> <div> <div></div> <div> <div>The California Senate passed single-payer legislation in 2017 and will consider it again in 2019</div> <div>Nevada passed but did not enact "Medicaid buy-in"</div> </div> </div> </div>	

TABLE 7, CONTINUED
SOLUTIONS TO REDUCE MEDICAL DEBT



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

What Medical Providers and Insurers Can Do

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

Medical providers and insurance companies can choose to improve overall cost transparency independent of any regulatory requirements. As advocated by the American College of Physicians, measures would include improved and accessible price information, clear communication about in- or out-of-network status and estimated out-of-pocket payment responsibilities, patient-targeted decision-making tools, and processes to reduce the risk of surprise bills for out-of-network services.¹⁶³ Health care consumers should not, however, be expected to reduce medical debt solely through comparison shopping (and certainly not by foregoing medically necessary care simply because they cannot afford it). Transparency reforms will work best in harnessing competition to control costs.

What Government Can Do

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)

It can be extraordinarily hard to know the cost of health care. The American College of Physicians advocates requiring private and public health plans to submit standardized data to an all-payer claims database and prohibiting “gag clauses” that interfere with transparency.¹⁶⁴ Colorado, Maine, New Hampshire, and several other states have enacted reforms to increase transparency and limit out-of-pocket costs, and the reforms — in combination with other consumer protections — have been effective. State-by-state reforms can reflect local markets and encourage experimentation, but, due to the Employee Retirement Income Security Act (ERISA), imposing requirements on employer self-funded health plans (which comprise half of the privately-insured market) requires federal action.¹⁶⁵ Cost transparency has greater promise for reducing medical debt by changing the marketplace. This has been demonstrated in other areas where implementing transparency requirements has had measurable impact on costs. For example, wage and salary transparency initiatives have been shown to moderate wage growth and improve service delivery.¹⁶⁶

Fully implement Medicaid expansion. (State)

Seventeen states have not adopted the ACA's expansion of Medicaid (the federal/state program supporting free or low-cost health care for low-income populations and disabled people), including many of the states with the largest black populations.¹⁶⁷ The states that have expanded the program have seen improved health outcomes, fewer unpaid bills, reduced medical debt and collections activity (an estimated reduction in collection balances of \$1,140 among those gaining coverage),¹⁶⁸ and increased financial security generally (including improved credit scores and lower probability of bankruptcy filings).¹⁶⁹ Recent research on Michigan's 2014 Medicaid expansion found that new enrollees that year have since improved several aspects of debt-related financial insecurity, including reductions in overdue medical bills, maxed-out and overdue credit cards, wage garnishments, and bankruptcies.¹⁷⁰ Expansion states have seen a net positive budgetary impact.¹⁷¹ Medicaid expansion has not resulted in significant changes in employment, job switching, or full- versus part-time status, so there is no evidence that increased eligibility discourages work;¹⁷² future adoption should not include punitive work requirements that could diminish the positive results associated with expansion.¹⁷³

Establish single-payer health care systems. (Federal, state)

The experience of other developed economies indicates that adopting a single-payer approach¹⁷⁴ would reduce overall health costs and individual out-of-pocket spending.¹⁷⁵ Although national uniformity would be ideal, California, Michigan, and Maryland are exploring state-level single-payer systems.¹⁷⁶ Nevada in 2017 passed an intermediate option that would have offered a Medicaid-style plan as a public option on the state's health insurance exchange, but the legislation was vetoed by Governor Brian Sandoval.¹⁷⁷ US Senator Chris Murphy of Connecticut has proposed creating a public option within the ACA framework.¹⁷⁸ Finally, while single-payer systems are likely to do the most to simplify health care costs for consumers, policies such as California's consideration of state-wide price-setting could achieve many of the same goals.¹⁷⁹

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

What Medical Providers and Insurers Can Do

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

Medical providers and insurance companies can choose to improve billing and collections practices independent of any regulatory requirements. This can include allowing patients to self-select monthly due dates for payments (to fit household cash flows) and accepting partial payments in lieu of incurring the third-party costs of pursuing payment in full. Medical providers should refrain from referring any bill to collections before a charity care evaluation has been made and all insurance appeals have been exhausted. Neither care providers nor insurers should ever sell medical debt to debt buyers.

