

CRA AT FORTY

Life on the Financial Edge

Chris Blakeley
Credit Fair-e

In America, 47 percent of people are living on the financial edge¹ – just one financial emergency away from being unable to pay their rent, make a car payment or fully feed their family. It's very likely that everyone reading this knows someone in a cash crunch or financial bind. It could be a coworker, a friend, your brother or sister or even you. Millions of these folks, who have no access to emergency funds like savings accounts, credit cards or the ability to borrow from family or friends, are forced to turn to short-term, high-interest loans in a time of financial emergency. These good, hard working people are lured with promises of quick and easy cash and simple, inexpensive repayment terms. In reality, what they get is a spiraling cycle of debt that forces them to re-borrow again and again, costing them a total of \$21 billion in fees and interest in 2015.

The typical loan for someone in financial distress is a payday loan. These are generally short-term, high-cost loans for \$500 or less that borrowers must repay when they receive their next paycheck. Depending on a state's laws, payday loans are usually offered through storefront locations or online. To illustrate a typical payday loan transaction, let's look at the following example:

Brian is a social worker making \$32,000 per year. Brian's car breaks down and he doesn't have enough cash on hand to pay the \$500 repair bill. Because Brian relies on his car for driving his kids to school and making his daily commute to work, he quickly scrambles to find a source of funds to pay the bill. Unfortunately, Brian has bad credit from some financial trouble a few years back, so he turns to one of the only options he has for money – a payday loan.

Brian borrows the \$500 from an online lender who charges \$75 in interest for a loan of that size and requires borrowers to repay the full amount using their next paycheck. For Brian, this means he'll have to use 62 percent of his next paycheck to repay the debt. This is devastating to Brian's financial health, as he's forced to take out another payday loan to cover other bills and become trapped in an expensive and harmful debt cycle that costs him additional interest charges and other fees of nearly \$600.

¹ Federal Reserve Board of Governors, "Report on the Economic Well-Being of U.S. Households in 2015," May 2016, available at <https://www.federalreserve.gov/2015-report-economic-well-being-us-households-201605.pdf>

Unfortunately, for the millions of Americans using short-term, high-interest credit products, Brian's situation is not an extreme case. The average payday borrower takes out eight loans per year and pays \$520 in interest and fees.²

To be financially *empowered*, a consumer needs access to high-quality financial products and services, sufficient information about choices in the marketplace, the capability to make good financial decisions that benefit themselves and their families and – when required – access to trusted advisors to help navigate a complex financial marketplace. With nearly 100 million low-income and economically vulnerable individuals in the United States³, financial empowerment is often a foreign concept. Many of these people are either unbanked, underbanked or have thin or no credit files. In addition, these folks tend to be diverse by culture, geography, stage of life and financial status. While initiatives to enhance the financial stability of this population have multiplied and shown promise over the past decade, we have yet to establish a strategy on a national scale that addresses their unique needs for consumer financial products and services.

A study published in November 2013 by the Consumer Financial Protection Bureau⁴ takes a close look at empowering low-income and economically vulnerable consumers. It discusses how consumers with low incomes face a number of policy-related, institutional and personal barriers that restrict their access to the financial system. Institutional barriers range from lack of physical access to identification requirements, unaffordable service fees and lack of products that align with their needs. Participants in this study suggested that financial institutions and service providers can pursue several strategies to counteract barriers to accessing basic financial services, including actions to:

- Better understand the needs of the consumer and create products that fit those needs;
- Meet consumers where they are, sometimes away from the branch in the community;
- Engage with partners that already serve low-income consumers to build trust;
- Provide incentives for participation in the mainstream financial system; and
- Craft technology solutions that work for low-income consumers.

Consumers with low incomes are less likely than other consumers to be able to access affordable credit; they often use high-cost alternative products to meet their needs. Several features of the credit market are particularly challenging for many consumers with low incomes. Some of the biggest barriers include their inability to qualify for loans because they have little, poor or no credit history; lack of general understanding about credit and the type of loans that would be most useful; lack of knowledge about how to correct their credit reports or improve their scores; and a general perception that the credit system is inaccessible to them. Participants in the study also reported that consumers could greatly benefit from:

- Increased access to credit reports and scores;
- Specialized financial education; and
- More accessible and affordable products and services that are tailored to fit their credit needs and capacity to repay.

² PEW Charitable Trusts, "Payday Lending in America: Who Borrows, Where They Borrow and Why," July 2012, available at http://www.pewtrusts.org/~media/legacy/uploadedfiles/pes_assets/2012/pewpaydaylendingreportpdf.pdf

³ Consumer Financial Protection Bureau, "Empowering low income and economically vulnerable consumers: Report on a National Convening," November 2013, available at http://files.consumerfinance.gov/f/201311_cfpb_report_empowering-economically-vulnerable-consumers.pdf

⁴ Ibid.

Low- and middle-income Americans are craving better and more affordable financial products. We in the financial services industry owe it to them to design products that meet their specific challenges and help them build stronger financial health. By doing so, we will all contribute to meeting the goals and ambitions of the Community Reinvestment Act.

ABOUT THE AUTHOR

CHRIS BLAKELY is the Founder and CEO of Credit Fair-e, a company he started in 2014 to provide some of the most vulnerable members of society an opportunity to access fair, affordable financial products. Credit Fair-e strives to be a trusted partner to the emerging middle class by providing affordable small-dollar loans where the loan amount, repayment period, interest rate and fees are structured so the borrower can successfully repay the loan without re-borrowing, while still meeting basic needs and other financial obligations. Prior to creating Credit Fair-e, Chris was the Vice President of Operations and IT at PetFirst Healthcare and has worked for Aegon and Humana. He is a graduate of the University of Louisville with a B.S. in Business Administration and Computer Information Systems and an MBA in Entrepreneurial Studies.

ABOUT THE BOOK

This article first appeared in **CRA at 40: Views on the Present and Future of Community Reinvestment**, published by findCRA in November 2017. The book was created in celebration of the 40th anniversary of the Community Reinvestment Act. It tells the stories of community development, from the perspective of those working in our communities who bring their knowledge and passion to bear every day in confronting the most critical problems facing communities in need. The book is about real-world experiences told in plain language by those who live them to provide a lens for readers to see CRA at work, ideas for its future and most importantly, what it means in people's lives. To access the full text or order copies of the book, please visit www.findCRA.com/CRAat40.