FINANCIAL INEQUITY IN COLORADO:

WHY A STATEWIDE STRATEGY ON FINANCIAL EMPOWERMENT IS NEEDED

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THE BELL POLICY CENTER • OCTOBER 2020

Colorado has made significant strides in protecting consumers and working to develop safe, secure, and accessible financial products. In 2018, Colorado voters passed a 36 percent interest cap on payday loan charges. Over the past decade, the legislature has addressed some of the worst debt collection practices and limited more outrageous forms of lending product.

According to the organization ProsperityNow, Colorado is ranked 12th in the nation when it comes to the financial security of state residents. Underneath this ranking and the progress seen over the past decades is growing inequity that threatens communities throughout Colorado. In ProsperityNow's same rankings, Colorado ranks 37th in the nation in racial disparities in financial security, meaning Colorado has some of the largest disparities in the country. These disparities add to the racial wealth gap that has been growing in Colorado and across the nation. Disparities are also growing between urban, suburban, and rural Colorado communities, creating a state of financial security in Colorado that is very separate and very unequal.

Building off successful models from cities across the nation, a statewide office of financial empowerment that creates a strategy for supporting the targeted development and deployment of community-driven financial empowerment efforts can directly combat growing inequities. A statewide financial empowerment strategy would work to expand efforts around asset building, banking access, consumer financial protection, and financial education and coaching.

The State of Financial Inequity in Colorado

When you examine statewide averages, Colorado appears to be doing well compared to the nation. This progress is also apparent in policies that have been passed to address financial security. These policies include:

- A 36 percent cap on payday loans
- The recent passage of a state-facilitated retirement savings program for those who do not have retirement plans offered at work
- The elimination of savings penalties in many public benefit programs that penalized participants by forcing them to eliminate savings before being eligible for short-term public assistance
- The expansion of the Earned Income Tax Credit to provide more earning capacity for Coloradans with low incomes
- Progress on the elimination of some of the most abusive debt-buying and collection practices.

Financial Security Indicator	Colorado Average	National Average
Unbanked	4%	7%
Underbanked	17%	19%
Liquid Asset Poverty Rate	24%	37%
Households Behind on Bills	11%	13%
Income Volatility	18%	20%
Share with Debt in Collections	26%	31%
Credit Card Delinquency Rate	3%	4%
Homeownership Rate	65%	64%
Businesses Negatively Impacted by Inadequate Access to Capital	N/A	13%

Source: Bell analysis of ProsperityNow Score Card and Urban Institute Debt in America data

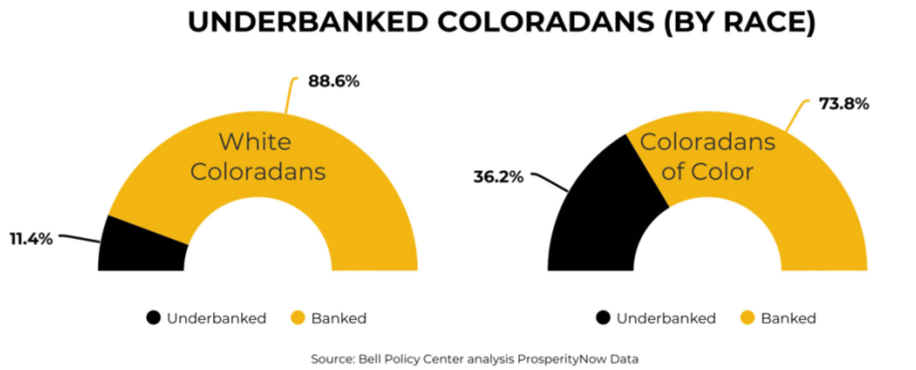
Colorado still needs to make progress on issues like debt collection, student loans, and access to secure financial products, but many of the successful policies noted above have helped to keep Colorado ahead of the nation.

Despite this statewide success, when you more granularly examine the key measures around financial security, Colorado's story becomes one of huge racial and geographic disparities.

