

Lifting the Weight

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



@AspenFSP

#AspenEPIC



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

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

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

I tried to cancel [the yoga class].

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

It's just crazy.

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

BALTIMORE, MD | *JULY 2018*

I was about \$30,000 in debt, but because of my income,
**there's no way that I can
meet my needs, live, and
pay debt too.**

Bankruptcy was my choice.

FOCUS GROUP PARTICIPANT WHO SUCCESSFULLY COMPLETED CHAPTER 13 BANKRUPTCY

WASHINGTON, DC | JULY 2018

If I could do it all over again,

**I would not have
gone to school...**

I wish I could **take that back.**

FOCUS GROUP PARTICIPANT WITH UNAFFORDABLE STUDENT LOANS

BALTIMORE, MD | JULY 2018

EXPANDING
PROSPERITY
IMPACT
COLLABORATIVE

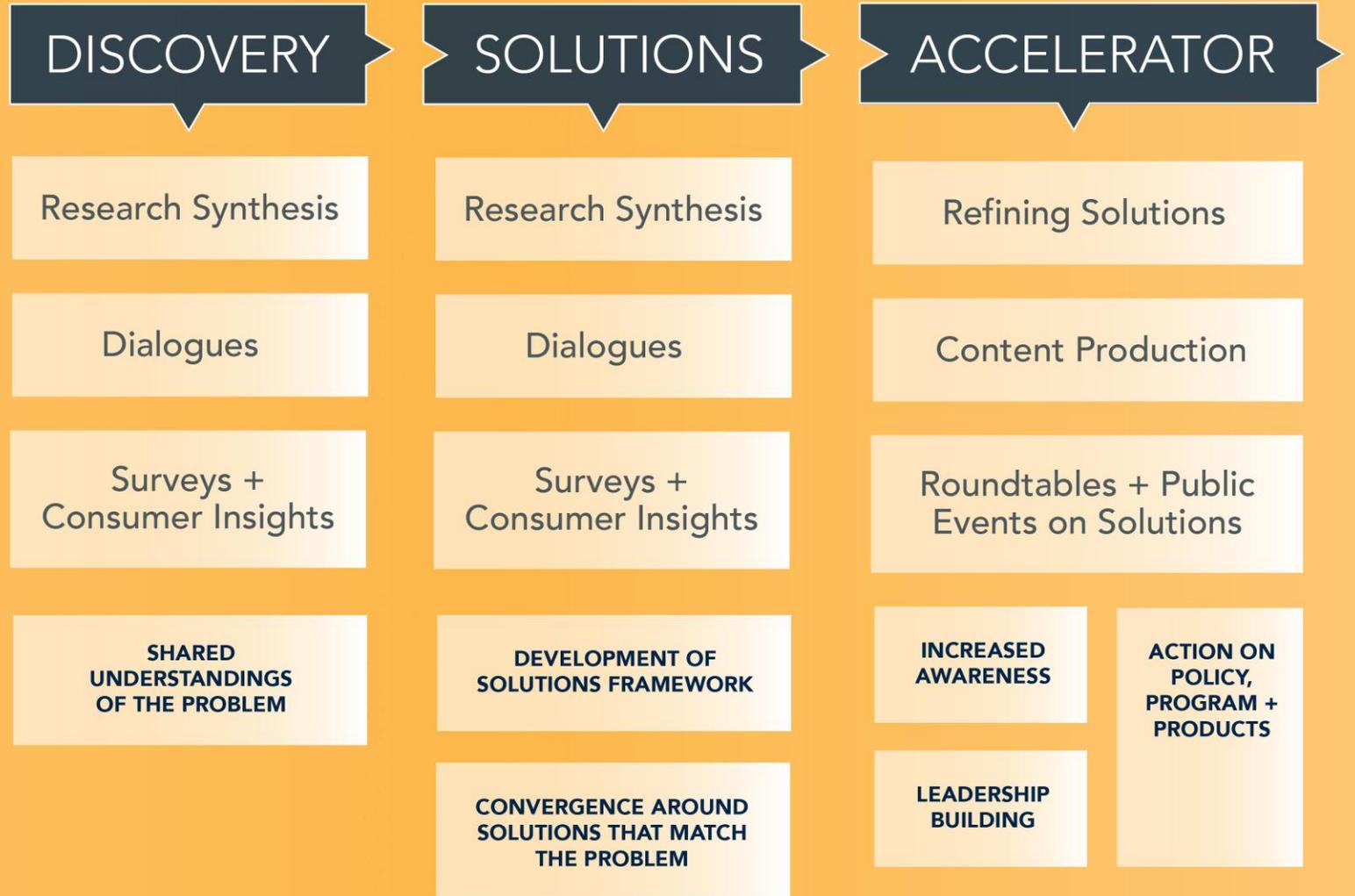
deeply
explores one
issue at a time,
with the goal of
illuminating and solving
critical dimensions of household
financial insecurity





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

how epic WORKS



The Consumer Debt Crisis

The background features a textured yellow surface on the left and a blue area on the right. The blue area is composed of various geometric shapes, including squares and polygons, some of which are splattered or fragmented, creating a dynamic and abstract composition.

Consumer Debt

includes all forms of **non-mortgage** debt, such as:

