JUNE 2020

Navigating the Promise and Pitfalls of Debt Consolidation

AN INNOVATION BRIEF FOR FINANCIAL COACHING PROGRAMS FROM THE ADDRESSING DEBT IN BLACK COMMUNITIES PROJECT

Navigating the Promise and Pitfalls of Debt Consolidation

Authors

Stephanie Landry and Spectra Myers

Acknowledgments

We wish to thank the team of people who made this report possible. Community Financial Resources (CFR) provided product expertise and wise counsel and conducted the field scan of products and services. Our partners at the Bedford Stuyvesant Restoration Corporation, Bon Secours Community Works and the Urban League of Broward County shared ideas and feedback along the way, made connections to local financial institutions and reviewed this paper. Applied Research intern Ethan Steakly supported background research and documentation. Our colleagues at Prosperity Now, Cat Goughnour, Hiba Haroon and Lillian Singh provided feedback and guidance. Joel Doelger from Credit Counseling of Arkansas; Sheri Flanigan and Katie Kristensen from Justine PETERSEN; Ed Sivak, Felicia Lyles and Kiyadh Burt from HOPE; Samira Rajan from Brooklyn Cooperative Federal Credit Union; Darrin Williams, Karama Neal, Janie Ginocchio, Kimberly Roth and Jimbo Boyd, Jr., from Southern Bancorp; Andy Posner from Capital Good Fund; and Mark Ryan, Sasha Werblin and Purvi Patel from Self-Help Federal Credit Union shared their insights and experience with debt consolidation. Sarah Chenven and Talia Kahn-Kravis from Credit Builders Alliance shared thoughts and recommendations at key junctures. Cat Goughnour and Lillian Singh reviewed the paper and provided feedback. Myrto Karaflos and James Durrah edited the paper, and Sandiel Grant designed the layout and graphics.

This report was made possible with the generous support of MetLife Foundation.

About Prosperity Now

Prosperity Now (formerly CFED) believes that everyone deserves a chance to prosper. Since 1979, we have helped make it possible for millions of people, especially people of color and those of limited incomes, to achieve financial security, stability and, ultimately, prosperity. We offer a unique combination of scalable practical solutions, in-depth research and proven policy solutions, all aimed at building wealth for those who need it most.

About MetLife Foundation

At MetLife Foundation, we believe financial health belongs to everyone. We bring together bold solutions, deep financial expertise and meaningful grants to build financial health for people and communities that are underserved and aspire for more. We partner with organizations around the world to create financial health solutions and build stronger communities, engaging MetLife employee volunteers to help drive impact. MetLife Foundation was created in 1976 to continue MetLife's long tradition of corporate contributions and community involvement. Since its founding through the end of 2019, MetLife Foundation provided more than $860 million in grants and $85 million in program-related investments to make a positive impact in the communities where MetLife operates. To date, our financial health work has reached 9.9 million low-income individuals in 42 countries. To learn more about MetLife Foundation, visit www.metlife.org.

Contents

Executive Summary

As part of a project focused on supporting Black/African American community members with debt and past-due bills, Prosperity Now tested the potential of consolidation loans to complement the work of our financial coaching and counseling partner organizations. Throughout this project, we collaborated with nonprofit leaders from Bedford Stuyvesant Restoration Corporation (Brooklyn, NY), Bon Secours Community Works (Baltimore, MD) and the Urban League of Broward County (Broward County, FL). The staff at these organizations sees firsthand how debt and past-due bills negatively impact the financial lives of many low- and moderate-income Black/African Americans.

Prosperity Now's previous qualitative interviews with Black/African American community members in Baltimore, New York City and Fort Lauderdale revealed a tension that inspired this research: community members felt great hesitancy around debt consolidation products. It is important to acknowledge that these community members have not been protected against debt historically and that many have been the targets of high-cost debt or unfair practices.[1] At the same time, researchers and practitioners with a focus on debt, project advisors and the community-based partners thought there was promise in debt consolidation.

This phase of the project set out to explore this tension to learn more about the possibilities and limitations of debt consolidation products as a debt management and repayment strategy for Black/African American community members. Specifically, we set out to assess the utility of the types of services that could be offered by nonprofit financial coaches.

In this innovation brief, we share background on the project, the key findings of this exploration, the initial product assessment criteria we developed to evaluate debt consolidation products and the results of a national field scan of debt consolidation products. We then share the feedback we received from lenders on profiles developed with our community-based partners. Through this brief, we attempt to situate consolidation loans and strategies within a broader set of debt management and repayment approaches that financial coaching programs might help their clients to navigate. Finally, we conclude with recommendations for the field. We learned:

1. There are loan consolidation products in the market that meet assessment criteria and might be fair, safe and affordable financial products for clients dealing with debt.
2. The best loan products are specifically designed for low-income and low-wealth community members.

[1] See, for example, the following paper on how this has played out in mortgage lending: Patrick Bayer, Fernando Ferreira, Stephen L. Ross, "What Drives Racial and Ethnic Differences in High Cost Mortgages? The Role of High Risk Lenders," (NBER Working Paper No. 22004, February 2016).

3. Breaking the payday loan cycle, improving credit to achieve a near-term goal or streamlining multiple payments were the goal-directed scenarios experts identified as the clearest potential for consolidation loans.
4. Among credit unions, special loan programs and Community Development Financial Institutions (CDFIs), more clients may qualify for products for debt consolidation than the partner site financial coaches and program managers and Prosperity Now staff initially hypothesized.
5. Successful debt consolidation may open clients up to more debt -- both potentially beneficially and/or detrimental.

This brief, written primarily for leaders and program managers of financial coaching and counseling programs and organizations, shares the findings from this exploration to support situating debt consolidation within the larger context of debt management strategies and to illuminate lender decision-making. We hope lenders and funders will find insights in this brief that will inform their product development and funding decisions. Finally, we are hopeful that the findings will point the reader further to extend the scale of promising products and services to meet the Black/African American people facing challenging debt.

Introduction

As part of a project focused on supporting Black/African American community members with debt and past-due bills, Prosperity Now, with consulting support from Community Financial Resources (CFR), tested the potential of debt consolidation to complement the work of our financial coaching and counseling partners at Bedford Stuyvesant Restoration Corporation, Bon Secours Community Works and the Urban League of Broward County.

What is Debt Consolidation?

Debt consolidation is a debt management and repayment strategy that combines multiple debts into one. It can simplify repayment by reducing the number of monthly payments a client has to keep track of, lower the cost of the debt through lower interest rates, or allow clients to pay off debt faster. All of this depends on the client's current debt situation and the terms and conditions of a debt consolidation product.

The idea to explore consolidation loans arose from qualitative research conducted by Prosperity Now in a past phase of this project[2], which identified an interesting tension between community member responses to these types of products and those shared with us by financial capability experts. While a few experts, project advisors and partners thought there was potential in some products depending on a client's situation, community members, understandably, expressed great hesitancy (for more detail on client reactions to debt consolidation products, see the text box on page 9). Additionally, this was largely uncharted territory for two of three project partners, as financial coaching and counseling programs generally refrain from recommending specific products and are rarely offered within organizations that do direct lending. This project allowed us to step into that space of uncertainty and try to bring together different perspectives to understand what experts were seeing as the potential of debt consolidation products.

