Reducing the Cost of Credit in African American Communities

Dedrick Asante-Muhammad & Spectra Myers

July 10th, 2017
Welcome
Housekeeping

- This webinar is being recorded and will be available online within one week
- All webinar attendees are muted to ensure sound quality
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Prosperity Now’s mission is to ensure everyone in our country has a clear path to financial stability, wealth and prosperity.
Today’s Agenda

- Project Introduction
- Overview of Research Project
- Our Focus on African American Community Members
- Our Focus on Debt
- What’s Next for the Project
- Audience Q&A
Today’s Speakers

DEDRICK ASANTE-MUHAMMAD
Senior Fellow
Racial Wealth Divide Initiative

SPECTRA MYERS
Senior Research Manager
Applied Research
Who’s on the Call?

- Nonprofit/Social service provider, 69%
- Academic/Research organization, 10%
- Government office (State/local), 9%
- Government office (Federal), 3%
- Other, 9%
Many of you provide financial capability services to African American clients.

- Yes, 65%
- No, 35%

Percentage of African American Clients:

- 1-10%: 27%
- 11-25%: 14%
- 26-50%: 36%
- Over 50%: 23%
Overview of Research Project
The Need:

- Reducing personal debt is consistently selected as a top financial goal for Americans (Prudential).

- As a share of total assets, White and Asian families have about half as much debt as Hispanic and Black families on average (Boshara, et al).

“High debt burdens often force families to pay higher interest rates on their debt, compounding the wealth-depleting effects of borrowing.”

~ From The Demographics of Wealth by Boshara, Emmons & Noeth
Household Financial Security Framework

**NAVIGATE**
the financial system, gather information and analyze choices to make beneficial financial decisions and manage household resources

**LEARN**
the basic skills, executive function and specific job skills needed to access quality employment

**EARN**
sufficient income (from wages, employer benefits, public benefits, tax credits, etc.) to cover expenses and save

**SAVE**
household income left over after meeting basic needs and paying down debt for emergencies and the future

**OWN**
a home, business, investments and/or other assets that build financial security and wealth

**PROTECT**
household earnings and assets via insurance, consumer protections and other services and polices
The Stories We Are Hearing
The Project:

**Ultimate Goal:** To reduce the amount of money low-and-moderate income African American communities spend on credit so that they can focus on building financial stability and assets

**Part 1**
**Field Scan**
- Establish partnerships with community based non-profits
- Select a key challenge to address and a target audience to focus the project scope
- Improve understanding of approaches available that have the potential to address the selected challenge

**Part 2**
**Discovery Interviews**
- Discover individual perspectives of community members on the selected challenge and potential strategies available

**Part 3**
**Share Results**
- Share findings from discovery interviews
- Draft pilot concept for proposal
Project Partner Organizations & Communities Served

Baltimore, Maryland

Brownsville, Brooklyn, New York

Ft. Lauderdale, Florida

Support from MetLife Foundation
Insights from Part 1: Field Scan

- **Goals:**
  - Identify the target audience and project focus
  - Improve understanding of approaches available that have the potential to address the selected challenge

- **Steps:**
  1. Review of literature
  2. Site visits to Brownsville, Baltimore and Ft. Lauderdale to meet partners and learn about the local context
  3. Phone interviews practitioners and other applied researcher to align efforts and learn from others
  4. Field scan to identify potential strategies for debt management
Our Focus on African American Community Members

Part 1
Field Scan
The Racial Wealth Divide in 2043

THE GROWING RACIAL WEALTH DIVIDE

See methodology for more details on these calculations.
### Median Household Wealth

<table>
<thead>
<tr>
<th></th>
<th>Black</th>
<th>Latino</th>
<th>White</th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Median Household Wealth, 1983</strong></td>
<td>$6,800</td>
<td>$4,000</td>
<td>$102,200</td>
<td>$78,000</td>
</tr>
<tr>
<td><strong>Median Household Wealth, 2013</strong></td>
<td>$1,700</td>
<td>$2,000</td>
<td>$116,800</td>
<td>$63,800</td>
</tr>
<tr>
<td><strong>Median Household Wealth, 2043</strong></td>
<td>$425</td>
<td>$1,000</td>
<td>$131,980</td>
<td>$52,300</td>
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</tbody>
</table>
Liquid Savings