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

like medical debt and money owed to local or state governments



Consumer debt has reached *record* levels

\$4.29T

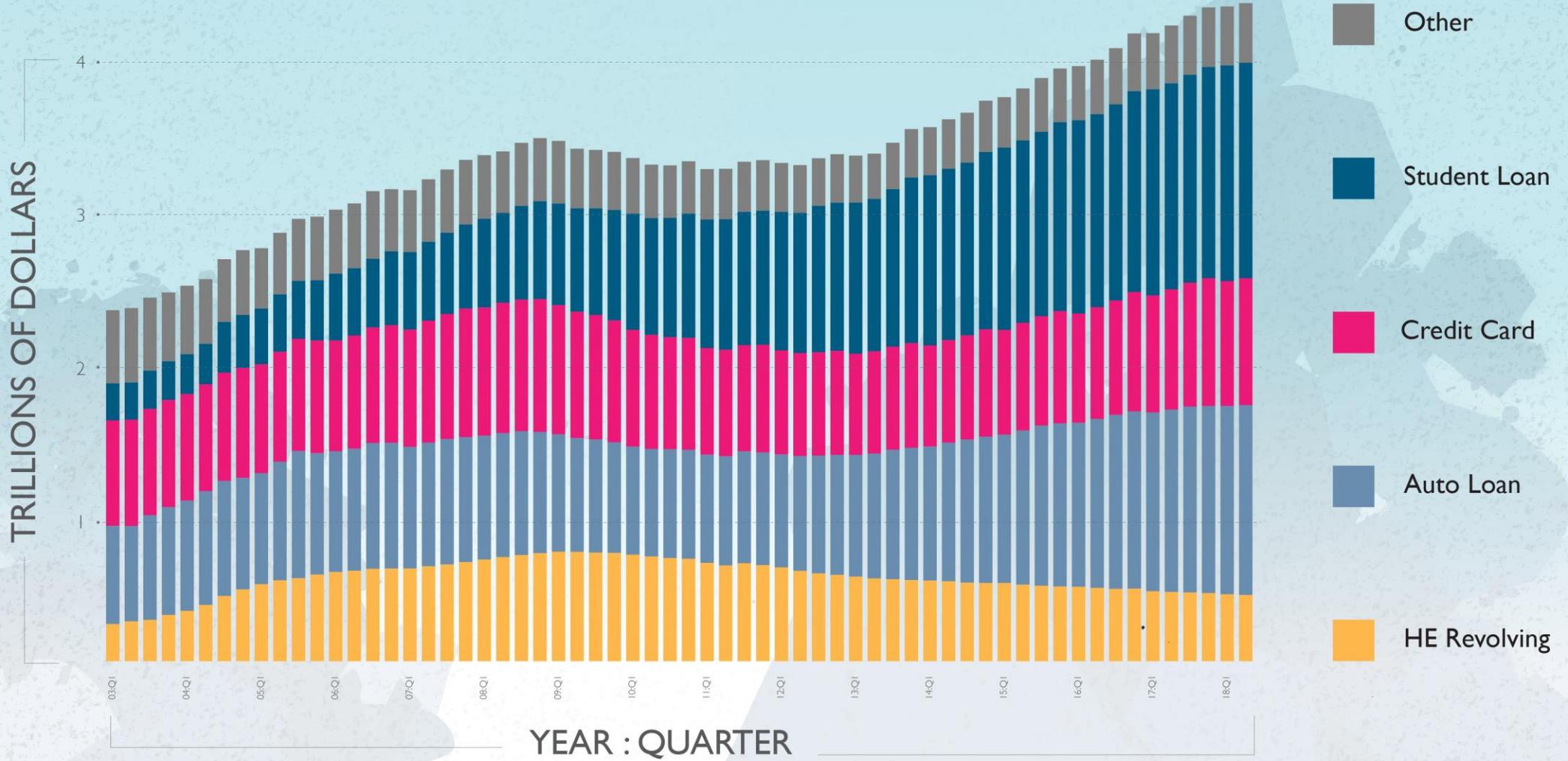
\$2.29T

Q1 2003

Q2 2018



AGGREGATE NON-MORTGAGE DEBT, 2003 - 2018



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

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



Debt-stressed consumers...

are over

2X

as likely to suffer from
*depression and
anxiety disorders*

have worse
physical health

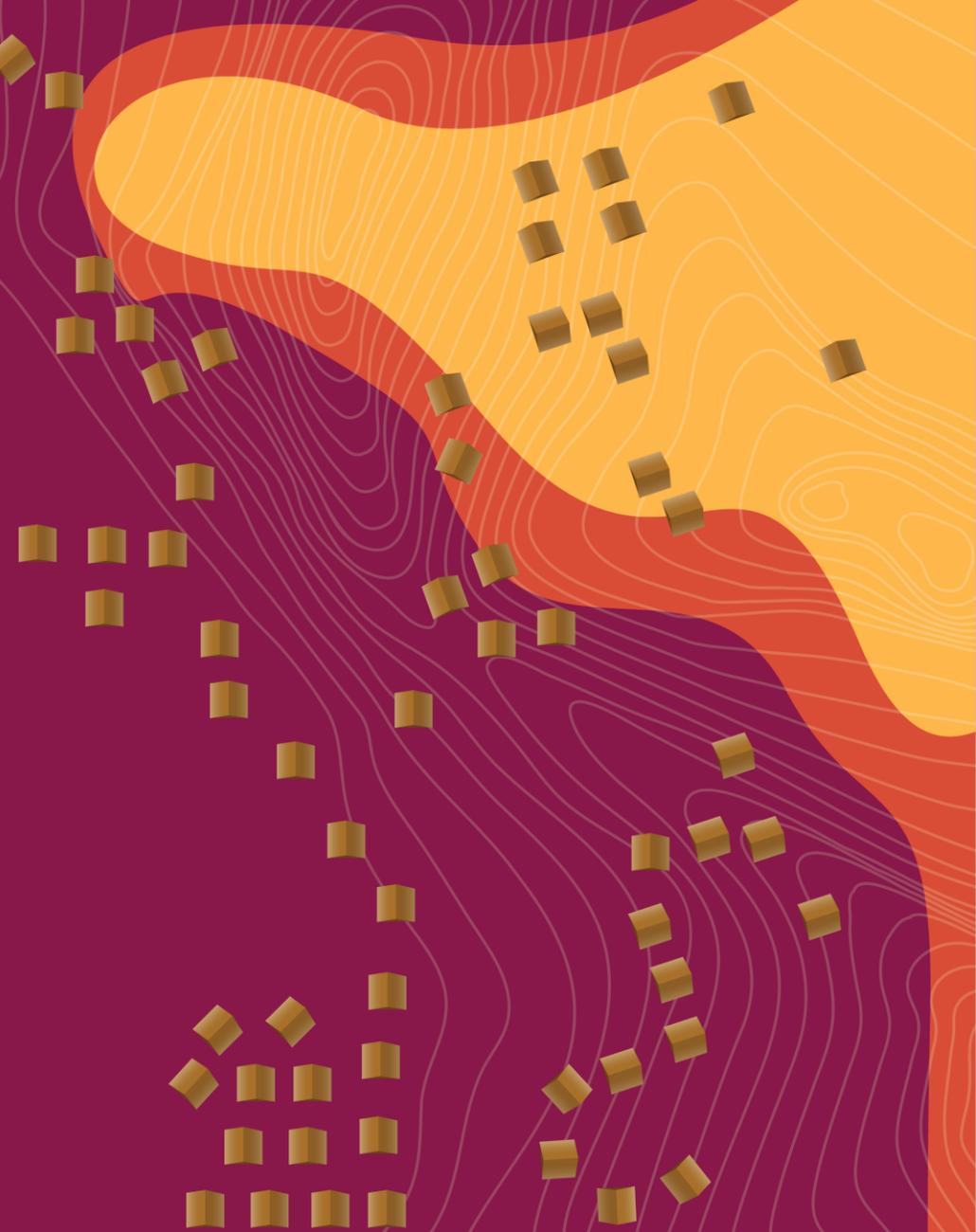


The stress of debt poses a *hazard* to the nation as a whole.

