

## EXECUTIVE SUMMARY

# Lifting the Weight

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

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

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

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

## GOALS FOR SOLVING CONSUMER DEBT PROBLEMS

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

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

# PROBLEMS

# GOALS

## LEGEND

- IN ADVANCE  
Liability Prevented or  
Initial Amount Reduced
- FRONT-END  
Liability Incurred at  
Best Possible Terms
- ▲ BACK-END  
Liability Resolved

### 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.

# SOLUTIONS

## FINANCIAL SERVICE PROVIDERS

## EMPLOYERS

## GOVERNMENT

## OTHER INSTITUTIONS

- 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

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

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

- Develop lending and underwriting practices that actively reduce disparities in access to and cost of credit products across demographic groups
- Expand responsible use of alternative data to allow credit invisible consumers to build credit

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

- Enforce laws that prohibit racial and gender disparities in access to and cost of credit
- Fund non-profit credit counseling at scale

- ### NON PROFITS
- Provide credit counseling, credit repair, and debt management programs

- Modify products and operations to better align the firm's financial interests with consumers' interests and needs
- Expand use of cash-flow underwriting for thin and no-file consumers

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

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

- 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

- Offer tuition assistance as an employee benefit
- Offer student loan repayment benefits to employees

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

- ### NON PROFITS
- Provide financial coaching with a focus on credit and debt
  - Provide legal assistance or representation to consumers who are sued by debt collectors/buyers

- Offer tuition assistance as an employee benefit
- Offer student loan repayment benefits to employees

- 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

- ### EDUCATIONAL INSTITUTIONS
- Increase institutional grant aid and tuition waivers for low- and moderate-income students
  - Establish hardship funds to assist financially insecure students

- Fully implement Medicaid expansion
- Establish single-payer healthcare systems
- Enforce requirements that medical providers connect all patients to repayment assistance resources

- ### MEDICAL INSTITUTIONS
- Increase transparency of out-of-pocket costs
  - Do not sell medical debt to debt buyers
  - Payment plans that meet consumers' needs

- 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



## ABOUT EPIC

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

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



## ABOUT FSP

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.

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