What Government Can Do

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

The ACA requires hospitals to connect patients to charity care before referring them to collections, but this is poorly enforced and suffers from low compliance.¹⁸⁰ The law was somewhat more successful in using tax code provisions to reduce the use of aggressive collections methods by non-profit providers in an effort to prevent credit score damage and bankruptcy filings due to medical bills. The Model Medical Debt Protection Act developed by NCLC¹⁸¹ would require financial assistance policies to cover more patients, establish specific financial guidelines for charity care and discounted care, and add procedural safeguards to protect consumers from aggressive or unfair debt collection practices.

Burdensome Government Fines and Fees



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.

State and local governments faced with the need to raise revenue have increased fees and fines, introduced new ones, and intensified collection efforts.¹⁸² Aggressive collection measures available to state and local governments include suspending drivers' licenses¹⁸³ and excluding debtors from public employment.¹⁸⁴ These penalties can be counterproductive: faced with the choice between driving to work on a suspended license or losing their jobs, many choose to maintain employment; those who are caught may be arrested, often face jail time, and incur further costs from the judicial system, all making collection of the original debt less likely.¹⁸⁵ The California State Auditor found that numerous state and county programs there rely on traffic citation fees that often go unpaid and that administering and collecting fines and fees actually costs the government more money than it receives.¹⁸⁶

Cities with large African-American populations are associated with levying large amounts of fines and fees.¹⁸⁷ Ferguson, Missouri became a prominent example in 2015 in the wake of Michael Brown's killing by a police officer; the Justice Department's investigation found the city imposed high fines and fees and consistently set maximizing revenue as a priority for law enforcement activity.¹⁸⁸ When Missouri subsequently limited municipal reliance on traffic offense revenue, some St. Louis County municipalities appeared to turn to non-traffic fines and fees (for transgressions such as having mismatched curtains or barbecuing in the yard).¹⁸⁹

Debt resulting from involvement in court systems has also been mounting, coincident with a dramatic increase in debt buyers' aggressive use of the courts for collections.¹⁹⁰ Incarceration has become an increasingly common response, even when jail time is not a mandatory penalty.¹⁹¹ Increased use of cash bail¹⁹² has contributed to de facto debtors' prison for impoverished people awaiting trial.¹⁹³

Unlike the other types of debt discussed in this report, the harms of debt from government-issued fines and fees are created entirely through government policy. For that reason, all the solutions below are aimed at state and local governments. Non-profits and community organizations are playing a key role in supporting those who are struggling with fines and advocating for change, but only government action can fully resolve the problem.



The California State Auditor found that numerous state and county programs there rely on traffic citation fees that often go unpaid and that administering and collecting fines and fees actually costs the government more money than it receives.

TABLE 8
SOLUTIONS TO REDUCE GOVERNMENT FINES AND FEES







PROVIDER	EXAMPLE	GOAL
<div>  <div>GOVERNMENT</div> </div> <div> <ul style="list-style-type: none"> 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 </div>	<div> <p>San Francisco's Financial Justice Project recommends eliminating fines for loitering, blocking sidewalks, and similar offenses</p> <p>Proposed by the Fines and Fees Justice Center</p> </div>	<div> <p>GOAL</p> <p>IN ADVANCE</p> <ul style="list-style-type: none"> Liability Prevented or Initial Amount Reduced <p>Government agencies and court systems impose fewer and smaller fines and fees</p> </div>

TABLE 8, CONTINUED

SOLUTIONS TO REDUCE GOVERNMENT FINES AND FEES

PROVIDER	EXAMPLE	GOAL <small>BACK-END</small> ▲ Liability Resolved Collections processes for government fines and fees do not impede a debtor's livelihood or reduce ability to repay
 GOVERNMENT		
 Implement new strategies for states and municipalities to collect fines and fees designed to meet consumers' needs	Missouri offers zero-interest payment plans for a wide range of fines and fees	
 Offer non-financial repayment options such as community service or participation in financial counseling	Proposed by the National Task Force on Fines, Fees, and Bail Practices	
 Eliminate imprisonment or violation of parole as a consequence of unpaid debt	Maryland's S.B. 022 would prohibit body attachments for unpaid debts	
 Eliminate punishments that reduce ability to repay and impede people's livelihoods	California eliminated driver's license suspensions for unpaid court costs and allows fines and fees to be dismissed due to inability to repay	