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

LOW
HAZARD

HIGH
HAZARD



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



The debt crisis is a *systemic* problem.

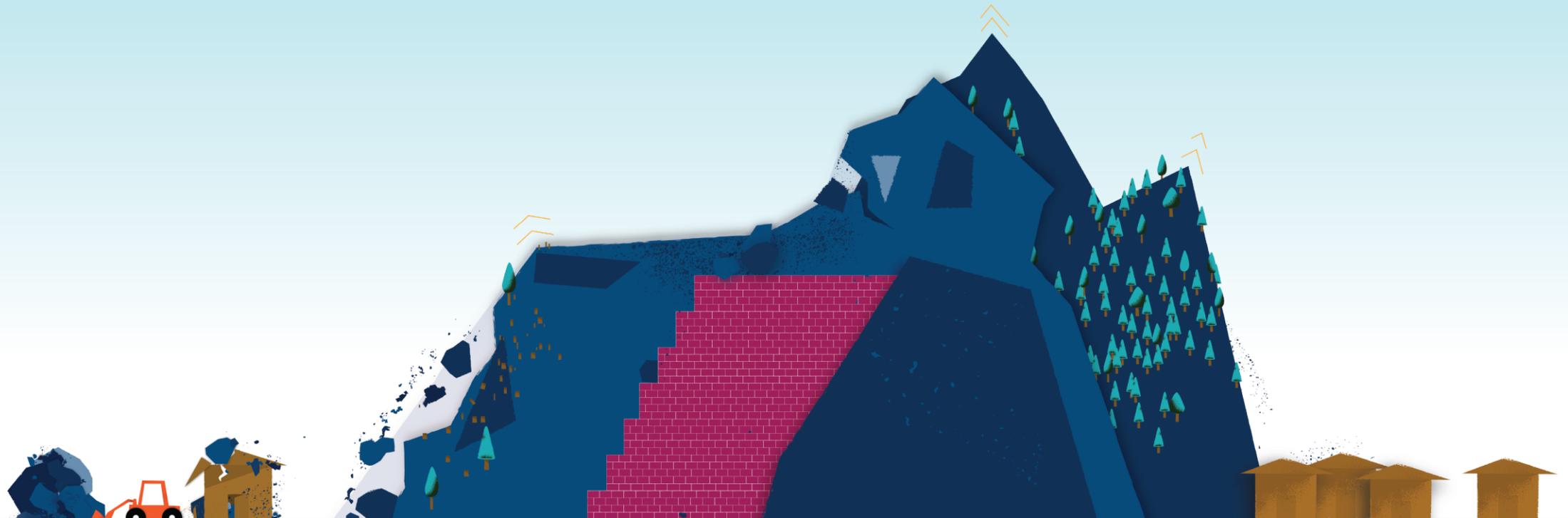
Economic shifts have made a college degree necessary for many good jobs making student loans a necessity rather than a choice for many.

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

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



But, the problem is *solvable*.