Initially, we envisioned the project would focus on identifying promising products and then working on addressing client concerns by developing appropriate coaching techniques that we might pilot. We quickly pivoted when it became clear that there are few available resources for vetting products. We were also unable to locate literature establishing positive outcomes for borrowers, so we did not want to inadvertently harm clients through this exploration. Instead, we focused on developing initial criteria

[2] For more information, please see Myers & Chan (2018) Overdue: Addressing Debt in Black Communities. Prosperity Now. https://prosperitynow.org/sites/default/files/resources/Addressing_Debt_in_Black_Communities_1.pdf

to assess products and, with feedback from partners and lenders, created a prototyped tool for financial coaches to use when considering these options with clients. We tried to resist a tendency that we often see in interventions: that individuals are the ones that need to change, as opposed to the products, institutions or systems. We display our process for this exploration below:

> Historical discrimination and insufficient returns on "good debt" set the context for why so many Black households end up in troublesome debt. Building upon that history are today's economic challenges and disparate burdens placed on lower-income Black households. The current economy shifts substantial financial risk onto households, making it especially hard for those with low and moderate incomes to get ahead. Because most African American households are relegated to the lower income and asset quintiles, they disproportionately experience the devastating consequences of costly credit and debt (i.e., with credit cards, sub-prime credit, criminal justice debt and collections actions) compared to their White counterparts. – Forced to Walk a Dangerous Line, pg. 8

Why Focus on Black/African American Communities?

This exploration is part of a project that focuses on debt and past-due bills in the context of the socioeconomic reality of Black/African American community members who have been in the United States for generations.[3] These community members have been excluded from parts of a financial continuum that protects against costly debt, including the full opportunity to earn fair wages, build assets like emergency savings and wealth, or be shielded by consumer protection. Black/African American community members appear to be more negatively affected by debt than any other group. For example, Black/African American community members are more likely to be denied, make smaller down payments and pay higher rates than Hispanic, White and Asian[4] people. A deeper exploration of the causes of Black/African American debt can be found in our previous paper, Forced to Walk a Dangerous Line: The Cause and Consequences of Debt in Black Communities.[5]

By focusing this exploration of debt consolidation loans on this community, we hoped to learn from those most affected by problematic debt to inform how interventions can be tailored to their socioeconomic reality. We were curious to learn if lenders make consolidation loan products with the most disparately impacted in mind. We also wanted to impart to the field and to lenders interested in

[3] Black community members from recent immigrant or refugee groups are also served by financial coaching organizations. but data disaggregation has allowed for a more nuanced examination of variations in measures of financial stability and, in some communities, has revealed meaningful differences in income, assets and debt obligations within racial groups and those partitioned by categories of ancestral origin.
[4] Drew Desliver and Kristen Bialik, "Blacks and Hispanics Face Extra Challenges in Getting Home Loans," Pew Research Center, FactTank (2017).
[5] Prosperity Now (2018). Forced to Walk a Dangerous Line: The Causes and Consequences of Debt in Black Communities.

serving underserved communities what we can do to better support individual Black/African American community members who bear the brunt of challenging debt while also looking to develop more comprehensive solutions.

While the practitioners at financial coaching and counseling agencies we partnered with understand that addressing racial economic inequality will take large scale changes in systems at all levels, they are determined to provide clients with the best individual support and guidance available to minimize the chronic stress of financial crisis. If a loan product might help a client save money, simplify repayment or improve their credit in order to qualify for an apartment, buy a car or own a home, financial coaches are open to supporting their clients to consider it. Through this phase of the project, we attempted to answer the following question: **How might we support Black/African American community members in optimizing their debt management strategies so that debt doesn't stand in the way of their greater financial goals?**

Community Member Concerns about Consolidation Loans

In our previous interviews with Black/African American community members, we heard about how debt affects their lives and how they manage debt. We obtained their feedback on potential debt management and debt relief programs, products and services that could be offered in their communities. One of the products community members reviewed and provided feedback on was the general idea of a consolidation loan. Perhaps not surprisingly, given disparate targeting of high-cost products and a lack of investment in relationship building and repair, most community members expressed strong concerns about taking on another loan product in order to address an existing debt challenge. We shared these findings in a paper, Overdue: Addressing Debt in Black Communities.

Indeed, consolidation loans were perhaps the least appealing of all programs, products and services reviewed during these interviews. While community members liked the purported benefits of consolidation (lower interest rates, potential to increase credit score and simplification of finances), most expressed skepticism that using a new loan to pay off existing debt would put them in a better financial position. They were also unsure the interest rate they might be offered would be enough to help and were hesitant to pay additional fees for these products.

In the report, we noted that complexity combined with vaguely articulated benefits and little guidance on how likely an individual community member is to qualify and benefit were some of the things that got in the way. We further noted that these products will have to overcome significant mistrust, relevance and accessibility barriers.

In What Situations Might Debt Consolidation be a Good Debt Management or Reduction Strategy?

In the first stage of this exploration, Prosperity Now sought to learn more from well-regarded lenders serving predominately Black/African American communities. We were interested in hearing these experts' perspectives on what would serve community members well and what features constitute a "good" product.

We conducted exploratory conversations with financial institutions, including CDFIs, a nonprofit partnering with a CDFI to offer special loan programs and mission-driven credit unions. We also worked with a credit counselor to help us situate debt consolidation among other debt management strategies and to start exploring when debt consolidation might be or might not be a good debt management strategy. Their insights are summarized below.

Considerations around Debt Consolidation

The experts shared nuanced insights around debt consolidation being a useful tool, but one that should be applied judiciously. Lenders and coaches need to think broadly about how the client's financial situation can be improved through engagement with someone that has their financial well-being at the forefront. Whether or not debt consolidation might be a good debt management strategy for a client is specific to the individual's financial situation and goals.

One of the ways we heard these experts talk about consolidation was as a "step-up process" that was intimately tied to achieving a specific goal. A client may not be able to consolidate all their debt at first, but they may be able to get a smaller loan to pay off certain debt (perhaps their highest-cost debt), establish a relationship with the lender and perhaps improve their credit history. This could enable them to get a larger loan in the future to consolidate more debt.

Experts also suggested that debt consolidation is not about taking on more debt, but rather repositioning existing debt. These experts have found that clients often think about their debt in terms of monthly payments. Participating financial experts recommended that coaches meet clients where they are by comparing monthly payment amounts while also discussing interest rates and overall cost of debt. They also recommended that coaches support clients in considering debt consolidation as part of a larger debt management strategy. For example, a client might negotiate a payment reduction or plan on past-due bills directly with a lender, ensure medical debt is billed correctly **and** consolidate high-interest credit card debt into a lower-cost loan.

They further recommended that clients need a plan for how they will continue to meet their living expenses and other obligations without incurring additional debt. If clients use debt consolidation products to pay off high-interest debt like payday loans, the reason the client took out that payday loan in the first place needs to be addressed. Otherwise, a debt consolidation product could simply get people into more debt.