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

What Government Can Do

Reform state and municipal laws and regulations that enable frivolous or unfair civil fines and fees. (State, local)

Governments should cease issuance of tickets for inconsequential transgressions such as walking on the wrong side of the crosswalk, leaving items outside, or having mismatched window blinds, and ideally take these laws off their books. San Francisco's Financial Justice Project has recommended eliminating fees for loitering, blocking sidewalks, and similar offenses and is working with other city agencies to implement its recommendations.¹⁹⁴

Explore alternative public funding models to reduce need to rely on fines and fees for revenue. (State, local)

NCLC and others have stressed the importance of addressing conflicts of interest that arise when those administering justice rely on revenue generated through fines and fees and court debt.¹⁹⁵ New research demonstrates that when cities and towns experience budget deficits, they increase arrest rates, especially in states where the municipality is allowed to keep any assets seized in the arrest.¹⁹⁶ Missouri now caps the permissible share of municipal budget revenue from traffic fines at 12.5%.¹⁹⁷ The California State Auditor has recommended eliminating use of penalty and fee revenue as funding sources for state and county programs.¹⁹⁸ The Conference of State Court Administrators calls on the judiciary to "moderate or staunch the legislative impulse (and sometimes its own) to add additional and higher fees."¹⁹⁹ The Fines & Fees Justice Center advocates eliminating judicial system use of fees to generate revenue,²⁰⁰ and San Francisco has eliminated all local criminal justice administrative fees.²⁰¹

Assess fines and fees at levels proportional to seriousness of the offense and ability to repay. (State, local)

The schedules of punitive state and local fines and fees can be disconnected from the seriousness of violations, and the impact of their imposition can vary widely depending on the resources of the offender. The Fines & Fees Justice Center calls for making fines proportional to the offense and the individual's ability to pay.²⁰²

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

What Government Can Do

Implement new strategies for states and municipalities to collect fines and fees. (State, local)

Governments as creditors can undertake a cost-benefit analysis of their debt collection strategies. San Francisco is auditing the revenue generated by fines and fees compared to cost of collections efforts.²⁰³ Courts can stop issuing bench warrants for unpaid debt and eliminate use of private collection services. Less punitive collection strategies can realize net savings by reducing the large costs associated with incarceration. Missouri allows indigent defendants to pay fines with zero interest payment plans.²⁰⁴ San Francisco is considering setting fines as a percentage of daily earnings, and it already deeply discounts tow and boot fees for people earning below 200% of the Federal Poverty Line.²⁰⁵

Offer non-financial repayment options. (State, local)

Governments as creditors can provide opportunities for alternative satisfaction of debt obligations. The National Task Force on Fines, Fees and Bail Practices has established principles for developing “more fair, transparent, and efficient methods of judicial practice,” including judicial discretion to impose non-monetary sanctions.²⁰⁶ These can include community service, completion of a driving class, or participation in financial counseling.

Eliminate punishments that impede livelihood. (State, local)

The consequences for non-payment of a fine or fee should not exacerbate the inability to pay. Harmful policies currently in use include driver's license suspensions, reporting unpaid fines and fees to consumer credit bureaus (impacting employment prospects), wage garnishment, bank account seizures, and imprisonment. In 2017, California banned the use of driver's license suspension for outstanding traffic fines, and it allows fines and fees to be dismissed for people who demonstrate severe financial hardship.²⁰⁷ Proposed Florida legislation would end driver's license suspension for certain non-driving offenses.²⁰⁸ The National Consumer Law Center has detailed recommendations for the limitation of wage garnishments, account seizures, and similar policies in its “No Fresh Start” report.²⁰⁹

Reduce or eliminate criminal justice system practices that can result in imprisonment solely for lack of ability to pay. (State, local)