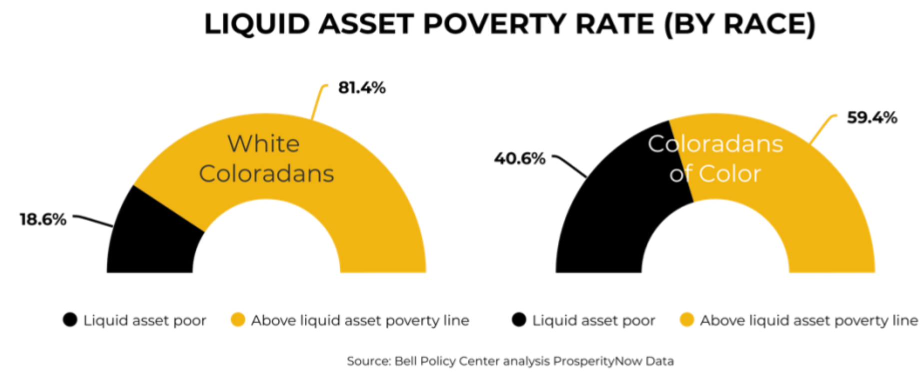
Racial Inequity in Colorado Financial Security
In the United States, white family wealth was seven times greater than Black family wealth and five times greater than Latinx family wealth in 2016. In Colorado, Bell analysis finds similar racial trends in homeownership, wages and income, and mass incarceration. Colorado's Black families are 62 percent less likely to own a home than the state's non-Hispanic white families, while Latinx families are 43 percent less likely.

These larger racial inequities manifest themselves within key indicators of financial security.

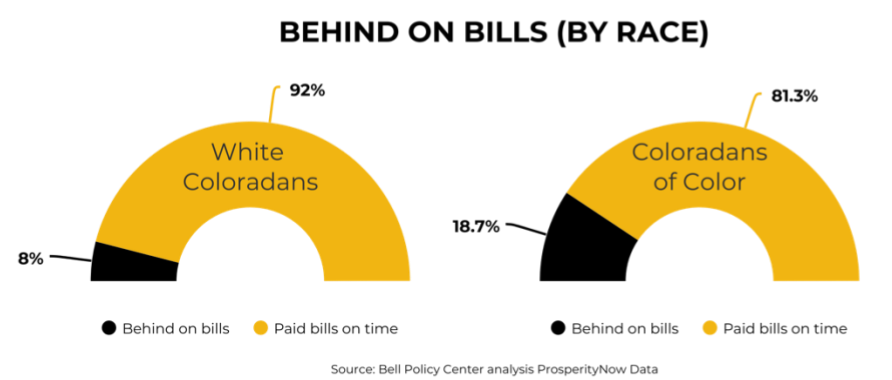
Unbanked and underbanked households: Unbanked households have neither a checking nor a savings account. Underbanked households have a checking or a savings account, however they make use of expensive alternate financial services for basic transactions and credit needs.



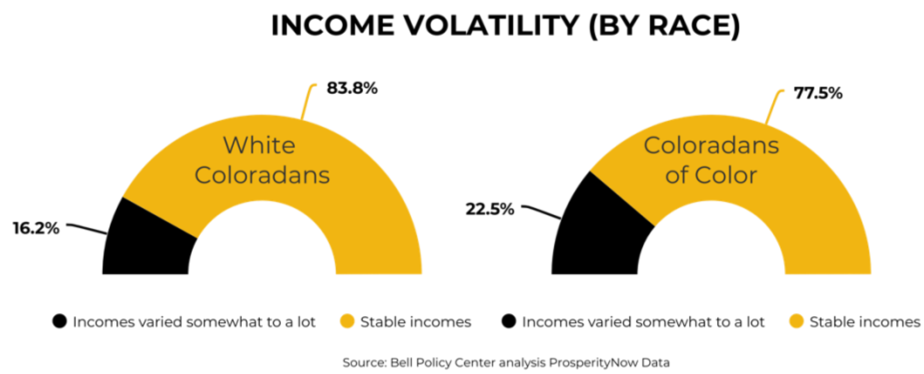
Liquid asset poverty rate: This measures how many individuals have liquid savings, which is often measured in terms of whether or not a household has cash available to meet basic expenses for three months in the event of job loss, or a different financial crisis that leads to a loss of stable income.