THE PROBLEMS

1

Lack of Savings or Financial Cushion

2

Restricted Access to Existing High-Quality Credit

5

Student Loans

6

Medical Debt

3

Harmful Loan Terms & Features

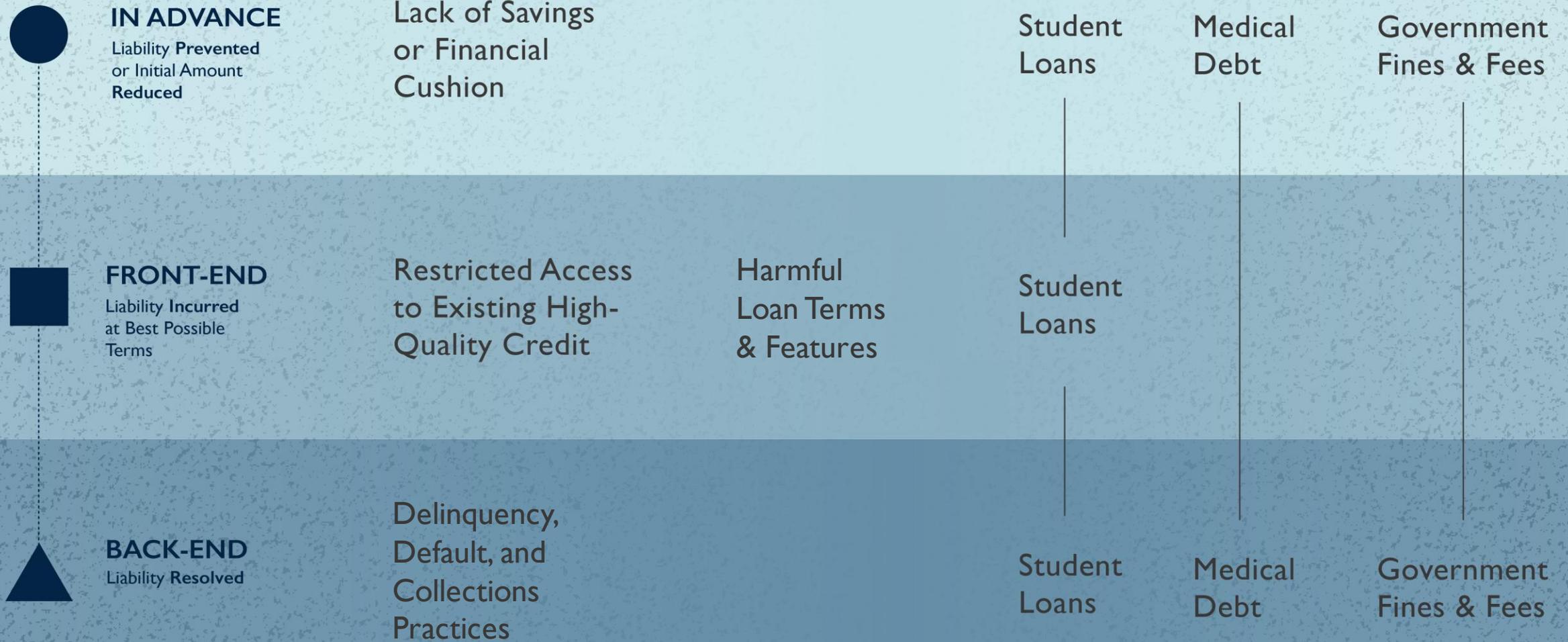
4

Delinquency, Default, and Collections Practices

7

Government Fines & Fees

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



Lack of Savings or Financial Cushion



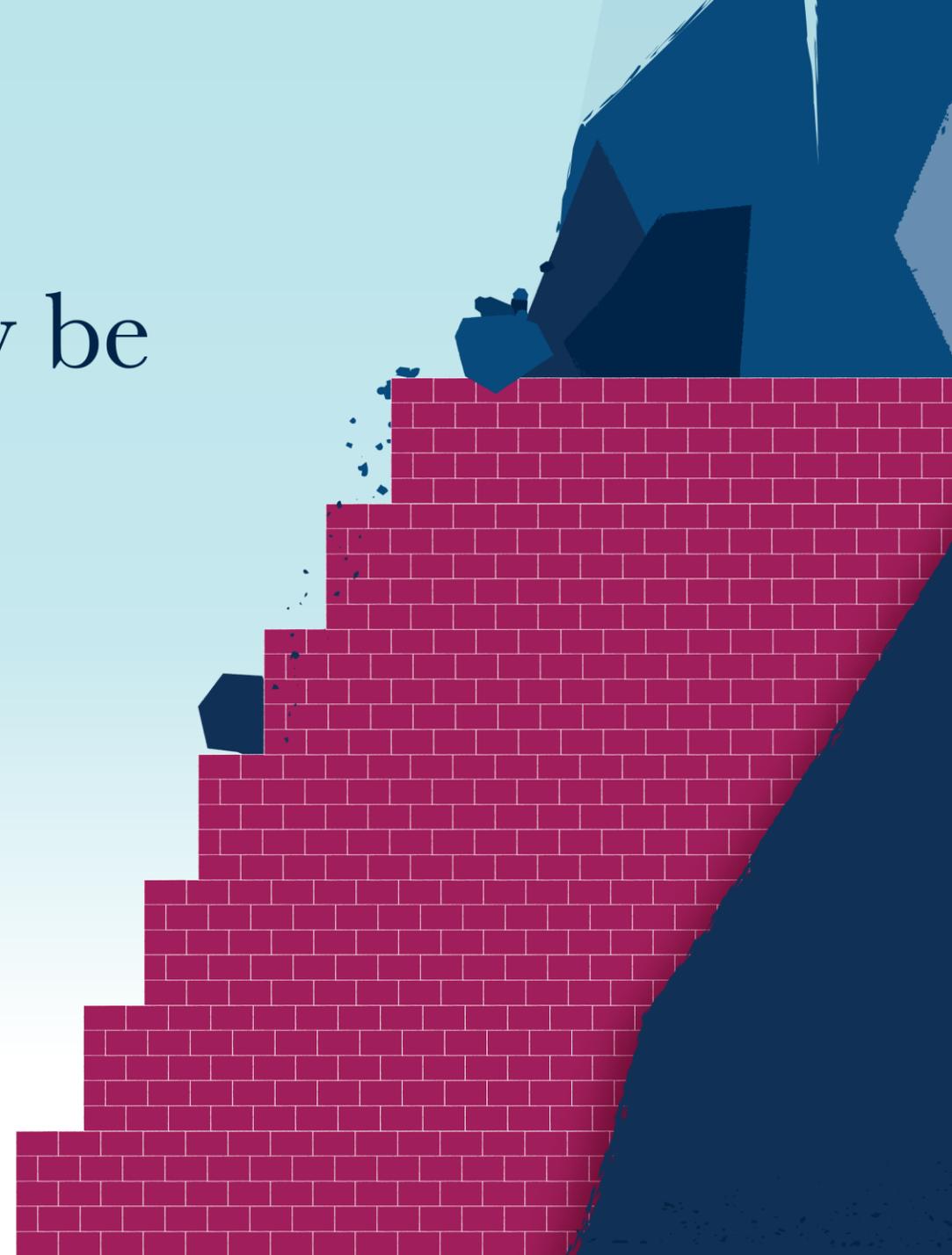
FINANCIAL SHOCKS

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

LIQUID SAVINGS

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

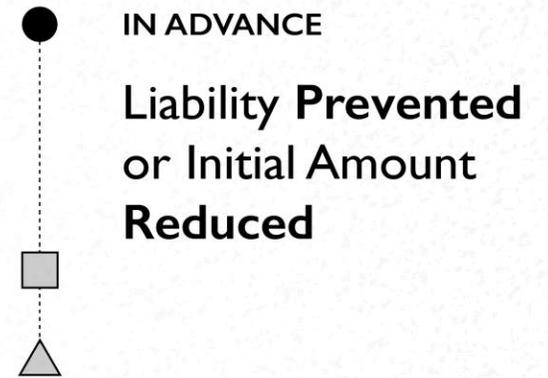
Without a *financial cushion*, households may be forced into debt due to income and expense *volatility*.



GOAL

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

WHEN?



WHO CAN ACT?

-  Financial Service Providers
-  Government
-  Employers



FINANCIAL SERVICE PROVIDERS CAN

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

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

EXAMPLES

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

Walmart's MoneyCard with savings Vault Digit



GOVERNMENT CAN

Allow automatic enrollment in savings accounts via payroll deductions

Build infrastructure for emergency savings

Provide matches on short-term savings

EXAMPLES

The Senate's proposed Strengthening Financial Security through Short-Term Savings Act (2018)