Figure 3
Whites Have Significantly More Liquid Savings Than Hispanics and African-Americans
Differences in days’ worth of income and share of households with less than 1 and more than 120 days’ worth, by race

<table>
<thead>
<tr>
<th>Race</th>
<th>Typical days of liquid savings</th>
<th>Percentage of households with less than 1 day of income in liquid savings</th>
<th>Percentage of households with more than 120 days of income in liquid savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Black</td>
<td>5 days</td>
<td>35%</td>
<td>24%</td>
</tr>
<tr>
<td>Hispanic</td>
<td>12 days</td>
<td>25%</td>
<td>21%</td>
</tr>
<tr>
<td>White</td>
<td>31 days</td>
<td>11%</td>
<td>12%</td>
</tr>
<tr>
<td>Other race</td>
<td>21 days</td>
<td>10%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Notes: Liquid savings are the sum of the values a respondent reports for checking and savings accounts, unused balances on prepaid cards, and cash saved at home. Days of income were determined by dividing reported liquid savings by monthly household income and then multiplying this figure by 30 to obtain the value in terms of days. Monthly household income is the respondent’s annual household income divided by 12. If a household’s monthly income was below £250, then £250 was used instead of monthly income in the calculation of the ratio.

Source: Pew’s Survey of American Family Finances

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Uneven Asset and Debt Holdings

Ratio of Mean Total Debt to Mean Total Assets

## Uneven Asset and Debt Holdings

<table>
<thead>
<tr>
<th></th>
<th>White Americans</th>
<th>Black Americans</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All</td>
<td>Income less than $40,000</td>
</tr>
<tr>
<td>Percent with any debt</td>
<td>80%</td>
<td>76%</td>
</tr>
<tr>
<td>Median total debt</td>
<td>$41,500</td>
<td>$8,660</td>
</tr>
<tr>
<td>Median total assets</td>
<td>$275,000</td>
<td>$54,250</td>
</tr>
<tr>
<td>Median total net worth</td>
<td>$159,400</td>
<td>$22,200</td>
</tr>
</tbody>
</table>

The Racial Wealth Divide: a result of history and present day circumstance

The book when *Affirmative Action Was White* highlights how the programs that created the foundation of the American middle class mostly failed to invest in people of color: social security, protective labor laws, job training, home ownership, GI Bill, etc.
Our Focus on Managing Debt

Part 1
Field Scan
Five Key Insights

1. **Debt is a problem for people across both low- and moderate-income categories.**

2. **African Americans appear to be more negatively affected by debt than any other group.**

3. **People existing in a state of crisis are less likely to have capacity to take immediate action on addressing their debt.**

4. **No single source of credit is responsible for debt issues experienced.**

5. **Paying incurred debt is a complex area for exploration that seems to be most relevant to clients served by partner organizations.**
Consequences of Debt and in Asset Poverty

- The heavy cost of credit can have negative impact on borrowers’ lives, savings and opportunity to build assets including:
  - Reduced take-home pay.
  - Difficulty paying rent, mortgage, and other bills.
  - Cut backs on spending for basic needs including food which drives more people to rely on food assistance benefits.
  - Lost access to basic services such as phone and electricity.
  - Worse health outcomes and greater incidence of skipping medical care.
  - Long-term indebtedness.
  - Increased risk of personal bankruptcy.
  - Depleted savings and reduced the opportunity to save for retirement.
Many are Focused on Managing Debt

- Clients have different expressed needs when they come to nonprofits:
  - Seeking stabilization services
  - Addressing existing debt and collections
  - Credit building or repair
  - Budgeting skills
  - Asset building (i.e., homes, cars, savings)

- Few people reach out for help until they are already in trouble.

- Paying incurred debt is a complex area for exploration that seems to be most relevant to clients served by partner organizations.
Poll: What debts do your African American clients commonly hold/experience?
Select all that apply.

