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Center for the
New Middle Class

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Targeted resources can help families navigate financial insecurity: What we have learned from COVID-19

BY KATY JACOB AND NATHAN FOLEY

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Overview of SpringFour & Elevate Partnership

Elevate provides online credit solutions to consumers and banks in the United States to expand access to credit to consumers who often fail to qualify for traditional bank products. These consumers seek alternatives to payday loans, title loans, pawn, and storefront installment loans. Elevate has originated $8.8 billion in non-prime credit to more than 2.5 million non-prime consumers and has saved its customers more than $7.9 billion versus the cost of payday loans. Elevate's Center for the New Middle Class is a research-focused group that researches the needs, behaviors, and challenges of individuals who do not have access to traditional credit options.

SpringFour is a Certified B Corporation and social impact fintech focused on bringing financial health resources to consumers through innovative call center and direct-to-consumer digital applications. In 2020, SpringFour provided more than 3.2 million referrals to over 20,000 local nonprofit and government resources to help consumers improve cash flow, payment performance, and financial wellness. To date in 2021, this number is already over 2 million. Elevate has been a client of SpringFour's since 2020. Together, the two companies have worked together to provide tens of thousands of referrals to Elevate's customers, in the heart of the COVID-19 pandemic and beyond.

During the summer of 2021, SpringFour and Elevate's Center for the New Middle Class collaborated on a research project. The project uses data from the Center's Non-prime tracker survey. The Non-prime tracker survey is a longitudinal survey measuring the economic status of prime and non-prime consumers since 2018. The collaboration also includes SpringFour data on over 5 million referrals offered to families in 2020 and 2021 in over 30 categories of need as well as a 2020 consumer survey on COVID-19 impacts on financial health. The study seeks to ascertain:

1. **The impacts of COVID on non-prime and prime consumers**
2. **The state of families' financial stability and how they feel about their financial situation**
3. **The types of resources that families need in order to increase that financial stability and improve how they feel about their financial situation**

> "What's really driving people into the non-prime space is out of their control — it's often because of job losses or unexpected expenses like medical bills. If you apply an income inequality solution to a credit inequality problem you don't actually solve the problem."

Jonathan Walker | *Executive Director*, Elevate's Center for the New Middle Class

"As someone who has researched financial health, economic systems and economic development for more than 20 years, the COVID-19 pandemic has proven to be a unique financial shock due to its ongoing impact and widespread reach. Suddenly, financial crises were impacting families who had never experienced such acute need before, for reasons outside of any individual family's control. The pandemic uncovered what those of us in the financial health field have long known to be true: we are all one crisis away from financial catastrophe. And there should be systems in place to help."

Katy Jacob | *VP of Research & Impact*, SpringFour

1 | Impacts of COVID-19 on Families' Financial Instability

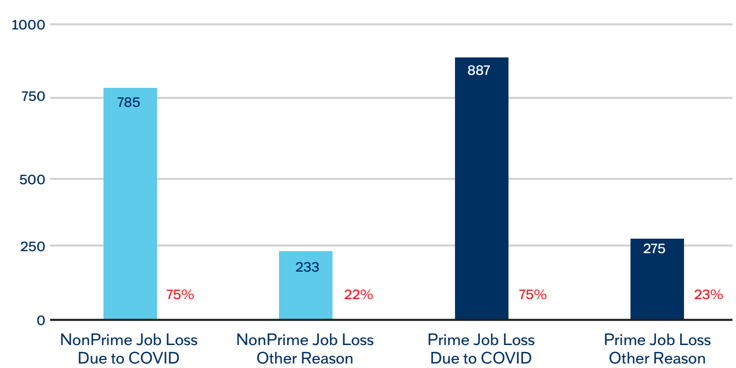
For the purpose of this study, the authors primarily focus on comparing non-prime and prime consumers' levels of financial stress and stability.[1] We then provide supplementary data on consumer demand for financial assistance and resources.