Prosperity Now's proposed Rainy Day Savings Accounts

The Save USA pilot program



EMPLOYERS CAN

Help workers access products that stabilize cash flow

Help workers build liquid savings through payroll deductions

EXAMPLES

Even, FlexWage, and Payactiv provide access to earned income

Employee hardship funds and emergency cash grants

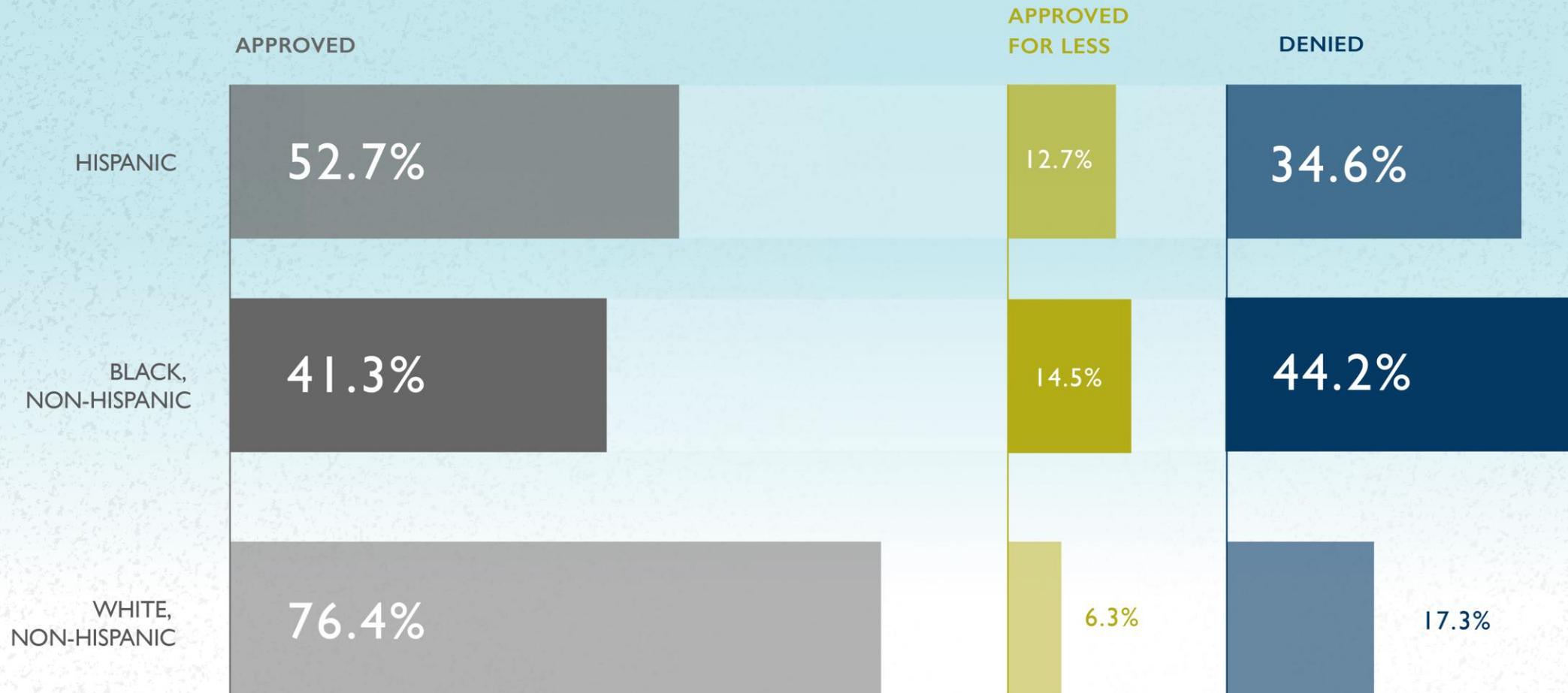
United Way of Greater Austin's automatic savings benefit

Exposure to Harmful Loan Terms and Features

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



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



GOAL

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

WHEN?



FRONT-END

Liability Incurred at
Best Possible Terms

WHO CAN ACT?



Financial
Service
Providers



Government



FINANCIAL SERVICE PROVIDERS CAN

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

EXAMPLES

FS Card



GOVERNMENT CAN

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

EXAMPLES

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

Miami and Philadelphia lawsuits against discriminatory lenders

GOAL

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

WHEN?



FRONT-END

Liability Incurred at
Best Possible Terms

WHO CAN ACT?



Financial
Service
Providers



Government



FINANCIAL SERVICE PROVIDERS CAN

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

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

EXAMPLES

Many leading fintech lenders use alternative data

Credit Builders Alliance helps nonprofit lenders furnish data to credit bureaus

VantageScore

Ultra FICO



GOVERNMENT CAN

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

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

EXAMPLES

CFPB's Office of Innovation

GOAL

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

WHEN?



BACK-END

Liability Resolved

WHO?



Financial Service Providers



Non-profits



Government



FINANCIAL SERVICE PROVIDERS CAN

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

EXAMPLES

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



NON-PROFITS CAN

Provide credit counseling, credit repair, and debt management programs

EXAMPLES

Organizations affiliated with the National Foundation for Credit Counseling

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



GOVERNMENT CAN

Fund non-profit credit
counseling at scale

Reform Chapter 13
Bankruptcy payment plans

EXAMPLES

Expand credit
counseling at the
national scale,
similar to HUD-
certified
homeownership
counseling

Exposure to Harmful Loan Terms and Features

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



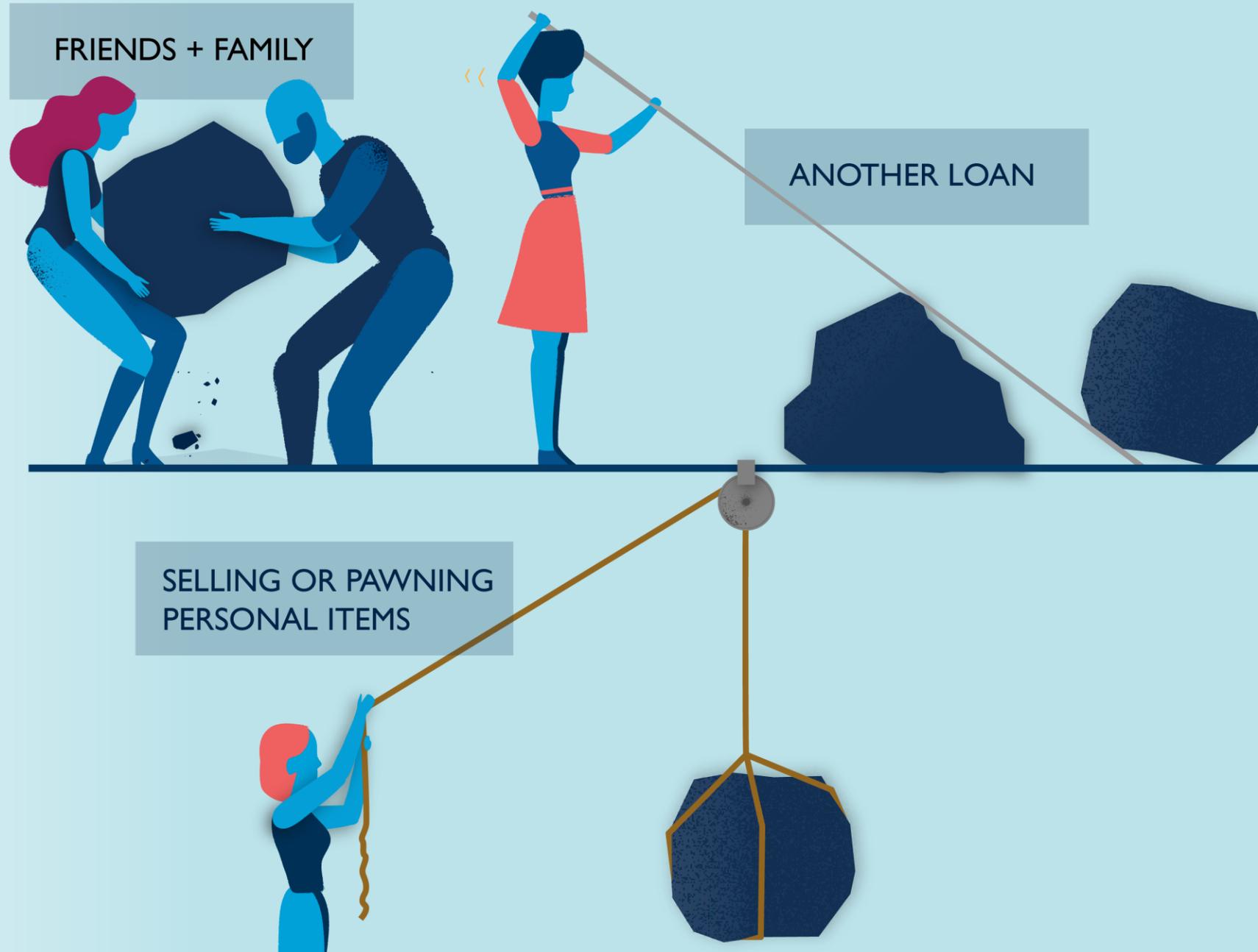
For example,
payday
borrowers
routinely
struggle to
meet
expenses.