People charged with crimes who do not pose a risk for not appearing in court may nonetheless be jailed solely due to inability to post bond. New Jersey has largely replaced cash bail with an assessment process that has reduced pre-trial detention.²¹⁰ The National Task Force on Fines, Fees and Bail Practices principles include requiring a hearing that would assess ability to pay and suitability in the particular circumstances of alternatives to imprisonment prior to incarceration or revocation of probation for nonpayment of court-ordered legal financial obligations.²¹¹ In Maryland, efforts to prohibit body attachments (warrants requiring a person to appear in court) issued for people with debt in collections began in 2018 with S.B. 022; the legislation is on track to be reintroduced in the 2019 legislative session.²¹²

CONCLUSION

At \$3.8 trillion, US consumers' total non-mortgage debt stands at a record high. Defaults are growing. Debt in collection appears on one-third of credit reports. Just as the 2008 crisis reflected structural flaws, so consumer debt today reflects systemic issues whose solutions demand committed leadership.

Fortunately, as the menu of options presented in this report demonstrates, all stakeholders have the power to make a difference right now. Nonprofits can help families avoid taking on high-cost debt and pay off what they already owe. Employers can help workers automatically save part of their paychecks, offer student loan repayment benefits, and facilitate early access to earned wages when workers need it. Financial services providers can design early interventions so people who fall behind on debt payments can get back on track. Regulators can crack down on abusive lenders and harmful collection methods. The federal government can expand Pell grants for low-income students and deny federal assistance to institutions with a history of poor student outcomes.

In short, there are promising responses which deserve the leadership Aspen and others are committed to providing. 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.

APPENDICES

A. SOLUTIONS FOR FINANCIAL SERVICES PROVIDERS	78
B. SOLUTIONS FOR EMPLOYERS	79
C. SOLUTIONS FOR COLLEGES AND UNIVERSITIES	80
D. SOLUTIONS FOR MEDICAL PROVIDERS AND INSURERS	81
E. SOLUTIONS FOR FEDERAL GOVERNMENT	82
F. SOLUTIONS FOR STATE GOVERNMENTS	85
G. SOLUTIONS FOR LOCAL GOVERNMENTS	88

A. SOLUTIONS FOR FINANCIAL SERVICES PROVIDERS

PROBLEM

GOAL

SOLUTIONS

Lack of savings or financial cushion

● IN ADVANCE

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

- 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

Restricted access to high-quality credit

■ FRONT-END

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

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

■ FRONT-END

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

- 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, rent, and transaction account data

■ FRONT-END

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

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

Exposure to harmful loan terms and conditions

■ FRONT-END

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

- 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

Detrimental delinquency, default, and collections practices

▲ BACK-END

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

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

B. SOLUTIONS FOR EMPLOYERS

PROBLEM

GOAL

SOLUTIONS

Lack of savings or financial cushion

● IN ADVANCE

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

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

Exposure to harmful loan terms and conditions

■ FRONT-END

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

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

Student loan burdens

■ FRONT-END

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

- Offer tuition assistance as an employee benefit

▲ BACK-END

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

- Offer student loan repayment benefits to employees

C. SOLUTIONS FOR COLLEGES AND UNIVERSITIES

PROBLEM	GOAL	SOLUTIONS
Student loan burdens	<div><div></div><div>IN ADVANCE</div></div> <p>Post-secondary education is more affordable for students and more equitable in cost and benefit for people of color</p>	<ul style="list-style-type: none">• Increase institutional grant aid and tuition waivers for low- and moderate-income students• Establish hardship funds to assist financially insecure students facing expenses they cannot pay without additional borrowing or leaving school
	<div><div></div><div>BACK-END</div></div> <p>Reduced financial burden and increased well-being for people with unaffordable student loan debt</p>	

D. SOLUTIONS FOR MEDICAL PROVIDERS AND INSURERS

PROBLEM

Medical debt burdens

GOAL

● IN ADVANCE

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

▲ BACK-END

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

SOLUTIONS

- Increase transparency of out-of-pocket costs
- 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)

E. SOLUTIONS FOR FEDERAL GOVERNMENT

PROBLEM

GOAL

SOLUTIONS

Lack of savings or financial cushion

● 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

- Allow automatic enrollment in savings accounts via payroll deductions
- Build infrastructure for emergency savings
- Provide matches on short-term savings

Restricted access to high-quality credit

● IN ADVANCE

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

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

■ FRONT-END

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

- 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

▲ BACK-END

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

- Fund non-profit credit counseling at scale
- Reform Chapter 13 Bankruptcy payment plans

Exposure to harmful loan terms and conditions

■ FRONT-END

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

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

E. SOLUTIONS FOR FEDERAL GOVERNMENT CONTINUED

PROBLEM

GOAL

SOLUTIONS

Detrimental delinquency, default, and collections practices

▲ 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.