When Lenders Thought Debt Consolidation Might be a Good Strategy	When Lenders Thought Debt Consolidation Might Not be a Good Strategy
1. **When there is a compelling reason to consolidate the debt.** *Is there a clear benefit to the client? Lower interest rate? Better terms? Smaller monthly payment? Financial experts did give a warning about smaller monthly payments—if the payment is smaller because of a longer loan term, the overall cost of the debt (the total finance charge) might end up being higher. It might still be in the best interest of the client to get those lower monthly payments and free up cash flow to manage other necessary expenses, but it is important to be careful when comparing existing debt situations to debt consolidation.*	1. **When the client has negative or zero cash flow.** *If the client cannot afford the debt consolidation loan payments when the loan is made, if the factors that led to the client not being able to manage their debt persist, or if the client has to use debt to pay for basic necessities, debt consolidation might not be a good strategy—it may simply put them further in the hole.*
2. **To pay off high-cost debt, like payday loans.** *Payday loans are money borrowed that is supposed to be repaid in full out of the client's next paycheck. This type of debt is expensive to service and often forces cycles of reborrowing that can be difficult to break without an intervention. Debt consolidation is likely to provide a lower-cost alternative.*	2. **If overall loan terms cannot be improved.** *If a client is not approved for more favorable terms, such as a lower interest rate, a debt consolidation product might cost the same or more than their existing debt and not provide any benefit.*
3. **When a client is trying to build credit.** *Debt consolidation might be a good strategy, but some of the impacts on the credit score may be opposite, depending on the specific situation. Paying off or down an existing debt, reducing credit utilization and establishing another line of credit could help build credit. But if clients close active tradelines (like credit cards) after they pay them off with the*	3. **If debts are older and approaching their statutes of limitation.** *Unless those debts are creating barriers against the client reaching their goals or the client is being garnished, clients may be better served by a nonpayment strategy. Debt statutes of limitation vary by state and may be complicated and time-consuming to determine.*

consolidation loan, that might negatively impact their credit score.	
4. When a client has a lot of little debts that they want to clean up. *Debt consolidation can offer simplicity and reduce complexity through one monthly payment rather than many. However, a coach's support to define and implement a self-management strategy might work even better.*	**4. If the debt consolidation strategy collateralizes unsecured debt, be cautious.** *Auto-refinance, second mortgages or home equity lines of credit can be a cost-effective way to pay off other debts with less favorable terms. However, if these products are used to consolidate unsecured debt (such as credit cards, payday loans, personal loans, past-due bills, etc.), and the client has trouble managing these payments in the future, they could be at risk of losing their vehicle or their home.*
5. When a client's goal is homeownership. *Are they trying to qualify for a mortgage but their debt-to-income (D:I) ratio is too high? Debt consolidation can reduce monthly payments and therefore reduce D:I.*	

Financial Coaching and Counseling Client Background

Throughout this exploration, we shared background information with the various experts and financial institutions about the clients served by the financial coaching and counseling programs we had partnered with for the project. More information on the project, financial coaching and counseling program partners and the clients can be found in the project's comprehensive report.

The partners serve predominately Black/African American clients with complex financial situations, including debt and past-due bills—approximately 28% report late or missed payments in the last three months. Most have low and moderate incomes (making less than 80% of the area median income) and have few or no assets with limited savings. About one in 10 owned their home, while others rent or live with family members. Many hold student loans but are not benefiting fully from degrees. The partners report that while approximately 42% of their new clients[6] were employed full time, many are over-qualified for their positions.

[6] During a three-month period beginning in October 2019, the partners captured detailed financial information on 118 new clients in order to learn more about the profiles and situations of those served.

Common debts include credit cards, medical debt and auto loans, and many also reported past-due bills, particularly to cell phone providers. Student loan debt was the highest debt of clients across all three partners; unfortunately, student loan debt is often a barrier to consolidation and is beyond the scope of many lenders. Additional detail about client financial situations can be found in the table below.

	Restoration Brooklyn, NY (n=75)	Bon Secours Baltimore, MD (n=23)	Urban League Broward County, FL (n=20)
Monthly Income	Median: $2,000.00 Range: $1,200.00/ $2,800.00	Median: $1,232.33 Range: $886.75 / $2,680.00	Median: $1,908.34 Range: $1,904.17 / $4,054.00
Monthly Expenses	Median: $2,065.00 Range: $1,432.25 / $3,176.00	Median: $1,147.00 Range: $832.50 / $2,247.50	Median: $1,618.50 Range: $1,783.75 / $3,075.00
CASH FLOW			
Clients with a Monthly Surplus	12	11	6
Clients whose Monthly Budget is Roughly Even	3	4	5
Clients with a Monthly Deficit	35	8	7
DEBT AND CREDIT			
Total Debt	Median: $19,016.00 Range: $10,208.00/ $44,426.00	Median: $4,892.43 Range: $2,541.75 / $10,844.00	Median: $13,625.21 Range: $7,509.25 / $78,385.00
Median Revolving Debt	$3,489.50	$592.18	$3,968.00
Median Installment Debt	$11,947.00	$9,076.00	$13,338.00
Credit Score	Median: 608 (TransUnion)	Median: 593 (Equifax)	Median: 566 (TransUnion, Equifax and Experian)

Assessment Criteria

Community Financial Resources and Prosperity Now developed the following criteria against which to assess debt consolidation products:

ASSESSMENT CRITERIA

Overall Assessment

1. The product materially improves client's financial well-being through:
   a. Lower total cost to client
   b. Better fit to client's cash flow, for example with a lower monthly payment at fairer cost
   c. Reducing complexity and the life consequences of that complexity
2. Priority features
   a. Reasonable cost and loan structure
   b. Low-income, debt-stressed individuals can qualify
   c. Structured to control creation of additional debt, for example through creditors being paid off directly; financial advisor or coach monitors performance

Product Structure and Terms

1. Will the product sufficiently cover debt resolution needs, e.g. consolidation loan amount?
2. Annual Percentage Rate (APR) and effective Annual Percentage Yield (APY)
   d. 18% APR or less preferred
   e. Cost impact of origination fees
   f. Any other fees appropriately disclosed
3. Structure and term
   a. Prefer no more than seven-year term
   b. installment loan structure (closed-ended) preferred
   c. If revolving, advantageous balance transfer terms with at least 12 months of promotional rate.

Availability to Low-income and Debt-stressed Households

1. Scalability and/or replicability
   a. Large geographic scope, national preferred
   b. Are geographically-based products replicable elsewhere?
2. Ease of application
   a. Online portal preferred
   b. Flexible know-your-customer and identity verification process
   c. Clear disclosures
3. Flexible Underwriting (low credit score not automatic disqualifier, considers alternative indicators)
   a. Disclosed early out criteria, e.g. Office of Foreign Assets Control (OFAC)
   b. Provision of a pre-screen criteria
   c. High approval rate for "pre-screened" clients

	4. Timely decisioning a. Disclosure by product of average approval rate and turnaround time b. Of Approvals: % automatic, % requiring manual reviews
Guardrails to Ensure Client Success 1. Likelihood of successful client experience, including: a. Controls to prevent additional expansion of debt, for example that the lender settles debt with other creditors. b. Useful and transparent fulfillment and product orientation materials c. Borrow and Save feature or partial collateralization d. Positive reinforcement and nudges for good performance e. Complementary supports, for example access to financial advisor, coach, or counselor f. Relationship-building product with supplier preferred rather than single-use product 2. Payment flexibility: a. Automatic payment discount b. Several options for payment delivery: online, mail-in, etc. c. Ability to reset payment date/schedule, if needed d. No penalties for early payoff or large payments e. Prefer allowance of multiple monthly payments to meet monthly payment total without penalty or fee for multiple payment processing f. Overpayment on installment – disclose by product whether the overpayment is	**Social Responsibility Assessment** 1. Social responsibility assessment of provider a. Does the provider help build community wealth or extract/erode community wealth? b. Does the provider have a history of disparate racial impact? c. Does the provider ensure client financial privacy protection through adequate data security, data-sharing, and cross-selling practices? 2. Cultural competency a. Are there red flags that might indicate issues with respectful and non-judgmental communication? Do marketing and educational materials reflect diverse communities?

applied to the balance or upcoming installments 3. Positive payment report to credit bureaus a. Timely monthly reporting – prefer reporting standards provided in terms and conditions of the loan b. Clearly provide explanation of timing on reporting negative information to credit bureau(s) 4. Customer Service c. Free d. Available 24/7 e. Multi-language support f. Multiple access channels—online/call center	

It is important to note that evaluating products against these assessment criteria can be time-consuming, require judgment calls and may require some expertise in financial products. While financial coaching program staff may be able to use the criteria as a reference with clients to review loan offers and disclosures, we acknowledge that – given the complexity of the task, time limitations of both clients and coaches and the diverse array of potential products – there is a need for a tool that can support vetting products.