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

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



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



GOAL

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

WHEN?



FRONT-END

Liability Incurred at **Best Possible Terms**

WHO CAN ACT?



Financial Service Providers



Employers



Government



FINANCIAL SERVICE PROVIDERS CAN

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

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

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

EXAMPLES

CFSI's Compass Principals provide guidelines for financial firms

USAA's secured credit cards

Credit Union Payday Alternative Loan program

US Bank Simple Loan

Petal



EMPLOYERS CAN

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

EXAMPLES

TrueConnect
Loans partners
with employers to
provide employee
loans



GOVERNMENT CAN

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

EXAMPLES

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

Massachusetts and Delaware ATR standards for auto loans

Detrimental, Delinquency, Default, and Collections Practices

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



71 million Americans have debt in collections.

90%

60%

60% - 90%

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



GOAL

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

WHEN?



BACK-END

Liability Resolved

WHO CAN ACT?



Financial
Service
Providers



Non-Profits



Government



FINANCIAL SERVICE PROVIDERS CAN

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

Offer refinancing into products with more flexible repayment terms

EXAMPLES

Design based on recent experimental studies

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

LendStreet



NON-PROFITS CAN

Provide financial coaching with
a focus on credit and debt

EXAMPLES

The Financial
Clinic's and
Branches'
financial coaching
programs



GOVERNMENT CAN

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

EXAMPLES

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

GOAL

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

WHEN?



BACK-END

Liability Resolved

WHO CAN ACT?



Non-Profits



Government



NON-PROFITS CAN

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

EXAMPLES

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



GOVERNMENT CAN

Prohibit creditors, 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

EXAMPLES

New York, Maryland, and North Carolina

New Hampshire's Periodic Payments Clinic

CRL Proposal

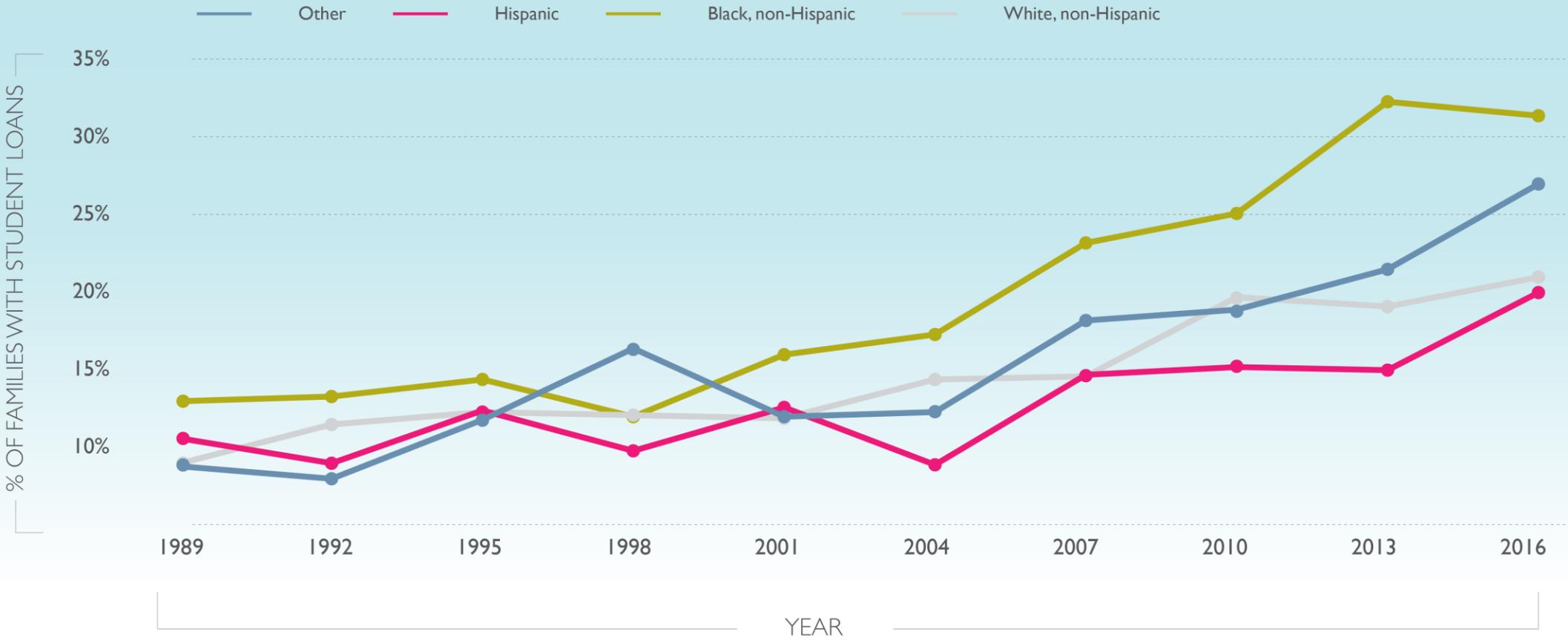
Maryland's S.B. 725 would prohibit body attachments for unpaid debts

Student Loan Debt

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



PROPORTION OF HOUSEHOLDS WITH STUDENT LOANS, BY RACE AND ETHNICITY



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

In 2016, Black families were most likely to have educational debt.

