Innovative Initiatives to Address the Growing Crisis of Consumer Debt

December 2018
Speakers

Maeve Elise Brown
Executive Director

Talia Kahn-Kravis
Manager, Consulting and Program Innovations

Lauren Leimbach
Executive Director

Agenda

- The landscape of consumer debt
- Current legal remedies
- Best practices of CBA members
- Where can we innovate?
- Policy implications
- Audience input
Non-Housing Debt Balance

Source: FRBNY Consumer Credit Panel/Equifax
Percent of Balances 90+ Days Delinquent

Data Source: Federal Reserve Bank of New York, Household Debt and Credit Report, 2017Q3
Chart by Aspen Institute
Ramifications

• Negative impact on individual and family health and well-being
• Reduced household formation
• Lower home ownership
• Reduced business formation
• Drag on the overall economy
• Increased inequality
Mission

HERA is a statewide, not-for-profit legal service and advocacy organization dedicated to helping vulnerable Californians build a safe, sound financial future, free of discrimination and economic abuses, in all aspects of household financial concerns.

Non-traditional Nimble Accessible
How HERA Works

- Asset Protection
- Asset Preservation

- Multiple Levels of Advocacy
- Consumer Workshops
- One-on-One Legal Financial Coaching
- Non-Litigation Advocacy
- Litigation
- Clinics
- Training and Technical Assistance for Professionals
- Policy Work
- Institution Building
- Local, state level and national collaboration
Examples of HERA Advocacy

• HERA vs. Betsy DeVos
• HERA vs. Home Loan Auditors
• Orellana vs. State Farm
• Settlement of case involving wrongful medical debt collection by a county
• Multiple cases settled regarding wrongful, deceptive home energy contracts
• Debt collection defense clinic in San Joaquin County and in San Bernardino County.
Financial Abuse Themes

• Discriminatory targeting of residents for high-cost products and/or low quality “services”.

• Diverting residents’ resources to scams (e.g., credit repair services, foreclosure rescue)

• Collections by first party creditors as well as debt collectors on debt that is timed-out.

• Debt consolidation or restructuring scams (student loans, and other debt)

• Home equity stripping scams
## Top Client Concerns

<table>
<thead>
<tr>
<th>Debt</th>
<th>Credit</th>
<th>Preservation</th>
</tr>
</thead>
<tbody>
<tr>
<td>• homeownership- keeping the family home</td>
<td>• the need to build credit</td>
<td>• estate planning</td>
</tr>
<tr>
<td>• student loan debt and for-profit school abuses</td>
<td>• identity theft</td>
<td>• access to affordable resources (see</td>
</tr>
<tr>
<td>• credit card debt</td>
<td>• understanding and managing credit</td>
<td><a href="http://www.money-happy.org">www.money-happy.org</a></td>
</tr>
<tr>
<td>• automobile loan and sales scams</td>
<td>• fair housing access</td>
<td></td>
</tr>
<tr>
<td>• medical debt collections abuses</td>
<td>• fair lending access</td>
<td></td>
</tr>
<tr>
<td>• financial scams</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• wrongful and abusive debt collection across the board</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
What Would Help Residents

* More enforcement of our consumer protection laws.
* Re-establish free and low-cost legal clinics.
* More skilled debt counseling
* More education of consumers on their legal rights.
* Access to affordable, non-predatory loans and other financial products.
* Free/low-cost post-secondary schooling.
* A long-term, on-going media campaign, multi-lingual, to warn and educate consumers.
* Calls, lawsuits, letters advocating for consumer rights.
Policy Implications

• Enforce hospitals’ charity care requirements.
• Enforce fair lending regulations.
• Vigilantly monitor disparate impact.
• Re-instate Usury laws.
• Eliminate student loan interest.
• Declare a student loan jubilee.
• Eliminate governmental fines and fees related to incarceration.
• Base other government fines and fees on ability to pay.
Credit Builders Alliance

Our mission:

To help organizations move people from poverty to prosperity through Credit Building.

Our philosophy:

Good Credit is an Asset

Mission driven nonprofits and other entities are uniquely positioned to help the households they serve build credit as an asset – often the FOUNDATIONAL asset.
Products-in-a-Box (PIAB) Overview

Goal: Support nonprofits in choosing and offering small dollar consumer loans and other credit building products that meet the needs of specific populations in their community through:

1. Turnkey Toolkits
2. Technical Assistance
3. Loan Capital and Program Funding
How CBA Members Do It...

CREATE referral relationships with financial institutions

PARTNER with responsible lenders to offer new products

OFFER and report their own products!
## Personal Loans

![Capital Good Fund logo](https://capitalgoodfund.org)