Results of the Field Scan

Community Financial Resources (CFR) conducted a national field scan of available products[7] through online research and conversations with suppliers. CFR identified five product types[8] (defined in the box below) that could potentially improve the financial well-being of debt-stressed, low- and moderate-income Black/African American households.

Debt Consolidation loans are loans specifically for consolidating debt. They often include direct pay-off of creditors.

Auto Refinance loans enable clients to pay off their existing car loan with a new loan with different terms. The loan may save a client money through a lower interest rate. The loan could also reduce monthly payments by extending the time it takes to pay back the debt. In this case, the total cost of the loan could be more, the same or less than the existing loan. Auto refinance loans can resolve high-cost, buy-here/pay-here loans. If the client has equity in their vehicle, refinancing and taking cash out to pay off high-cost debt is a viable option.

Personal loans can also sometimes be used for debt consolidation, depending on the lender.

Balance Transfer Credit Cards enable clients to transfer existing credit card debt, often with a fee, to a new credit card with a 0% or low promotional interest rate for a certain period of time, usually six to 18 months. This can free up some cash flow through lower monthly payments, but clients should think about a debt management plan beyond the promotional period, when interest rates can jump dramatically.

Special Loan Programs use philanthropic funds to subsidize debt cost reduction programs through low-cost capital. Special loan programs are often able to offer lower interest rates than more traditional loans because loan losses or interest charges are covered by philanthropic dollars.

[7] CFR also identified three service options (debt management plans, debt settlement services and bankruptcy). These services are not addressed here as they did not fit the scope of this product exploration. However, it is crucial for financial coaching and counseling organizations to be aware of these services. Some—debt management plans and bankruptcy—may be viable options for clients to consider in managing their debt. Others—debt settlement services—are often a risky option. Some companies (often called debt settlement, debt relief, debt adjusting, or credit repair companies) tell clients to stop paying debt and the company will negotiate a settlement with the creditors. However, these companies often charge high fees and are sometimes unable to negotiate with creditors. And because the client has stopped paying the debt, they can be charged late fees and penalty interest rates. These situations can leave clients with higher debt than they started with, and potentially a negative effect on their credit score.

[8] CFR did not consider or evaluate Home Equity Lines of Credit because of the extreme downside risk to the consumer and the fact that fewer LMI households hold much home equity.

CFR then evaluated representative products against the assessment criteria and gave them a green (meets majority of assessment criteria), yellow (meets some assessment criteria) or red (meets few assessment criteria) assessment rating. A sample of products and their assessment rating is included in the table on the following pages.[9]

CFR found that there are products in the market that may be a good fit for debt-stressed people. In general, credit union products seemed to meet more of the assessment criteria, potentially due to their interest in addressing member needs. Fintech companies tend to focus on personal loans and tend to be higher cost. Some of the products in the field scan have wide APR ranges. At the lower end, these products may be a good fit. At the higher end, however, these products may not provide a benefit. Debt-stressed individuals with low credit ratings may have a hard time qualifying for rates at the lower end of the range.

Features that help ensure a positive client experience and guard against additional debt expansion were important criteria in the field scan. To prevent compounding debt, loan funds can be paid directly to existing creditors that the borrower identifies, as opposed to the borrower themselves, and/or a client could work with a financial coach or counselor to provide that accountability. Borrow and save features can provide a safety net for future needs.

There are a myriad of providers and products in the marketplace. Financial coaching and counseling organizations could focus on vetting products of national and local providers so coaches and counselors do not have to do so individually. Financial coaching and counseling organizations could also work to replicate successful programs within their geographic region. A trusted national intermediary could also take on the role of vetting products or offering some type of seal or certification to products that meet the needs of Black/African American community members.

A sample of products and their assessment rating is included in the table on the following pages.[10]

---

[9] Prosperity Now is not endorsing certain products or product types over others. Assessment ratings provided in the table are not meant to imply that other products of the same type would receive the same rating, or that other products offered by the same financial institution or same type of financial institution would receive the same rating. Each financial institution and each financial product are different and should be evaluated individually.

[10] Prosperity Now is not endorsing certain products or product types over others. Assessment ratings provided in the table are not meant to imply that other products of the same type would receive the same rating, or that other products offered by the same financial institution or same type of financial institution would receive the same rating. Each financial institution and each financial product are different and should be evaluated individually.

Type	Type of Financial Institution	Overall Assessment	Social Responsibility Assessment	Product/Term Structure	Availability to LMI/Debt-Stressed Households	Guardrails to ensure client success
Debt Consolidation Loan	Credit Union	• **Looks beyond credit score to making lending decisions** • **Credit Union pays the existing creditors with funds from debt consolidation loan**	• Involved in local community	• 9.99% and 16.49% cap • One- to five-year term • $300 up to $30K limit • No application, origination or prepayment fees	• Field of membership: live, work, play or worship in specific geographic service area (city), or join a financial education nonprofit for $15	• Provides free financial counseling through a national financial wellness nonprofit • Provides workshops to members
Auto Refinance loan	Credit Union	• **Can reduce payment through lower interest rates** • **If client has equity in vehicle, allows for cash-out to pay off higher cost debt.**	• Member-owned credit union • Involved in community	• APR Range: 3.99% - 18% • Loan term up to 72 months	• Application available online • Nationwide affiliate membership	• Online resources but no coaching beyond wealth management services
Personal Loan	Bank	• **Can be structured for debt consolidation** • **Flexible underwriting**	• Community involved in two states • Rated as a positive employer	• APR range: 7.94 – 14.39% based on underwriting • Loan amount: $5,000 - $50,000 • Installment loan with fixed term	• ITIN accepted • Case-by-case underwriting and entire credit history considered • Score as low as 540 could be approved	• On request, bank will pay creditors

					• Must visit branch for loan	
Personal Loan	Financial Technology company (FinTech)	• **No fees** • **Reasonable APR** • **Seems to require good credit score** • **Does not accept ITIN** • **Funds must be deposited to borrower's account**	• FinTech is not rated by Better Business Bureau but parent company has a high rating	• No origination or other fees • APR range: 5.95 – 17.49% • 14- to 24-month loan term	• Available nationally • Online application • Approval within 24 hours • SSN required • Must have credit score of at least 660 (average is 750+)	• Automatic payment discount • Multiple options for payment method • No penalty fees for early pay-off • Funds cannot be deposited into a business or third-party account
Balance Transfer Credit Cards	Regional Bank	• **Rates may be too high unless the borrower has good credit** • **Balance transfer fee increases cost**	• Bank is involved in communities in which they have branches • After merger, plan to lend or invest $60 billion to LMI borrowers and in LMI communities	• Revolving line of credit • 15-month intro period applies to balance transfers and purchases • After intro period, APR range is 13.24% - 22.24% based on credit score and underwriting • 3% balance transfer fee, minimum $10	• Need good credit • Application available online	• Direct pay-off of other creditors
Personal Loan	Financial Technology	• **Total loan cost is high—wide**	• Received a No Action letter from	• APR range: 4.73% - 35.99%	• Claims to go beyond using a FICO score, using	• Several options for payment

	company (FinTech)	**APR range and origination fees** • **Regulatory issues** • **Funds are deposited to borrower's account, not paid directly to creditors**	the CFPB in 2017	• 0-8% origination fee • 36- to 60-month loan terms • Late fees	"non-conventional variables." • Available in 48 states • Online application • Approval within 24 hours • SSN required • Must have credit score of 620 • No minimum income threshold, although $12,000 is preferred	• Ability to reset payment date/schedule • No penalties for early pay-off • Additional payments go toward principal

Lender Reactions to Financial Coaching Client Profiles

After confirming that there are products in the market that meet the assessment criteria described in the section above, our team shared the field scan results with the project's community-based project partners.