30.7%

BLACK, NON-HISPANIC

26.3%

OTHER

20.3%

WHITE, NON-HISPANIC

19.3%

HISPANIC



GOAL

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

WHEN?



IN ADVANCE

Liability Prevented or Initial Amount Reduced



FRONT-END

Liability Incurred at Best Possible Terms



WHO CAN ACT?



Employers



Government



Colleges and Universities



EMPLOYERS CAN

Offer tuition assistance as an employee benefit

EXAMPLES

Starbucks, US
military



GOVERNMENT CAN

Dramatically increase federal grant aid for low-income students

Implement debt-free public college programs that reach low-income students

Regulate tuition rates at public colleges and universities

Prohibit institutions with a history of poor outcomes for students from receiving federal loan funds in the future

EXAMPLES

Double funding for the federal Pell Grant program

Programs in New York and Tennessee reduce borrowing but fail to reach low-income students

Maryland Tuition Stabilization Account

Department of Education's Gainful Employment Rule establishes these rules but is not enforced



COLLEGES & UNIVERSITIES CAN

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

EXAMPLES

Stanford University

Harvard University

University of Illinois

University of Michigan

GOAL

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

WHEN?



BACK-END

Liability Resolved

WHO CAN ACT?



Employers



Government



Colleges and Universities



EMPLOYERS CAN

Offer student loan repayment
benefits to employees

EXAMPLES

Hewlett Packard,
Staples, US
Department of
Justice, City of
Memphis, TN



GOVERNMENT CAN

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

Make more student debt dischargeable in bankruptcy

EXAMPLES

Institute for College Access & Success and Urban Institute proposals

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



COLLEGES & UNIVERSITIES CAN

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

EXAMPLES

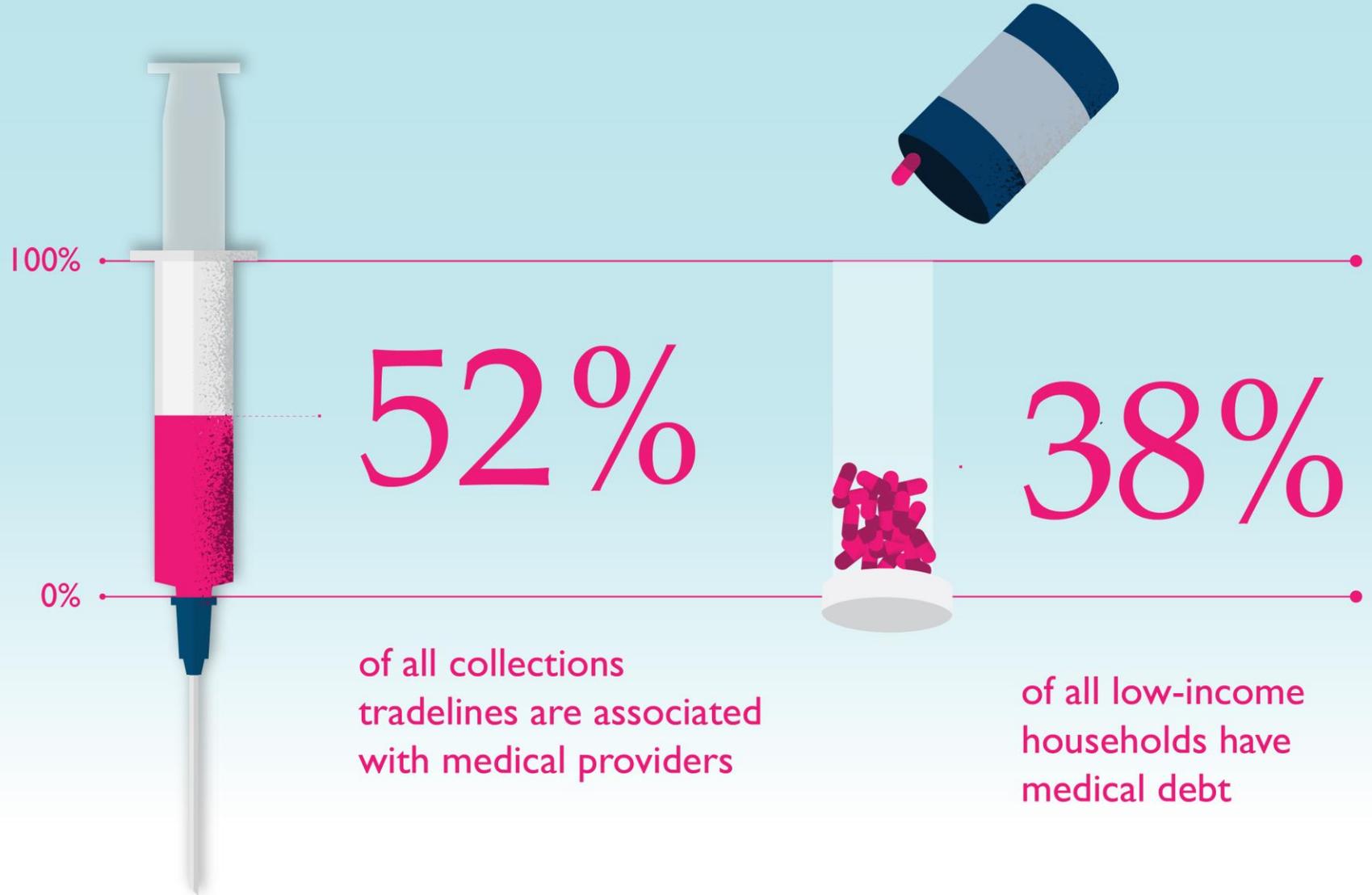
University of
Massachusetts
Boston's U-
ACCESS
emergency aid
program



Medical Debt Burdens

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

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



GOAL

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

WHEN?



IN ADVANCE

Liability Prevented or
Initial Amount **Reduced**



WHO CAN ACT?



