Financial Inclusion to Help Mitigate the Economic Consequences of COVID-19

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Only half of all U.S. households and less than a quarter of low income households had enough emergency funds set aside to cover three months of expenses (FINRA Investor Education Foundation [FINRA] 2019) – roughly the amount of time households might expect to comply with stay at home orders during the COVID-19 pandemic. Yet the three months' standard for emergency savings is predicated on "ordinary" financial shocks such as a spell of unemployment or an illness.

The federal government has recognized the wide-scale and catastrophic nature of COVID-19 as a macroeconomic shock by enacting the $2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act. Yet, like any other crisis-response measure, its effectiveness is determined in part by the systems through which relief is delivered and related policies that were already in place. In this sense, the U.S. was not only unprepared for the public health fallout of COVID-19; its financial services system and financial capability and asset building policies are ill-equipped to help vulnerable households cope with the economic fallout of COVID-19.

Social workers can advocate for a host of policy changes that will help households better cope with the economic fallout of COVID-19 and be better prepared for future catastrophic events:

1. Public option for basic banking services. Individuals without bank accounts will wait longer for CARES Act relief checks than those with bank accounts who will receive help via direct deposit. The Treasury Department will not begin mailing checks until early May, and will do so on a staggered basis. In a recent study, my colleagues and I found that the risk for food insecurity is greater among lower-income tax filers who had to wait for their tax refunds due to a delay imposed by the IRS to verify returns[i]. Delays matter and they hurt. Meanwhile, only 9% of banks offer basic checking and savings accounts that meet Bank On safety and affordability standards[ii]. Moreover, regulations proposed by the Office of the Comptroller of the Currency (OCC) and Federal Deposit Insurance Corporation (FDIC) to modernize the Community Reinvestment Act (CRA) will eliminate the already-weak service test for banks, which erodes any pressure banks felt to provide free or low-cost basic banking accounts to low- and moderate-income (LMI) customers[iii]. It's time to declare market and regulatory failure and embrace the idea of a public option for basic banking[iv]. Making basic banking a right will also promote public health during a pandemic as individuals with accounts and online access can make digital transactions versus placing themselves and others at risk through in-person and cash-based transactions.

2. Emergency savings incentives. The evidence is clear that LMI households struggle to build the emergency funds they need to cope with economic crises, especially on the scale of COVID-19. Through the Refund-to-Savings initiative, my colleagues and I have found that the overall refund savings rate is low – well under 20%. Yet through a survey experiment with LMI tax filers that mimicked key provisions of the Refund to Rainy Day Savings Act (S.1018)[v], we found that filers' intention to save skyrockets when they are offered incentives[vi]. Clearly, LMI households who simply lack enough financial "slack" to build meaningful emergency funds need help. Paying for these incentives isn't hard to figure out; we can do this on a budget-neutral basis by modestly rolling back some of the regressive features of our "upside down" tax code[vii].

3. Periodic payment of the Earned Income Tax Credit (EITC). The EITC is a refundable tax credit and a major source of support for LMI workers and their families, yet recipients must wait until they file their taxes to receive it for the prior year. And reasons why a minority of LMI tax filers save their refunds is they need their refunds just to get caught up on bills, make deferred purchases and repairs, and pay down credit card debt they accumulated in the months leading up to tax filing. Clearly, some LMI filers could benefit from having access to part of their expected refunds during the year to meet their basic needs and pay for things like car repairs and school clothes. During the COVID-19 crisis LMI tax filers would really benefit by being able to use part of their expected tax refund for 2020 rather than wait until early 2021 to file their taxes. The rainy day is now. Though the original Advance Earned Income Credit program was scrapped in 2010, there are better ways to design and implement some type of advance payment[viii].