The partners were intrigued but noted that they were not sure that their clients would qualify for those products or if they would be offered beneficial terms. Partners also shared that they wanted to know more about how lenders make decisions and that the process felt like a black box.

To explore these questions, Prosperity Now and the partner staff developed five financial and debt profiles that reflect financial scenarios about which the partners wanted lender reactions. They should not be interpreted as representative of all clients. Coaches and counselors can see detailed profiles and lender reactions in Appendix A.

Profile 1

Wants to potentially save money

Profile 2

Wants to buy a home and is looking to repair credit

Profile 3

Wants to address collection debt and pay off credit cards

Profile 4

Wants to recover from debt incurred because of a family medical situation

Profile 5

Wants to buy a home while managing other debts, including student loans

Prosperity Now and CFR shared these profiles with six lenders to get their insights and reactions to the following questions:

3. What questions did lenders have about these profiles?
4. Would these profiles qualify for any product, and under what terms?
5. What other approaches might the lenders recommend for the profiles?

We spoke with only a subset of lending institutions. The six lenders were CDFIs (one of which operates solely online) and mission-driven credit unions, often operating special loan programs (definitions below). As such, these findings are likely not representative of other types of financial institutions, such as national or regional banks. We did attempt to reach out to other types of institutions but did not receive responses.

Community Development Financial Institutions are financial institutions that have a "goal of expanding economic opportunity in low-income communities by providing access to financial products and services for local residents and businesses."

Mission-driven credit unions are institutions owned by their members. They generally base their business on building personal relationships with members. The credit unions with which we spoke had missions of community development, developing economic opportunity and serving underserved populations.

Special loan programs use philanthropic funds to subsidize debt cost reduction programs through low-cost capital or intensive coaching. In the case of the lenders with which we spoke, their special loan programs used philanthropic funds to offer low-cost loans.

The lender's overall reactions can be found below. Specific reactions to the five profiles can be found in Appendix A.

Overall Reactions

The lenders provided some overall insights, as well as some comments that were consistent across the profiles:

General Reactions

Four of the five profiles were likely to be approved for some type of debt consolidation product. In fact, several of the institutions commented that they tend to serve individuals with lower incomes and with more precarious financial situations than represented in the profiles. The profiles created with our partners may reflect a subset of their clients with more financial stability.

Questions Across All Profiles

The lenders asked several common questions across most of the profiles:

1. What are the client's goals?
2. What is the situation with the client's cash flow?
3. What other information is on their credit report?

Reactions to Student Loans and Medical Debt

The lenders had common reactions to certain types of debt. Student loan debt often raised questions for lenders. Even though the student loan debt in these profiles is in deferment now, the loans would likely go into repayment during the term of a debt consolidation product. All but one of the lenders would have considered the student loan monthly payment into their underwriting and the person's ability to repay a loan. Including the student loan monthly payment would increase the client's debt-to-income ratio and potentially disqualify them for a loan product (please see discussion on underwriting below).

Many of the lenders do not consider medical debt in their underwriting. Several shared that this is because medical debt is a problem caused by the lack of universal health insurance coverage and uneven access to health care and health insurance—and does not necessarily indicate someone's likelihood of repaying a loan.

Types of Products Recommended

The lenders recommended three different types of products, depending on the profile's financial situation: 1) Unsecured personal loans; 2) partially secured personal loans; and 3) auto-refinance loans. The lenders noted that approaching auto-refinance could work in two different ways. A potential client might borrow the amount of the existing loan to free up cash flow to pay other debts or use additional equity in the vehicle to pay other debts. Although balance transfer credit cards were identified as a product with potential through CFR's field scan and three of the lenders do offer credit cards, none of the lenders mentioned or recommended balance transfer credit cards.

Other Approaches Recommended

The lenders also offered non-product recommendations for each of the profiles, including other debt management strategies (such as self-management, negotiating payment arrangements, prioritizing certain debts over others and nonpayment of some debts) and connections to other services depending, on the situation (such as foreclosure prevention and student loan counseling).

Underwriting

The lenders also shared what information they consider when making lending decisions, known as underwriting criteria. Many of the lenders with whom we spoke are “relationship lenders,” meaning that the relationship the applicant has with the lender factors into lending decisions. And all the lenders performed manual underwriting, so they could make exceptions to their underwriting criteria. Information considered in their underwriting is below. Please note that not all lenders consider all these items, and this listing is not meant to be comprehensive.

Credit report and credit score

Two of the lenders shared that they had a minimum credit score (of 600), but that they could also grant exceptions and lend to people with lower scores, depending on the situation.

Debt-to-income ratio (D:I)

Three of the lenders shared that they had a maximum after-loan D:I (40-50%) but, again, could grant exceptions depending on the situation.

Alternative data

Many considered or solely used alternative data, such as current on housing payments, no late payments in past 90 days, no bounced checks in past 90 days, no overdrafts in past 90 days and not currently overdrawn in accounts.

Findings from a National Survey of
Black/African American Community Members with Debt

Survey Background: Between December 8, 2019 and January 15, 2020, through Qualtrics, Prosperity Now fielded a national survey to assess the debt situations of Black/African American community members with debt. Within that survey, we assessed awareness, usage and perception of a variety of financial products and services like financial coaching, financial advice apps and debt consolidation loans.

Key Findings

Familiarity: Consolidation loans are on the radar of many (48%) Black/African American community members with one or more challenging debts. For comparison, credit counseling was the most familiar product or service for this sample, with 57.5% saying they were familiar, while debt support groups (15.9%) was the least familiar program. Consolidation loans were the fourth most familiar product or service.

Perception: Along with debt settlement, consolidation loans have the highest percent of detractors among those with challenging debt, with 11.1% rating their perception of the products as either negative or extremely negative. It is worth noting, however, that this still means that many (65.9%) had a positive or very positive perception of the products, and almost a quarter (23.%) said they have a neutral opinion.

Usage: Most (72.4%) Black/African American community members who are familiar with consolidation loans said they have only heard, but never used, the products. Some 12.9% said they currently use a consolidation loan, and 14.7% said they used one in the past but no longer do. Among those who have used debt consolidation products, 67.7% said they were helpful in reducing their debt.

Access: Among those familiar with consolidation loans but who had not used one, we asked if they knew how to access these products. 36.3% said they did, which put this product

Conclusion

Prosperity Now sought to understand the potential of debt consolidation to complement the work of our financial coaching and counseling partners for Black/African American community members with debt. Our exploration begins to make the invisible visible by assessing lenders' currently available products to learn if there are products that may serve low- and moderate-income Black/African American clients well. This brief represents just the first step in this exploration; there is much left to be learned. Initial implications for stakeholders and thoughts for future work are below.

