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Lifting the Weight
SOLVING THE CONSUMER DEBT CRISIS FOR FAMILIES, COMMUNITIES & FUTURE GENERATIONS
CONSUMER DEBT TODAY

Aggregate Consumer Debt

Non-Housing Debt Balance

Source: FRBNY Consumer Credit Panel/Equifax
HOUSEHOLDS’ CONSUMER DEBT

Median Debt by Product

Prevalence and Levels of Consumer Debt

<table>
<thead>
<tr>
<th>Product</th>
<th>Median Debt</th>
<th>Percent of Households</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit card</td>
<td>$2,300</td>
<td>4%</td>
</tr>
<tr>
<td>Auto loans</td>
<td>$12,800</td>
<td>34%</td>
</tr>
<tr>
<td>Student loans</td>
<td>$19,000</td>
<td>22%</td>
</tr>
<tr>
<td>Other installment loans</td>
<td>$3,000</td>
<td>11%</td>
</tr>
<tr>
<td>Other unspecified lines of credit</td>
<td>$3,400</td>
<td>5%</td>
</tr>
<tr>
<td>Lines of credit</td>
<td>$5,000</td>
<td>2%</td>
</tr>
</tbody>
</table>
COMPOSITION OF CONSUMER DEBT

Percentage of Households with Debt

- Primary residence: 41.9%
- Installment loans: 50.2%
- Credit card balances: 43.9%
- Lines of credit: 1.8%
- Other: 5.4%
- Any debt: 77.1%

Composition of Installment Debt

- Education: 48.7%, 49%
- Auto: 14.2%, 14%
- Other Installment: 37.1%, 37%

[Chart showing the distribution of debt types and the percentage of households with debt]
DEMOGRAPHIC DIFFERENCES

Experiences vary widely

• Key demographic characteristics are geographic location, age, race and ethnicity, and income
• Can lead to disparate outcomes
• Racial inequity is a major challenge
Proportion of households with debt by age

- All families
- Less than 35
- 35–44
- 45–54
- 55–64
- 65–74
- 75 or more

- Primary Mortgage
- Installment
- Credit card
- Any debt
DEMOGRAPHIC DIFFERENCES

Proportion of households with debt by age

- Less than 35
- 35 - 44
- 45 - 54
- 55 - 64
- 65 - 74
- 75 or more

- Education
- Auto
- Other Installment
DEMOGRAPHIC DIFFERENCES

Race and Ethnicity

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

Race and Ethnicity

Median value of debt holdings by age, 2016 dollars

- Any Debt
- Primary Mortgage
- Installment Loans
- Credit Card
- Other Non-Mortgage Debt

Any Debt: $20,000, $40,000, $60,000, $80,000, $100,000, $120,000, $140,000, $160,000

Primary Mortgage: $20,000, $40,000, $60,000, $80,000, $100,000, $120,000, $140,000, $160,000

Installment Loans: $20,000, $40,000, $60,000, $80,000, $100,000, $120,000, $140,000, $160,000

Credit Card: $20,000, $40,000, $60,000, $80,000, $100,000, $120,000, $140,000, $160,000

Other Non-Mortgage Debt: $20,000, $40,000, $60,000, $80,000, $100,000, $120,000, $140,000, $160,000
DEMOGRAPHIC DIFFERENCES

Race and Ethnicity

Composition of installment debt by race

Hispanic or Latino  Black non-hispanic  White non-Hispanic  Other or Multiple Race

Education  Auto  Other Installment
DEMOGRAPHIC DIFFERENCES

Income

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

77% of households have debt

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

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

- Only about 1 in 3 Americans is financially healthy (CFSI and CFPB’s Financial Well-Being in America survey)
CONSUMER DEBT TODAY

Consumer Debt in Context

• Debt is nearly universal: 77% of people have it
• Many households are doing well with debt
• Low-income households and families of color experience more debt-related financial distress
• Uncharted territory: booming economy, financially fragile households, unprecedented levels of debt
I think a lot of us do become ashamed.

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

FOCUS GROUP PARTICIPANT WITH UNAFFORDABLE DEBT
WASHINGTON, DC | JULY 2018
I tried to cancel [the yoga class].

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

It’s just crazy.