To gauge the impacts of COVID-19 on consumers, we first explore whether or not survey respondents experienced a job loss in the last year that was specifically due to COVID-19. This is an important consideration, as the Pew Research Center has found that half of non-retired adults say that COVID-19 will have long-term impacts on their financial stability regardless of the recovery, and that of those who lost jobs due to COVID-19, lower-income and Black adults are particularly likely to have taken on debt or put off paying bills in order to cover lost wages. Therefore, we see that a COVID-19-related job loss has the potential for long-term financial instability for some families.

Of the 2,221 respondents who reported a job loss over the last year in the non-prime tracker survey, 75% of both prime and non-prime respondents said that the job loss or furlough was due to the pandemic. We find that the COVID-19 pandemic impacted employment and income status equally for both sets of respondents. Unlike other financial crises, COVID-19 impacted the entire country, necessitating attention and resources from the public and private sectors.

Figure 1

Job Loss by Prime Status and COVID-19 Impact



1. A non-prime consumer is defined as someone with a credit score below 700, making it difficult to obtain low-cost credit. While there is some correlation between income and non-prime status, all income levels contain non-prime consumers, and income has not proven to be a direct cause of non-prime status.

2 | Impact of Stimulus Checks on Households and Their Spending Habits

We then explore whether, unrelated to job loss, respondents were eligible for the stimulus checks provided by the federal government to offset the economic losses brought on by COVID-19. We specifically asked about the stimulus checks distributed in March 2021; this was the third round of such assistance provided to American families over the period of March 2020-March 2021. Stimulus checks were distributed to Americans on the basis of income, family size, and many other factors. Single earners making more than $80,000 per year and married couples filing jointly who earned more than $160,000 were ineligible for receipt of stimulus checks.

We find that a larger proportion of non-prime consumers–83%–were eligible for the third round of stimulus checks than of prime consumers, 77% of whom were eligible. While this difference is worth noting, we focus on the fact that over three quarters of all respondents were indeed eligible for the stimulus funds.

Next, we explore how households spent their stimulus checks. Respondents gave detailed information on stimulus check spending and were allowed to choose multiple responses, as stimulus check payments could be used to smooth overspending in multiple categories of need. We break down spending by three areas, and explore each of these areas separately in our analysis:

- Basic needs
- Debt repayment
- Savings

Spending on basic needs

To ascertain the extent to which families used the stimulus checks for basic needs, we look at the following categories for both non-prime and prime consumers:

- Housing costs (mortgage or rent payments)
- Utilities
- Groceries / Food
- Medical expenses (routine and emergency care)

The charts in Figure 2 and Figure 3, below show the percentages of non-prime and prime consumers who spent some portion of their stimulus checks on basic necessities.

Figure 2

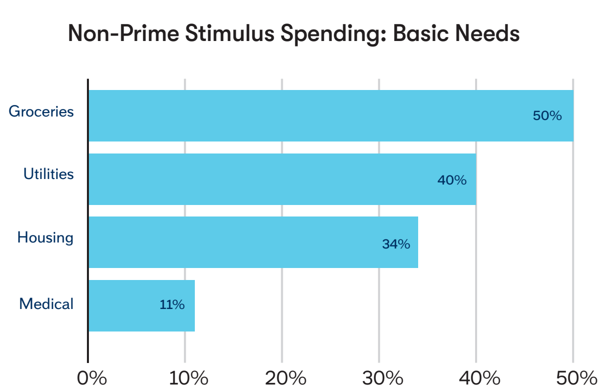
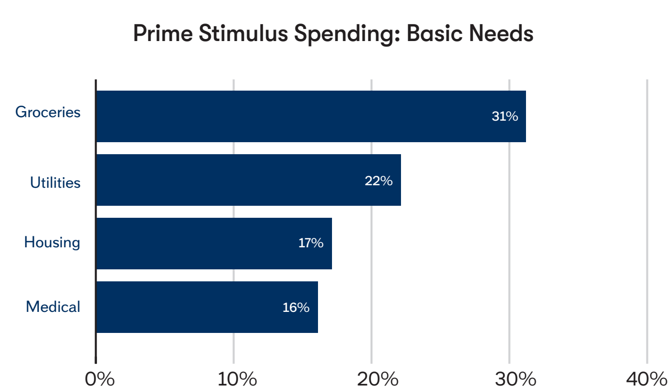


Figure 3



It is important to note that the number one basic need that families spent their stimulus checks on was food/ groceries. Fully half of non-prime consumers spent some portion of the stimulus on food, while almost a third of prime consumers did so. Non-prime consumers overall were much more likely to spend a portion of their stimulus on basic needs. Indeed, twice the percentage of non-prime consumers spent funds on housing than their prime counterparts.