Key Findings

1. **There are loan consolidation products in the market that meet assessment criteria and might be fair, safe and affordable financial products for clients dealing with debt.** We were unable to find criteria to evaluate products for debt consolidation and have proposed a set of assessment criteria to do so. Even with these proposed criteria, vetting financial products is a time-consuming process that can require substantial financial expertise. Clients and coaches both would gain value from a tool that automates this process.
2. **The best loan products are specifically designed for low-income and low-wealth community members.** These are often executed through time-consuming and detailed manual underwriting (as opposed to underwriting that relies on algorithms to evaluate an applicant's ability to repay a loan) so are limited in scale and not widely accessible.
3. **Breaking the payday loan cycle, improving credit to achieve a near-term goal or streamlining multiple payments were the goal-directed scenarios experts identified as the clearest potential for consolidation loans.** Debt consolidation is not a cure-all and should be a means to an end. A client's goals should drive the decision, and lenders and coaches need to think broadly in terms of how the client's financial situation can be improved and situate any product recommendation within a larger strategy.
4. **Among credit unions, special loan programs and CDFIs, more clients may qualify for products for debt consolidation than the partner site financial coaches and program managers and Prosperity Now staff initially hypothesized.** When drafting profiles, Prosperity Now and our partners tended to assume only clients with more moderate and stable incomes might qualify. We were surprised by these lenders' openness to extending credit further. It follows that these types of lenders all have a mandate for social, as well as financial, return. Their mission is to be of service, not just to make profit.
5. **Successful debt consolidation may open clients up to more debt, both potentially beneficially and/or detrimental.** When clients pay off debt, they could be offered—or simply given without their approval—higher limits on existing credit cards. They may also receive additional offers of credit when lenders see they are paying off debt, such as new credit card offers in the mail. Clients and coaches need to be careful and prepare for this possibility.

Implications for Lenders and Product Developers

Lenders and product developers have a responsibility and business interest in serving all population segments well through high-quality products. While we were heartened to see some well-developed products available in some markets, there is opportunity for growth. Lenders might:

- Assess the products offered by their institutions against the assessment criteria—how well do products and the institution serve this population?
- Consider partnering with financial coaching and counseling organizations. These organizations understand the needs of community members intimately. They may be able to decrease default rates on products through ongoing relationships and coaching with borrowers. However, recognize that their job is not to generate leads or ensure repayment, but rather it is to ensure the financial well=being of clients.
- Consider partnering with philanthropy to experiment and study the impact of debt resolution subsidies, such as philanthropy-funded loan loss reserve funds to lower interest rates or simply paying off costly debt, to ameliorate the harm of structural racism, including the enduring harm caused by redlining and the practice of targeting Black/African American community members for higher-cost products.[11].

Implications for Financial Coaching and Counseling Organizations

Financial coaching and counseling organizations are committed to providing the highest quality support to their clients. Learning more about the benefits and drawbacks of consolidation products might support frontline staff to help clients consider their full range of options. Additionally, nonprofit organizations can support their communities by advocating on behalf of their clients for even better products and services. Program staff might:

- Push for the development of special loan programs in your community. Coaching and counseling organizations' robust understanding of community member needs and deep relationships within the community can be invaluable to CDFIs or other nonprofits open to offering loans.
- Ask your local financial institutions to improve their existing products using the criteria as a starting point. Compare their efforts to the best available products from credit unions, CDFIs and other mission-driven lenders.
- Ensure that potential lending partners are offering quality products and recognizing and supporting your programmatic efforts and expertise.

[11] Thomas Shapiro, Tatjana Meschede, and Sam Osoro, "The Roots of the Widening Racial Wealth Gap: Explaining the Black-White Economic Divide," (Waltham, MA: Institute on Assets and Social Policy, 2013).

- Raise funds to provide loan guarantees or interest rate buy-downs to reduce the cost of loans to clients while studying product structures that improve consumer outcomes.

Implications for Philanthropy

Philanthropists and impact investors that have a social mission to increase racial equity, expand access to fair credit and ameliorate the harm caused by unfair or discriminatory lending can fund programs that establish partnerships between suppliers with existing products/services and direct service providers assisting debt-stressed households. Funding can provide:

- Interest rate buy-downs to reduce loan costs
- Loan guarantees or loan loss reserves to expand qualification
- Loan forgiveness
- One-on-one financial coaching and counseling

Opportunities for Future Research and Work

This project identified opportunities for additional research and work in the following areas:

- A comprehensive vetting tool for evaluating debt consolidation products would be extremely valuable to the field. Currently, coaches and clients need both the skill set and the precious resource of time to sift through fine print to assess product options and still may not be able to fully discern the consumer impact.
- A longitudinal study of the impact, not just the appeal, of debt consolidation on Black/African Americans' ability to achieve and maintain financial stability while working to build prosperity is needed. Prosperity Now was unable to locate much research into client financial well-being outcomes associated with the use of debt consolidation loans.
- Expanding this vetting process beyond CDFIs and mission-driven lenders to include traditional financial and lending institutions could shed light on additional products and services suited to similarly situated clients.

Appendix A. Lender Reactions to Profiles

Profile 1

Narrative	Is employed full time, makes moderate income. Supports one child. Is a homeowner. Has a lot of debt, including a large student loan that is currently in deferment, as well as some past due bills. Wants to look into consolidation of the credit card debt, the past due medical debt and perhaps the car loan, if she can get a better rate.				
Housing	Homeownership status	Homeowner			
	Monthly rent/housing payment	452			
	Housing payment history	Past three months on time			
Emp.	Employment Status	Full time			
	Length at current employer	7 years			
Cash Flow	Total yearly income	50,000			
	Average monthly gross income	4,170			
	Average monthly net income	3,205			
	Average monthly expenses (bills and variable spend)	1,500			
	Average net monthly cash flow	1,705			
Credit and Debt	Credit Score	555			
		Balance	Type	Monthly payment	Standing
	Debt 1	157,792	student loan	0	In deferment
	Debt 2	1,668	3 credit cards	126	Active, no delinquencies
	Debt 3	27,578	car loan	525	Active, no delinquencies
	Debt 4	38,255	mortgage	452	Active, no delinquencies
	Total Loans	225,293			
	Total monthly payment on loans	1103			
	Debt: Income Ratio (1)	26.45%			
	Past-due bill 1	407	medical debt		
	Total past-due bills	407			
	Total Collection Debt	0			
Other	12 months of on-time utility payments?	Yes			
	Banking NSF status	Past three months with no NSF			
	Banking Status	Active Bank Account			

(1) Debt: Income ratio is calculated as total monthly loan payments divided by average monthly gross income

Questions

The lenders had the following questions about this profile:

1. **What brought them in?** It wasn't entirely clear to the lenders what the applicant was trying to achieve by consolidating credit card and medical debt or the reason they were looking for a better auto loan.
2. **How long have they been in their home? Is it in good shape?** The lender wanted to verify the person's housing stability, in case they might want to ask for a larger loan amount to handle needed maintenance or repairs.
3. **What is the rate on the auto loan?** Depending on the rate, some of the lenders may have been able to offer a lower rate through an auto-refinance.
4. **When does the student loan come into repayment?** The student loan would need to be considered when calculating the profile's debt-to-income ratio.
5. **Why is the credit score what it is?** Lenders wanted more detail from the credit report.
6. **What's their cash flow situation?** Several lenders pointed out that this profile seems to have decent positive cash flow and were wondering where that money is going.