FOCUS GROUP PARTICIPANT WHO OWES MORE THAN $1,000 DUE TO AN UNPAID YOGA STUDIO BILL
BALTIMORE, MD | JULY 2018
I was about $30,000 in debt, but because of my income, there's no way that I can meet my needs, live, and pay debt too.

Bankruptcy was my choice.
If I could do it all over again,
I would not have
gone to school...

I wish I could take that back.
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.
The Consumer Debt Crisis
Consumer Debt includes all forms of non-mortgage debt, such as:

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

like medical debt and money owed to local or state governments
Consumer debt has reached record levels.

- **Q1 2003**: $2.29T
- **Q2 2018**: $4.29T
AGGREGATE NON-MORTGAGE DEBT, 2003 - 2018

TRILLIONS OF DOLLARS

YEAR : QUARTER

- Other
- Student Loan
- Credit Card
- Auto Loan
- HE Revolving
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.
The consumer debt crisis places entire communities at risk, too.
The debt crisis is a **systemic** problem.

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

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

Many households simply don’t have enough to *weather a rainy day*, forcing them to take on debt when the unexpected occurs.
But, the problem is *solvable*.
THE PROBLEMS

1. Lack of Savings or Financial Cushion
2. Restricted Access to Existing High-Quality Credit
3. Harmful Loan Terms & Features
4. Delinquency, Default, and Collections Practices
5. Student Loans
6. Medical Debt
7. Government Fines & Fees
The solutions framework addresses these problems at different *points in time.*

- **IN ADVANCE**
  - Liability Prevented or Initial Amount Reduced
  - Lack of Savings or Financial Cushion
  - Student Loans
  - Medical Debt
  - Government Fines & Fees

- **FRONT-END**
  - Liability Incurred at Best Possible Terms
  - Delinquency, Default, and Collections Practices
  - Restricted Access to Existing High-Quality Credit
  - Student Loans

- **BACK-END**
  - Liability Resolved
  - Harmful Loan Terms & Features
  - Student Loans
  - Medical Debt
  - Government Fines & Fees
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?

- IN ADVANCE
  - Liability Prevented or Initial Amount Reduced

WHO CAN ACT?

- Financial Service Providers
- Government
- Employers
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
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

Many employers offer emergency cash grants to their workers

United Way of Greater Austin’s automatic savings benefit
Policies for automatic enrollment in savings accounts via payroll deductions

Build infrastructure for emergency savings

Provide matches on short-term savings

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

Prosperity Now’s proposed Rainy Day Savings Accounts

The Save USA pilot program
2. Restricted Access to High-Quality Credit

Building credit requires taking on debt.

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

Unaffordable credit can place households on shaky financial footing and heighten the negative potential of small disruptions.
People of color seeking credit are more likely to be *denied* or approved for *less credit than requested*.
GOAL
People of color **receive and use credit** on the same terms as similarly qualified white consumers

WHEN?

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

WHO CAN ACT?

- Financial Service Providers
- Government
Develop lending and underwriting practices that actively reduce disparities in access to and cost of credit products across demographic groups.

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

<table>
<thead>
<tr>
<th>EXAMPLES</th>
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<tbody>
<tr>
<td>CFPB's Office of Fair Lending (before 2018 reorganization)</td>
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<td>Miami and Philadelphia lawsuits against discriminatory lenders</td>
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</table>
GOAL
People with thin or no credit files can **develop healthy credit profiles**
Expand responsible use of alternative data to allow credit invisible consumers to build credit

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

**FINANCIAL SERVICE PROVIDERS SHOULD**

**EXAMPLES**

Many leading fintech lenders use alternative data
Credit Builders Alliance helps nonprofit lenders furnish data to credit bureaus
VantageScore is able to score one-third of thin-file consumers
Ultra FICO, debuting in 2019, analyzes transaction account data
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.

CFPB’s Office of Innovation

The Credit Access and Inclusion Act (H.R. 235, S. 3040)
GOAL
People who experience credit problems have effective opportunities to rebuild their credit profiles and regain access to affordable credit.

WHEN?
- FRONT-END
  - Liability Incurred at Best Possible Terms

WHO CAN ACT?
- Financial Service Providers
- Non-profits
- Government
Fund and partner with non-profit credit counseling and financial coaching services.