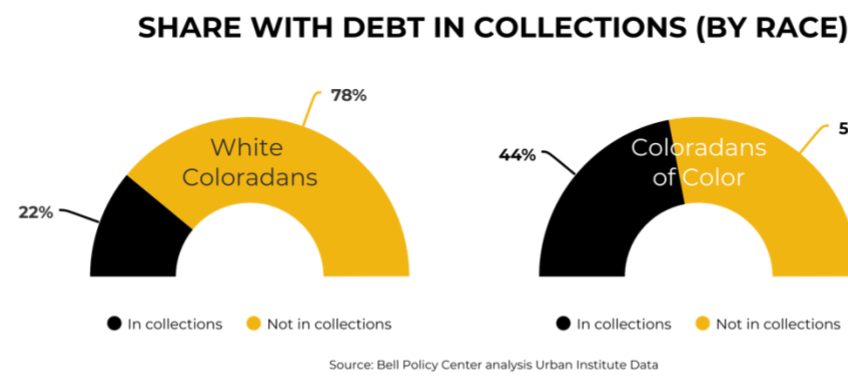
Households behind on bills: Payment history is a key indicator of a person's creditworthiness and typically accounts for nearly 35 percent of a credit score, making it one of the single most important factors in calculating credit scores. It can also make a financial situation worse as late fees or higher interest rates can make the original bill even more expensive.



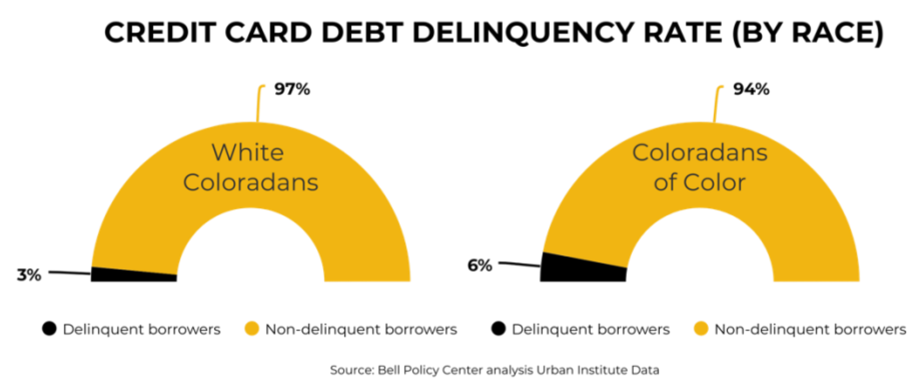
Income volatility: Income volatility measures the percentage of households that reported their incomes varied somewhat to a lot from month to month in the previous 12 months. The lack of a reliable stream of income makes it difficult for families to get by on a short-term basis, let alone plan for the future and climb the economic ladder.



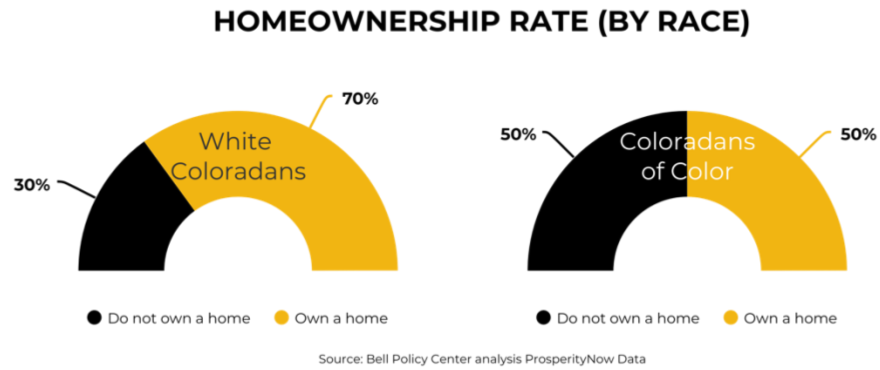
Share with debt in collections: While credit offers financial assistant in times of need, providing access to education and homeownership, but debt can easily accrue due to late or unpaid bills and unstable credit. This often hurts the financial well-being of families and communities. Debt in collection means that an individual is past due on a debt. The collection process could take many forms, including the wage garnishment.