Qualification

All the lenders were likely to approve this person for some type of debt consolidation product. Two of the lenders were likely to approve this person for an unsecured personal loan for approximately $1,668 in order to consolidate the credit card debt. The interest rate would likely be 14-16% for a term of 12 or 24 months.

One of the lenders would have approved this person for a partially secured personal loan for approximately $1,668, also to consolidate the credit card debt. The interest rate would likely be 14.75% with a note that 20% of the loan amount would be secured in a deposit account.

Three of the lenders would have approved this person for an auto-refinance loan. If the lenders were able to offer a lower rate than the profile's current unknown interest rate on their car loan, the loan might help increase cash flow. Additionally, some of the lenders would be open to this person borrowing any equity in their vehicle and using those funds to pay other debts.

Recommendations and Other Approaches

The lenders offered few non-product recommendations for this profile. They did recommend exploring this profile's cash flow, as the person appears to have enough to service their debt. One lender did recommend deprioritizing the past-due medical debt, depending on the client's goals. The credit counselor with whom we spoke in the initial exploratory conversations also recommended that this person explore their options for an income-driven repayment plan on their student loan debt with a student loan counselor.

Profile 2

<table>
<tr><td>Narrative</td><td colspan="5">Is employed full time, makes low income. Supports one child. Is a subsidized renter. Has a fair amount of debt and debt in collections. Wants to buy a home and so is looking to clean up their credit. Wants to look into consolidation for the collection debt</td></tr>
<tr><td rowspan="3">Housing</td><td>Homeownership status</td><td colspan="4">Renter, Subsidized</td></tr>
<tr><td>Monthly rent/housing payment</td><td colspan="4">452</td></tr>
<tr><td>Housing payment history</td><td colspan="4">Past three months on time</td></tr>
<tr><td rowspan="2">Emp.</td><td>Employment Status</td><td colspan="4">Full time</td></tr>
<tr><td>Length at current employer</td><td colspan="4">Three years</td></tr>
<tr><td rowspan="5">Cash Flow</td><td>Total yearly income</td><td colspan="4">36,000</td></tr>
<tr><td>Average monthly gross income</td><td colspan="4">3,000</td></tr>
<tr><td>Average monthly net income</td><td colspan="4">2,800</td></tr>
<tr><td>Average monthly expenses (bills and variable spend)</td><td colspan="4">2,200</td></tr>
<tr><td>Average net monthly cash flow</td><td colspan="4">600</td></tr>
<tr><td rowspan="15">Credit and Debt</td><td>Credit Score</td><td colspan="4">617</td></tr>
<tr><td></td><td>Balance</td><td>Type</td><td>Monthly payment</td><td>Standing</td></tr>
<tr><td>Debt 1</td><td>10,496</td><td>Student loan</td><td>0</td><td>In deferment</td></tr>
<tr><td>Debt 2</td><td>9,076</td><td>car</td><td>386</td><td>Active, no delinquencies</td></tr>
<tr><td>Debt 3</td><td>23,113</td><td>car</td><td></td><td>Loan is still on credit report, but car has been totaled and will be paid off by insurance</td></tr>
<tr><td>Debt 4</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Total Loans</td><td colspan="4">42,685</td></tr>
<tr><td>Total monthly payment on loans</td><td colspan="4">386</td></tr>
<tr><td>Debt: Income Ratio (1)</td><td colspan="4">12.87%</td></tr>
<tr><td>Total past-due bills</td><td colspan="4">0</td></tr>
<tr><td>Collection debt</td><td>382</td><td>Retail credit card</td><td></td><td></td></tr>
<tr><td>Collection debt</td><td>489</td><td>Retail credit card</td><td></td><td></td></tr>
<tr><td>Collection debt</td><td>642</td><td>Verizon</td><td></td><td></td></tr>
<tr><td>Collection debt</td><td>982</td><td>Sprint</td><td></td><td></td></tr>
<tr><td>Total Collection Debt</td><td colspan="4">2,495</td></tr>
<tr><td rowspan="3">Other</td><td>12 months of on-time utility payments?</td><td colspan="4">Yes</td></tr>
<tr><td>Banking NSF status</td><td colspan="4">Past three months with no NSF</td></tr>
<tr><td>Banking Status</td><td colspan="4">Active Bank Account</td></tr>
</table>

(1) Debt: Income ratio is calculated as total monthly loan payments divided by average monthly gross income

Questions

The lenders had the following questions about this profile:

1. What is this person's cash flow situation?
2. What's driving the credit score? One lender thought the credit score seemed high, given the information provided.
3. Is the rent likely to remain subsidized over the term of the loan? This could impact the person's ability to manage a debt consolidation product.
4. What is the situation with the debt in collections? Is it recent? Why was it written off?

Qualification

All of the lenders were likely to approve this person for some type of debt consolidation product. Two lenders recommended an auto-refinance: One recommended a refinance with any additional equity in the vehicle to pay down the debt in collections. The other recommended a refinance for the amount of the current loan ($9,076) to increase cash flow to pay down debt in collections. The interest rate would likely be 12-13% for a term of five years. This would lower the person's car payment by about $200 a month.

Two of the lenders were likely to approve this person for an unsecured personal loan for $2,500 to pay off the debt in collections. The interest rate would likely be 10-14.25% for a term of 24 months.

One of the lenders would have approved this person for a partially secured personal loan for $2,500, also to pay off the debt in collections. The interest rate would likely be 14.75% with a note that 20% of the loan amount would be secured in a deposit account.

Recommendations and Other Approaches

The lenders offered several non-product recommendations, including working with a financial coach or counselor to get the totaled car off the credit report, which could improve credit score and perhaps enable a lower rate on a debt consolidation product. The lenders also suggested opening another credit line to build credit score for homeownership and working with a financial coach or counselor around the telecommunications debt. The approach to the telecommunications debt would vary, depending on the person's goal. If the goal is homeownership, the person should consider paying off the telecommunications debt. But if the goal is a debt consolidation loan, one lender recommended deprioritizing it, as they do not consider telecommunications debt in their underwriting

The credit counselor with whom we spoke in the initial exploratory conversations had additional recommendations, including working with a student loan counselor, negotiating with collections debt creditors and/or potentially exploring a debt management plan for those debts.

Profile 3

Narrative	Has incurred some debt and some past-due bills. Works full time, supports two children, has moderate income. Has some financial slack each month.				
Housing	Homeownership status	Renter, subsidized			
	Monthly rent/housing payment	1200			
	Housing payment history	Past three months on time			
Emp.	Employment Status	Full time			
	Length at current employer	Six years			
Cash Flow	Total yearly income	52,000			
	Average monthly gross income	4,333			
	Average monthly net income	3,120			
	Average monthly expenses (bills and variable spend)	2,580			
	Average net monthly cash flow	540			
Credit and Debt	Credit Score	685			
		Balance	Type	Monthly payment	Standing
	Debt 1	700	credit card	21	Active, no delinquencies
	Total Loans	700			
	Total monthly payment on loans	21			
	Debt: Income Ratio (1)	0.48%			
	Total past-due bills	0			
	Collection debt	1,000	utility bill		
	Total Collection Debt	1,000			
Other	12 months of on-time utility payments?	Yes			
	Banking NSF status	NSF in past three months			
	Banking Status	Active Bank Account			

(1) Debt: Income ratio is calculated as total monthly loan payments divided by average monthly gross income

Questions

The lenders had the following questions about this profile:

1. **What is this person's goal? Why do they want to do a debt consolidation?** Lenders were curious what the person was looking for, given that they seem to have sufficient cash flow to service their debt. Lenders thought that there might be something more going on in this person's financial life, perhaps informal debt owed to a friend or family member.
2. **Is their debt increasing? Or stable?** This might give further insights into the person's cash flow situation and goal in consolidating their debt.