Medical
Providers



Government



MEDICAL PROVIDERS CAN

Increase transparency of out-of-pocket costs

EXAMPLES

The American College of Physicians cost-transparency proposal



GOVERNMENT CAN

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

Fully implement Medicaid expansion

Establish single-payer healthcare systems

EXAMPLES

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

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

The California Senate passed single-payer legislation in 2017 and will consider it again in 2019

GOAL

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

WHEN?



BACK-END

Liability Resolved

WHO CAN ACT?



Medical
Providers



Government



MEDICAL PROVIDERS CAN

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

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

EXAMPLES

NCLC's proposed
Medical Debt
Protection Act



GOVERNMENT CAN

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

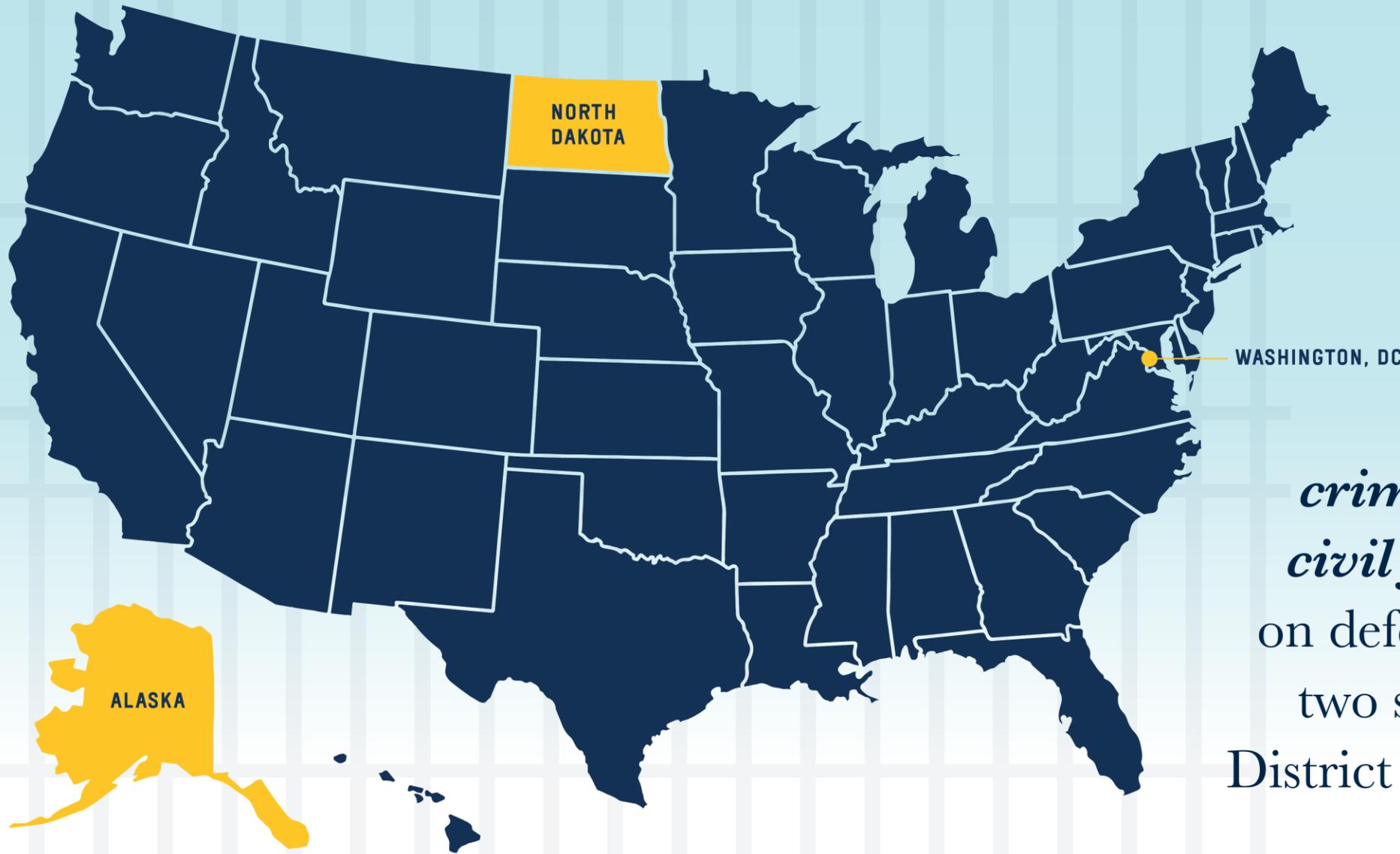
EXAMPLES

NCLC's proposed
Medical Debt
Protection Act

An illustration on the left side of the slide features a dark blue, jagged mountain shape. From the top of the mountain, several white papers with red accents are falling downwards. Two blue gavel icons are also shown: one is positioned near the top of the mountain, and another is positioned near the bottom right, appearing to be part of the falling papers. The background is a light blue gradient.

Government Fines and Fees

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



Between
2010 - 2017,

48

states

increased

*criminal and/or
civil fees* assessed

on defendants; only

two states and the

District of Columbia

did not.

GOAL

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

WHEN?



IN ADVANCE

Liability Prevented or
Initial Amount Reduced



WHO CAN ACT?



Government



GOVERNMENT CAN

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

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

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

EXAMPLES

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

Proposed by the Fines and Fees Justice Center

GOAL

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

WHEN?



BACK-END

Liability Resolved

WHO CAN ACT?



Government



GOVERNMENT CAN

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

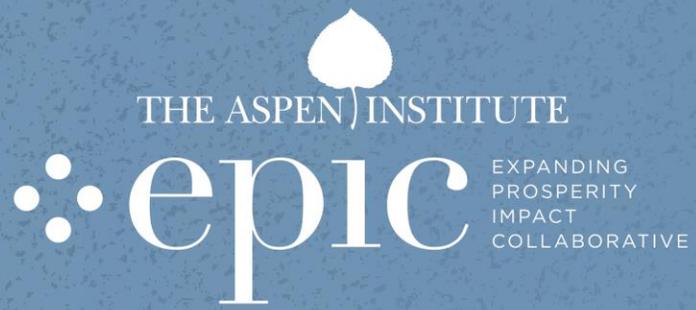
EXAMPLES

Missouri offers zero-interest payment plans for a wide range of fines and fees

Proposed by the National Task Force on Fines, Fees, and Bail Practices

Maryland's S.B. 022 would prohibit body attachments for unpaid debts

California eliminated driver's license suspensions for unpaid court costs and allows fines and fees to be dismissed due to inability to repay



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