4. Expanded access to affordable credit. Households waiting for COVID-19 relief checks and/or unemployment assistance need access to credit to meet basic needs, especially if they lack or have depleted their emergency funds. Access to credit during COVID-19 is especially important in communities where evictions and utility cut-offs are not being delayed. Yet 45 million people in the U.S. lack access to credit due to "thin" or non-existent credit files[ix] and despite encouragement from the OCC[x], most banks refuse to provide small-dollar unsecured loans to help people with damaged or no credit through crises. Many credit unions offer Payday Alternative Loans (PALs) and partner with employers to offer small-dollar installment loans in the workplace[xi], yet credit unions have limited market share. One regulatory mechanism to compel banks to do more is to strengthen the CRA service test, yet undoubtedly this will meet vigorous resistance from the banking industry, signaling yet another instance of market failure to undergird the argument for a public option for basic banking services, including short-term loans.

5. Eviction mitigation. The federal eviction moratorium under the CARES Act is limited to "covered properties" such as properties that accept Housing Choice Vouchers and participate in the low-income housing tax credit program and will last only for 120 days[xii]. Various states and municipalities have issued broader moratoria to cover private properties, yet many renters will lack access to rental assistance and will have large back-rent payments that will be difficult to make if they lack emergency savings and are still out of work. Eviction moratoria implicitly acknowledge the devastating impacts of evictions[xiii] and represent an initial policy response toward a national commitment to housing rights where evictions would be rare and unusual. In the interim, we can follow the example of unemployment insurance and require landlords to pay into an eviction risk pool matched with federal dollars, which could be financed by eliminating the mortgage interest tax deduction except for LMI filers. This risk pool could be tethered to a common digital platform for collecting rent payments to reduce administrative costs and burden to landlords and enable innovations rental emergency escrow accounts with a Federal government match.

Much has been said over the last several weeks about how COVID-19 is exposing many ways in which extreme economic inequality hurts us all. Deeper structural changes in our economy not described above are needed. But until the groundswell of support and political will for these changes emerges, the ideas above can make a crisis like COVID-19 easier for LMI households to navigate.

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[i] Kondratjeva, O., Roll, S., Bufe, S., Despard, M., & Grinstein-Weiss, M. (2019, November). The impact of tax refund delays on the experience of hardships and incidence of debt in low- and moderate-income households. Paper presented at the 41st Annual Fall Conference of the Association for Public Policy Analysis and Management, Denver, CO. https://appam.confex.com/appam/2019/webprogram/Paper32627.html

[ii] Friedline, T., Despard, M., Eastlund, R., & Schuetz, N. (2017). *Are banks' entry-level checking accounts safe and affordable? Comparing a stratified random sample of banks to safety and affordability guidelines.* Ann Arbor, MI: University of Michigan, Center on Assets, Education, & Inclusion (AEDI). https://www.newamerica.org/documents/1913/Are_Banks_Entry-Level_Checking_Accounts_Safe_and_Affordable.pdf

[iii] https://ncrc.org/summary-fact-sheet-on-the-occ-and-fdic-cra-proposed-rule/

[iv] https://prospect.org/day-one-agenda/create-public-option-simple-banking/

[v] https://www.congress.gov/bill/116th-congress/senate-bill/1018

[vi] Despard, M., Bufe, S., Grinstein-Weiss, M., Roll, S., & (2018, November). Tax-time saving among EITC recipients: Results of a large-scale experiment informed by behavioral economics. Paper presented at the 40th Annual Fall Conference of the Association for Public Policy Analysis and Management, Washington, DC. https://appam.confex.com/appam/2018/webprogram/Paper26574.html

[vii] https://prosperitynow.org/blog/how-us-tax-code-drives-inequality-and-what-we-can-do-fix-it

[viii] https://www.brookings.edu/research/periodic-payment-of-the-earned-income-tax-credit-revisited/

[ix] https://www.consumerfinance.gov/practitioner-resources/economically-vulnerable/expanding-credit-access/

[x] https://www.occ.gov/news-issuances/bulletins/2018/bulletin-2018-14.html

[xi] https://socialpolicyinstitute.wustl.edu/employee-sponsored-small-dollar-loans-an-assessment-of-take-up-engagement-and-outcomes/

[xii] https://www.nhlp.org/wp-content/uploads/2020.03.27-NHLP-CARES-Act-Eviction-Moratorium-Summary.pdf

[xiii] https://www.evictedbook.com/