Most large banks fund local credit counseling agencies but not at the necessary scale.
Provide credit counseling, credit repair, and debt management programs

Organizations affiliated with the National Foundation for Credit Counseling

The Financial Clinic’s Change Machine resources and curricula for practitioners
Fund non-profit credit counseling at scale

Reform Chapter 13
Bankruptcy payment plans

HUD-certified homeownership counseling is effective and widely available
3 Exposure to Harmful Loan Terms and Features

High interest rates, excessive penalties, and balloon payments risk *destabilizing* households’ financial security.
For example, payday borrowers routinely struggle to meet expenses. Only 14% of payday borrowers can afford to repay the average loan. 41% of payday borrowers would need a cash advance to pay off the loan.
Cash infusions to cover payday loan payments often come from the same sources borrowers might have used instead of payday loans in the first place.
GOAL
The typical financial products that both traditionally underserved and mainstream consumers can access are more affordable and safe.

WHEN?
- BACK-END
  - Liability Resolved

WHO CAN ACT?
- Financial Service Providers
- Employers
- Government
FINANCIAL SERVICE PROVIDERS SHOULD

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

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

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

EXAMPLES

- CFSI’s Compass Principals provide guidelines for financial firms
- USAA’s secured credit cards
- Credit Union Payday Alternative Loan program
- US Bank Simple Loan
- Petal
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.
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% - 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*
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.

**EXCEPTIONS**

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

LendStreet
Provide financial coaching with a focus on credit and debt

The Financial Clinic’s and Branches’ financial coaching programs
Government as a creditor can implement interventions in early-stage delinquency to help borrowers get back on track.

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
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 CAN

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

EXEMPLARY

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

New Hampshire’s Periodic Payments Clinic

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

Maryland’s S.B. 725 would prohibit body attachments for unpaid debts
5 Student Loan Debt

The burden from record-level student loan debt reduces households’ ability to save and build wealth.
PROPORTION OF HOUSEHOLDS WITH STUDENT LOANS, BY RACE AND ETHNICITY
Students of color are at the greatest risk of financial hardship.

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

30.7% BLACK, NON-HISPANIC

26.3% OTHER

20.3% WHITE

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
Offer tuition assistance as an employee benefit

Examples

Starbucks as 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
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
Offer student loan repayment benefits to employees

Examples:
Hewlett Packard, Staples, U.S. Department of Justice, City of Memphis, TN
Streamline and expand income-driven repayment plans and loan forgiveness programs

Make more student debt dischargeable in bankruptcy

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

Some federal judges are discharging more bankruptcy filers’ student loan debt
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 a 25% of non-elderly households reported having medical debt.

52% of all collections tradelines are associated with medical providers

38% of all low-income households have medical debt
Although most states require hospitals to report price information, it is often unavailable when seeking care.

On average, an individual with overdue medical debt owes $1,766.

43% of those with medical bill problems say there was a time in the past year when they or a family member did not get a recommended medical test or treatment because of the cost.
GOAL
Fewer people have medical debt and amounts of medical debt ever incurred are reduced.
Increase transparency of out-of-pocket costs

The American College of Physicians has endorsed cost-transparency policies.
GOVERNMENT CAN

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

Fully implement Medicaid expansion

Establish single-payer healthcare systems

EXAMPLES

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

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

The California Senate passed single-payer legislation in 2017 and will consider it again in 2019. Nevada passed but did not enact “Medicaid buy-in”
GOAL
Reduced financial burden and increased well-being for people with unaffordable medical debt

WHEN?
BACK-END
Liability Resolved

WHO CAN ACT?
Medical Providers
Government
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).

NCLC’s proposed Medical Debt Protection Act would achieve this.
Enforce requirements that medical providers connect all patients to repayment assistance resources before referring bills to collections

NCLC’s proposed Medical Debt Protection Act
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
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

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

Proposed by the Fines and Fees Justice Center
Costs to Cities of Household Financial Security

Unpaid property taxes
- Decrease city revenue
- Tax foreclosures (secondary effect)

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

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

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

Costs to Cities of Household Financial Security

Financial Insecurity $\rightarrow$ Cities Lose Revenue, Incur Other Costs

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

*also reduce revenue