Analysis of SpringFour data on consumer demand for financial resources echoes the findings above. Between 2020 and 2021 to date, SpringFour provided over 5 million referrals to nonprofit and government agencies in over 30 categories of need. American households are looking for resources to help them pay for basic necessities. It follows that when unexpected funds are available, such as through a stimulus payment, they are likely to use it for those purposes. The authors note that if families were more aware of resources that could help them pay for food, utilities, medical costs and other basic needs, those families might be in a better position to save stimulus funds or contribute those dollars back to the economy in other ways. Indeed, in Q1 of 2021, 1 in 5 referrals offered by SpringFour were to keep people in homes (including rental and homeowner resources). In Q2 2021, 14% of all referrals were for costs of medical care. Further, during 2020, as the pandemic increased, SpringFour regularly saw as many as 1 in 4 of its total referrals going towards food assistance.

Spending to pay down debt

In this category, we include a variety of types of debt, and assess what percentage of prime and non-prime consumers used some portion of their stimulus checks to pay off these debts:

- Auto Loans
- Credit Cards
- Lines of credit
- Bank-offered Personal loans
- Non-bank personal loans
- Payday or title loans

Figure 4

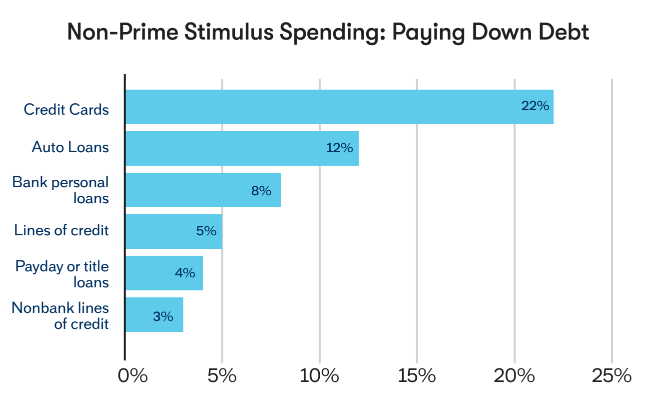
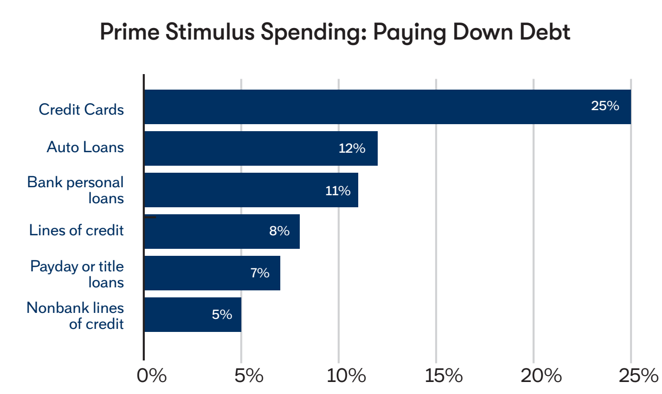


Figure 5



We see in the charts (Figure 4, 5) above that prime consumers were more likely to use stimulus funds to pay down various types of debt than non-prime consumers. This is not likely due to a difference in desire to reduce debts. Rather, non-prime consumers are more likely to need to use the funds for other things as demonstrated above and non-prime consumers are less likely to have access to many of these forms of credit, given their credit history and banks' unwillingness to lend to them. However, it is important to note that prime consumers were also more likely to use stimulus funds to pay down debts normally associated with non-prime consumers, such as payday loans and lines of credit provided by alternative lenders. This shows that many different types of consumers rely on emergency forms of credit such as payday loans. At the same time, we might have seen higher levels of funds being used to pay down debt if not for the fact that many consumers "tightened their belts" and reduced spending where they could during the pandemic, thereby limiting the amount of additional debt they accrued.