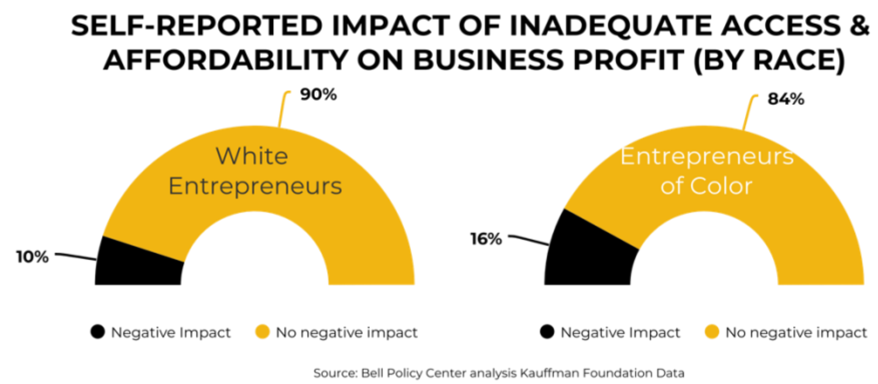
Credit card delinquency rate: The credit card debt delinquency rate shows how many people fell behind on credit card payments. A delinquent account negatively affects a consumer's credit score and that reduces their ability to borrow money in the future.



Homeownership rate: Homeownership is a crucial tool for building wealth because individuals make automatic payments towards building equity. The ability to buy a home is determined by access to credit, and ability to access credit is affected by income level and the previous factors. An individual's income level strongly correlates to whether they have a credit history to build a credit score with. The lack of such a history strongly correlates to race.



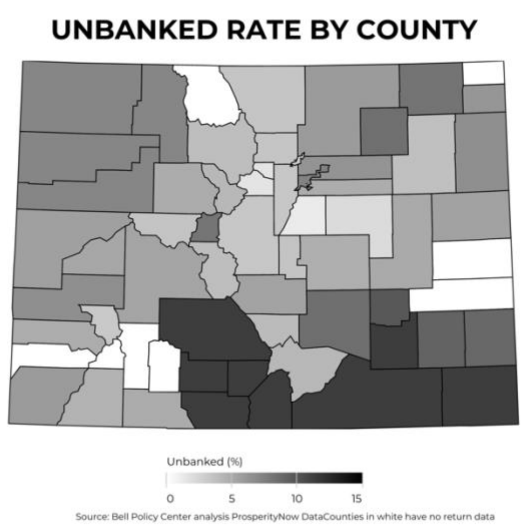
Access and affordability of business capital: Business ownership is a fundamental engine for wealth creation. Higher borrowing costs and lack of access to capital can negatively affect the ability of a business to be profitable and generate wealth.