- Credit card debt
- Other retail or store debt
- Mortgage or home equity loan
- Auto loan
- Student loan/education debt
Poll: What debts do your African American clients commonly hold/experience? *Select all that apply.*

- Payday loan (online or storefront)
- Pawnshop or auto title loan
- Debt to family or friends
- Debt to unlicensed lender or private individual
- Medical debt
Poll: What debts do your African American clients commonly hold/experience?

Select all that apply.

- Past-due taxes
- Past-due rent
- Past-due utility or telecommunication bills
- Legal judgement or expenses
- Other (please specify in comment box)
Practitioners showed us that clients struggle with a wide range of debts

- Clients are often struggling with credit cards and payday loans.
- Auto loans, private student loans, pawn loans, tax refund anticipation loans and fee-based overdrafts are also problematic.
- Medical debt often shows up on the credit reports of many of their clients.
What’s Next?

Part 2
Discovery Interviews
Discovery Interviews

- **Objectives:**
  - Understand clients financial situation and experiences paying incurred debt to refine project team’s understanding of the challenge
  - Gather feedback from clients on strategies in order to inform development of a pilot

- **Recruitment**
  - Each partner organization is recruiting 15-20 clients for individual interviews
  - Quotas on younger and low income interviewees with a mix of gender
  - 60 minute interview
Discovery Interviews

- Interview flow
  - Consent and introductions [5 min]
  - Financial situation and experiences with paying incurred debt [20 min]
  - Current supports and reactions to strategies [30 min]
  - Closing thoughts [5 min]

- Reactions to solutions through “concept testing”
  - Concept testing is a process of evaluating consumers’ responses to an idea for a product or service before introducing it to market
  - Explores perceptions, wants and needs related to each product or service
  - Helps evaluate the extent to which strategies appeal to this target population and identify potential opportunities for improvement.
Poll: Which of the these strategies do you find promising for nonprofits helping LMI African Americans address existing debt?

Select all that apply.

- Financial coaching
- Credit counseling
- Debt management plans
- Debt support groups
- Debt negotiation support from nonprofit staff

*Use the Comment Box to let us know why that strategy is promising!*
Poll: Which of the these strategies do you find promising for nonprofits helping LMI African Americans address existing debt?

Select all that apply.

- Borrow and save loans
- Lending circles
- Debt consolidation loans from credit unions
- No overdraft checking accounts
- Consumer rights and bankruptcy legal assistance

*Use the Comment Box to let us know why that strategy is promising!*
Poll: Which of the these strategies do you find promising for nonprofits helping LMI African Americans address existing debt?

Select all that apply.

- Online loan management platforms (e.g., Earn Up)
- Financial advice apps (e.g., Albert App)
- Financial education (in-person or online)
- Online medical overcharge and reimbursement tools (e.g., Remedy and Better)
- Other (please specify in the comment box)

Also let us know if you are familiar with any strategies or tools for helping clients address past-due bills, payments or other debts!
Our Plans to Share Out

- Blogging on the road about the discovery interviews at [https://prosperitynow.org/blog](https://prosperitynow.org/blog)
- Share out updates through listserv
- Future webinar to share out initial insights and stories.

Part 3
Share Results
Audience Q&A
The Prosperity Now Community

facilitates **learning**
creates **connections**
& inspires **action**

to create and improve programs and policies that foster opportunity, especially for those who have not had it before.

Get involved in the Community today!

**Sign up to stay informed** about Prosperity Now and the Community. 

*Sign up today at prosperitynow.org/join.*
Want to dig deeper?

Sign up for listservs and working groups, volunteer to facilitate peer discussions, serve in a leadership role and more!

- Taxpayer Opportunity Network
- Adult Matched Savings Network
- Financial Coaching Network
- Innovations in Manufactured Housing (I’M HOME) Network
- Affordable Housing Network
- Racial Wealth Equity Network
- Campaign for Every Kids Future — Children’s Savings Accounts

Visit any of the networks above at prosperitynow.org/getinvolved to get started.
Thank You !!!

https://prosperitynow.org/racial-wealth-divide-initiative

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Email: research@prosperitynow.org