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

Student loan burdens

■ FRONT-END

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

- Increase significantly grant aid for low-income students
- Implement debt-free public college programs that target low-income students
- Prohibit institutions with a history of poor student outcomes from receiving federal assistance

▲ BACK-END

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

- Streamline and expand income-driven repayment plans and loan forgiveness programs
- Make more student debt dischargeable in bankruptcy


Medical debt burdens

● IN ADVANCE

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

- 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
- Establish single-payer healthcare systems

E. SOLUTIONS FOR FEDERAL GOVERNMENT CONTINUED

PROBLEM	GOAL	SOLUTIONS
Medical debt burdens	<div> BACK-END</div> <p>Reduced financial burden and increased well-being for people with unaffordable medical debt</p>	<ul style="list-style-type: none">Enforce requirements that medical providers connect patients to repayment assistance resources before referring bills to collections

F. SOLUTIONS FOR STATE GOVERNMENTS

PROBLEM

GOAL

SOLUTIONS

Lack of savings or financial cushion

● IN ADVANCE

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

- Build infrastructure for emergency savings
- Provide matches on short-term savings

Restricted access to high-quality credit

● IN ADVANCE

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

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

■ FRONT-END

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

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

▲ BACK-END

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

- Fund non-profit credit counseling at scale

Exposure to harmful loan terms and conditions

■ FRONT-END

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

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

Detrimental delinquency, default, and collections practices

▲ BACK-END

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

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

F. SOLUTIONS FOR STATE GOVERNMENTS CONTINUED

PROBLEM

GOAL

SOLUTIONS

Detrimental delinquency, default, and collections practices

▲ 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.

- 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
- Fund or offer legal assistance or representation to all consumers who are sued by debt collectors/buyers
- Reduce the rate of default judgments against debtors
- Eliminate use of arrest, imprisonment, or violation of parole as a debt collection tool

Student loan burdens

● IN ADVANCE

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

- Implement debt-free public college programs that target low-income students
- Regulate tuition rates at public colleges and universities

Medical debt burdens

● IN ADVANCE

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

- 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

▲ BACK-END

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

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

Government fines and fees


● IN ADVANCE

■ FRONT-END

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

- 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

F. SOLUTIONS FOR STATE GOVERNMENTS CONTINUED

PROBLEM	GOAL	SOLUTIONS
Government fines and fees	<div> BACK-END</div> <p>Collections processes for government fines and fees do not impede a debtor’s livelihood or reduce ability to repay</p>	<ul style="list-style-type: none">• Implement new strategies for states and municipalities to collect fines and fees designed to meet consumers’ needs• Offer non-financial repayment options such as community service or participation in financial counseling• Eliminate imprisonment or violation of parole as a consequence of unpaid debt• Eliminate punishments that reduce ability to repay and impede people’s livelihoods

G. SOLUTIONS FOR LOCAL GOVERNMENTS

PROBLEM

GOAL

SOLUTIONS

Restricted access to high-quality credit

● IN ADVANCE

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

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

Detrimental delinquency, default, and collections practices

▲ BACK-END

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

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

▲ 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.

- Reduce the rate of default judgments against debtors
- Eliminate use of arrest, imprisonment, or violation of parole as a debt collection tool

Government fines and fees

● IN ADVANCE

■ FRONT-END

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

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

▲ BACK-END

Collections processes for government fines and fees do not impede a debtor's livelihood or reduce ability to repay

- Implement new strategies for states and municipalities to collect fines and fees designed to meet consumers' needs
- Offer non-financial repayment options such as community service or participation in financial counseling
- Eliminate imprisonment or violation of parole as a consequence of unpaid debt
- Eliminate punishments that reduce ability to repay and impede people's livelihoods

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Lifting the Weight

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