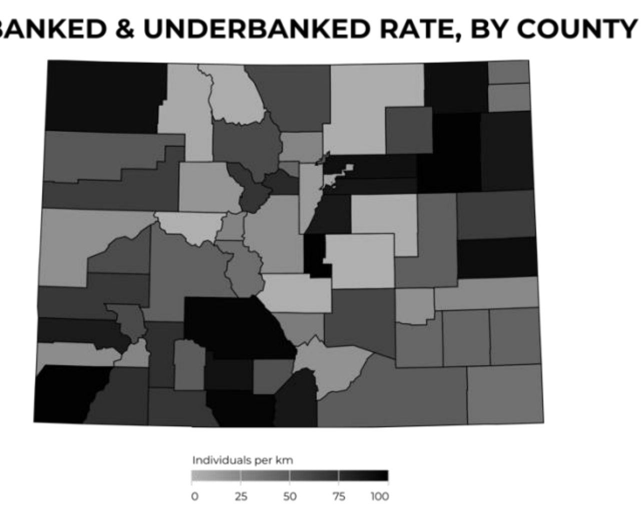


Geographic Inequity in Colorado Financial Security

The main geographic split in financial empowerment occurs on the rural-urban divide. The highest rates of unbanked and underbanked people are in the rural counties. Specifically, the highest proportion of unbanked Coloradans resides in southern and south-eastern Colorado. The highest proportion of underbanked Coloradans resides in the Eastern Plains. The state average for liquid asset poverty is 23.5 percent, but is over 50 percent in parts of southern Colorado.

In addition to a split between urban and rural areas, there can be divides within urban and suburban areas, especially in areas with significant numbers in immigrant communities and people of color. One such example is Aurora, where rates are high for lack of access to banking resources and low liquid savings.





Statewide Office of Financial Empowerment

Because of the geographic and racial disparities in financial security, Colorado needs a coordinated statewide strategy to develop targeted, community-based solutions. Embedding an office of financial empowerment within the attorney general's office can ensure community-based efforts receive the technical assistance and support needed to thrive while simultaneously using the power of government to identify statewide trends and address systemic barriers to financial security. At a local level, financial empowerment efforts work on four main areas:

- Asset building: Providing the tools to be able to weather financial shocks while being able to save for the future.
- Banking access: Providing access to banking products and services that are low cost, low fee, and offer people the tools to build financial stability and wealth versus creating cycles of debt.
- Consumer financial protection: A proactive infrastructure to ensure that the market is free from predatory financial products and other financial traps.
- Financial education and counselling: One-on-one, free, personal financial counselling, navigators, and assistance programs that not only educates, but trains people to be empowered participants in our financial system and connects them to the services and people they need.

To support these areas of work, a statewide office of financial empowerment would:

- Prioritize and foster community driven activities and leadership around financial empowerment. While there'd be a centralized office, statewide officials would work with individual community leaders, statewide agencies, and local governments to develop the tailored services needed throughout the state;
- Utilize community feedback on consumer financial experiences to identify systemic barriers to financial security. Upon identification, the office would have the ability to connect and leverage resources from state government to affect needed change;
- Lead a statewide coalition to build a network of safe, affordable banking products available to all Coloradans;
- Develop technical assistance to help launch or expand local financial coaching;
- Raise federal, philanthropic, and private funds to support financial empowerment efforts; and
- Work closely with the Uniform Consumer Credit Code Administrator to ensure any recommended products and services are truly safe and affordable.

For many Coloradans currently disenfranchised by existing systems that limit access to capital, meaningful consumer protection, and long-term financial security, an office of financial empowerment offers a dedicated resource to push for needed systemic change.

Local Example: Denver Office of Financial Empowerment & Protection

Denver's Office of Financial Empowerment and Protection helps resolve the complaints of residents who have been the victims of financial malpractice. Residents can also access free one-on-one financial coaching and navigation that helps individuals, families, and small businesses reduce debt, develop savings, establish credit, increase credit scores, access banking services, and connect clients to city resources and programs.

The Denver Office of Financial Empowerment and Protection has provided more than 20,000 coaching sessions to 8,192 clients; increased the average credit score of its clients by 49 points; reduced the total debt of its clients by more than $6.2 million; and aided in the purchase of 212 homes, while also forestalling 38 foreclosures, leading to $2.1 million in cost avoidance.

As demonstrated by the above figures, a statewide financial empowerment office can play a critical role in providing Coloradans the tools they need to build savings and individual wealth. COVID-19 is making the availability of these tools and protections more important than ever, as a growing number of families are struggling to make ends meet.

Conclusion

While Colorado has made progress in eliminating many predatory loan products, Coloradans are still financially vulnerable. An effective way to guard against the expansion of predatory financial services is to ensure Coloradans have access to affordable financial tools that meet their everyday needs. An office of financial empowerment would not only be a champion for expanding access to safe and affordable banking and credit and financial coaching, but will also do so in a way that supports localities in developing targeted community solutions.