<table>
<thead>
<tr>
<th>Capital Good Fund’s Personal Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Amount</strong></td>
</tr>
<tr>
<td><strong>Interest Rate</strong></td>
</tr>
<tr>
<td><strong>Term</strong></td>
</tr>
<tr>
<td><strong>Fees</strong></td>
</tr>
<tr>
<td><strong>Eligibility &amp; Underwriting Criteria</strong></td>
</tr>
<tr>
<td>• Bank account or approved pre-paid card</td>
</tr>
<tr>
<td>• No minimum credit score, but take into account unpaid public records, past due accounts, and recent overdrafts</td>
</tr>
<tr>
<td>• Proof of income and identification documentation is required</td>
</tr>
</tbody>
</table>

[https://capitalgoodfund.org](https://capitalgoodfund.org)
Life Loan

<table>
<thead>
<tr>
<th>Justine PETERSEN’S Life Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Amount</strong></td>
</tr>
<tr>
<td><strong>Interest Rate</strong></td>
</tr>
<tr>
<td><strong>Term</strong></td>
</tr>
<tr>
<td><strong>Fees</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Eligibility &amp; Underwriting Criteria</strong></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

http://www.justinepetersen.org
## Trust Card Client Profile

*Trust Card Client Profile – provided to issuers as suggested guidelines, to inform underwriting.*

<table>
<thead>
<tr>
<th>Category</th>
<th>Criteria</th>
<th>Recommended Attribute / Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ability to Pay</td>
<td>Income</td>
<td>&lt; 80% Area Median</td>
</tr>
<tr>
<td></td>
<td>Amount of Debt Consolidated</td>
<td>$5,000 - $11,000</td>
</tr>
<tr>
<td></td>
<td>% of Consumer Debt Consolidated (includes formal and informal unsecured debt; does not include student loan or secured debt)</td>
<td>90-100%</td>
</tr>
<tr>
<td></td>
<td>Debt Obligation/Income</td>
<td>40-50%</td>
</tr>
<tr>
<td></td>
<td>(includes mortgage/rent and all debt)</td>
<td></td>
</tr>
<tr>
<td>Stability</td>
<td>Length of Full-Time Employment</td>
<td>&gt; 2 years</td>
</tr>
<tr>
<td></td>
<td>Time with Current Employer</td>
<td>&gt; 6 months</td>
</tr>
<tr>
<td></td>
<td>Time at Current Residence</td>
<td>&gt; 6 months</td>
</tr>
<tr>
<td>History</td>
<td>FICO</td>
<td>600-711</td>
</tr>
<tr>
<td></td>
<td>Number of Credit Cards</td>
<td>3-7</td>
</tr>
<tr>
<td></td>
<td>Collections</td>
<td>None in last 12 mo.</td>
</tr>
<tr>
<td></td>
<td>Unpaid Judgments/Liens</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td>Bankruptcies</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td>Late Payments</td>
<td>None in last 12 mo.</td>
</tr>
<tr>
<td>Willingness to</td>
<td>Commitment Contract</td>
<td>Signed</td>
</tr>
<tr>
<td>Pay</td>
<td>Advisor Impression</td>
<td>Good</td>
</tr>
</tbody>
</table>

Source: The Trust Card Program Insight Report, June 2016

https://www.neighborhoodtrust.org/
Piloting Iowa Legal Aid’s Debt Tool
Lessons Learned

• Pairing financial coaching with product is seen as a best practice
• These loans can be risky and mission driven organizations struggle to make them sustainable
• There is demand, but a need for further innovation and testing
Who We Are

An Economic Justice non-profit providing
• Low-cost & transparent financial products
• Money management tools
• Popular education
• Behavioral pathways

Working on a National Scale
• Network of Partnerships and coalitions

Demonstrating evidenced-based best practices

Goal: fair, inclusive, and sustainable economy
The Need to Innovate

What’s missing?

• Expanded & fair access to credit through improved underwriting
• Consumer-friendly credit products for LMI households
  • Secured credit-building products
  • Fair auto loans
  • Fair housing supports
  • Other unsecured: installment and revolving lines of credit
• Tools for financial coaches
• Debt resolution products
  • Dispute rights
  • Renegotiate, re-structure, and/or consolidate
A Good Starter Loan

Encourage Credit Union membership and savings to provide access to **Share Pledge Loans**

**Advantages:**
- Low interest rates
- Fixed monthly payments to pay the loan off in a fixed amount of time
- Easy Credit qualification
- Build or rebuild credit history
CFR Credit-Building Card Impact

600+ secured credit-builder card enrollments

275 matched-savings program participants
  • $150K in security deposit savings and credit lines extended

73 pt. average credit score increase

668 avg. credit score in six months, if no previous credit history
Solution: A tool to turn information and intention into action.

Create an Action Plan  Communicate with a Coach  Accomplish Tasks  Earn Points!  Compare Results
Debt Resolution

The problem and the opportunity:
Consumers struggling but servicing high-priced debt

The solution:
Renegotiate, re-structure, and consolidate

A promising option: lendstreet

Key success factor: limiting future use of credit
Your Turn

In your community...

• What products have you found promising?
• Where do you see gaps?
• What products could you see partnering to offer or offering yourself?
• How do you know when a loan or another credit building product is a good fit?

There ought to be a law.....