Qualification

Three of the six lenders gave lending decisions and were likely to approve this person for some type of debt consolidation product. Two lenders were likely to approve this person for an unsecured personal loan for $1,000 to pay off the debt in collections. The interest rate would likely be 11% for a term of 12 months.

The other three lenders would need to have the answers to the questions above before making a lending decision for this person.

Recommendations and Other Approaches

The three lenders that did not given lending decisions offered two opposite, non-product approaches. Two recommended self-management of the utility bill in collections, as the person seems to have the cash flow to do so. And one recommended nonpayment of debt in collection unless the person was being garnished or unable to get their utilities turned on.

Profile 4

Narrative	Has incurred a lot of debt and past-due bills. Has some financial slack. Prioritizes monthly mortgage payments and is not sure where to begin in paying down other debts. Is a homeowner, works full time, and supports four children. Moderate income and steady income.				
Housing	Homeownership status	Owner			
	Monthly rent/housing payment	800			
	Housing payment history	Delinquency in the past three months			
Emp.	Employment Status	Full time			
	Length at current employer	10 years			
Cash Flow	Total yearly income	48,000			
	Average monthly gross income	4,000			
	Average monthly net income	3,474			
	Average monthly expenses (bills and variable spend)	3,000			
	Average net monthly cash flow	474			
Credit and Debt	Credit Score	510			
		Balance	Type	Monthly payment	Standing
	Debt 1	93,500	Mortgage	800	Delinquent in past three months
	Debt 2	8,000	Seven credit cards	240	Active, no delinquencies
	Debt 3	350	Payday loan	90	Active, no delinquencies
	Debt 4	350	Personal loan	60	Active, no delinquencies
	Total Loans	102,200			
	Total monthly payment on loans	1190			
	Debt: Income Ratio (1)	29.75%			
	Cosigned debt 1	74,000	Partner's student loan	0	In deferment
	Cosigned debt 2	28,000	Partner's auto loan	475	Active, no delinquencies
	Past-due bill 1	2,800	Taxes		
	Past-due bill 2	13,500	Medical debt not in collections		
	Past-due bill 3	200	Phone, cable, internet, or other telecommunications bills		
	Past-due bill 4	250	Gym		
	Total past-due bills	16,750			
	Total Collection Debt	0			
Other	12 months of on-time utility payments?	No			
	Banking NSF status	One NSF in past three months			
	Banking Status	Active Bank Account			

(1) Debt: Income ratio is calculated as total monthly loan payments divided by average monthly gross income

Questions

The lenders had the following questions about this profile:

1. **What has this person been experiencing?** Why is this person late on mortgage payments? What's the situation here? Why did they take out a payday loan? What is the situation with the past-due taxes? What is the situation with their cash flow? These things all might indicate a cash flow challenge.
2. **What is this person's credit utilization on their credit cards?** If the credit card balances are under 30% utilization, one lender felt this profile was managing. However, if the credit cards were over 30% utilization or maxed out, this might impact the person's credit score and might indicate the need to have a conversation around why the credit cards are maxed out.
3. **What equity does the person have in their home?** One lender was curious if the client might be able to refinance their mortgage and use any equity to pay off debts.

Qualification

Four of the lenders were unlikely to be able to approve this person for a loan for reasons such as the low credit score and the insufficient funds fee in the checking account. The delinquencies on the mortgage were also a red flag for many, as these payments will keep coming and the delinquencies indicate a cash flow challenge.

Two of the lenders were likely to approve this person for some type of debt consolidation product. One lender was likely to approve this person for a partially secured personal loan for $16,300 to pay off the medical debt and past-due taxes. The interest rate would likely be 14.25%, with a note that 20% of the loan amount would be secured in a deposit account and that the person would need a cosigner.

One lender was likely to approve this person for an unsecured personal loan for $4,800 in order to consolidate the payday loan and any maxed-out credit cards. This lender also suggested the person might qualify for home equity line of credit if the person has equity in their home.

Recommendations and Other Approaches

The lenders offered several non-product recommendations. Some were related to the delinquent mortgage, including connecting with a foreclosure preventionist or reaching out to their mortgage company for a hardship plan, modification or repayment plan.

Other recommendations were around prioritizing certain debts over others. Several recommended getting out of the payday loan first. Other suggestions included prioritizing the past-due phone bills and gym bills. One lender recommended focusing on getting caught up on the mortgage and letting other debts go for the time being. One lender additionally suggested negotiating a discount and payment plan for the medical debt.

The credit counselor with whom we spoke in the initial exploratory conversations had additional recommendations, including a debt management plan for the credit card debt, connecting with a HUD-approved housing counselor and potentially exploring a mortgage modification or extension.

Profile 5[12]

Narrative	In the process of buying a home, but has to clean up credit and debt like student loans and credit cards. Has car that is fully paid off. Is single and works full time.				
Housing	Homeownership status	Renter, unsubsidized			
	Monthly rent/housing payment	Unknown			
	Housing payment history	Past three months on time			
Emp.	Employment Status	Full time			
	Length at current employer	Two years			
Cash Flow	Total yearly income	28,000			
	Average monthly gross income	2,333			
	Average monthly net income	2,010			
	Average monthly expenses (bills and variable spend)	1,600			
	Average net monthly cash flow	410			
Credit and Debt	Credit Score	560			
		Balance	Type	Monthly payment	Standing
	Debt 1	3,000	Credit cards	90	Active, no delinquencies
	Debt 2	30,000	Student loans		Active, no delinquencies
	Total Loans	33,000			
	Total monthly payment on loans	90			
	Debt: Income Ratio (1)	3.86%			
	Cosigned debt 1	750	Medical Debt		
	Total past-due bills	0			
	Total Collection Debt	0			
Other	12 months of on-time utility payments?	No			
	Banking NSF status	Unknown			
	Banking Status	Active Bank Account			

(1) Debt: Income ratio is calculated as total monthly loan payments divided by average monthly gross income

[12] Note that we were only able to speak with 4 of the 6 lenders about this profile due to time restrictions, so the findings are less robust compared to the other profiles.

Questions

The lenders had one question about this profile:

1. **Why is the credit score 560?** The lenders wanted to know more information from the credit report.

Qualification

Of the four lenders with whom we discussed this profile, all were likely to approve this person for some type of debt consolidation product. Two of the lenders were likely to approve this person for an unsecured personal loan with different terms. One lender was likely to approve the person for approximately $1,000 in order to build credit to be approved for a higher unsecured amount. The interest rate would likely be 15% for a term of 12 months. And the other was likely to approve the person for approximately $2,300 in order to pay off most of the credit card debt. The interest rate would likely be 16% for a term of 24 months.

One lender was likely to approve this person for an auto-refinance loan for the value of the vehicle to use the equity in the vehicle to pay off other debts. The interest rate would likely be 11-12% for a term of five years.

Recommendations and Other Approaches

The lenders offered two non-product recommendations, including negotiating a settlement and/or payment plan for medical debt, and exploring repayment options for their student loan now, while it's in deferment.

JUNE 2020