For both groups of consumers, more than one in five used stimulus funds to assist with credit card payments. In a survey of consumers conducted in 2020 by SpringFour, it was found that 40% of surveyed households delayed nonessential purchases and 29% decreased credit card spending due to the pandemic. It is therefore not surprising that when extra funds were available, families used them to pay down debt.

As financial institutions consider these trends, the authors reiterate that the stimulus payments were given at a specific point in time in recognition of the ongoing financial crisis brought about by the COVID-19 pandemic. While some of these forms of debt might have been accrued specifically in response to the crisis to help smooth over monthly bills, many American households struggle to pay off debt. In a 2020 survey of 2,000 consumers, NerdWallet finds that while some people benefited from chances to save and pay down debt during the pandemic, other families were devastated financially: Of those who say their household financial situation has gotten worse since the pandemic began, 45% say they've taken on debt because of it. The same proportion, 45%, say they took money from savings to pay for bills and necessities in response to their worsening finances.

Indeed, the uneven impact of the COVID recession is in part due to the fact that some consumers were able to successfully work from home, maintain their incomes, and utilize their stimulus checks to get ahead on debts and build up their savings accounts. Others had their income significantly affected, expenses piled up, and stimulus payments were insufficient to fill the gap. The unevenness of the impact will almost certainly exacerbate the unevenness of the recovery.

Consumers might want to turn to their banks for help, but many feel that that isn't an option: fully 40% of consumers feel that their financial institution is doing nothing to help them on their journey to financial health, according to Cornerstone Advisors and Strategy Corps.

And yet, when consumers struggle to pay off debts, financial institutions suffer losses as well. Given the extent to which we can see that households both are looking for resources to help pay off basic necessities, and then are likely to use "surprise" funds to help pay those costs, it would be instructive for the financial services industry to consider how to help those families pay for basic necessities in conjunction with offering them appropriate and fairly priced credit vehicles. For example, financial services companies can and should consider product refinements that acknowledge access and affordability issues from the start such as eliminating late fees and NSF fees, allowing payment deferments, and negotiating terms Moreover, if consumers were less worried about paying for food or housing, the debt they accrue for other reasons (buying a car, dining out, entertainment, unexpected emergency, etc.) could be more easily managed.

Using the stimulus for savings

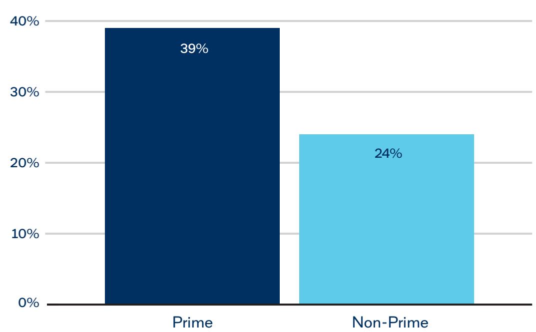
Finally, we look at what percentage of consumers saved some portion of their stimulus check. While much can be said about the patterns of stimulus spending outlined above, these point in time subsidies to American consumers beg the question: is the amount of assistance offered at the Federal level sufficient for consumer needs? It might be, if the household is most concerned about paying for basic necessities such as food and heat right now, as posited above. However, as families continue to struggle post-pandemic and other assistance programs such as mortgage forbearance and rent forgiveness expire, households might actually need a much greater safety net — which may or may not be available to them.

To this end, a SpringFour survey in 2020 uncovered that two-thirds of low and moderate-income consumers were worried about being able to set aside any money for savings. Moreover, when asked how much money families would like to have in an emergency savings account, over half said $4,000. Families are aware that their needs are complex and multi-faceted, and that one emergency could have a cascading effect on their ability to make a variety of payments and purchases. The ability to use "excess" funds for savings is therefore crucial to a family's financial health.

In the non-prime tracker survey, we see that prime households were much more likely to use stimulus funds for savings than non-prime households. This likely points to the increased financial stability exhibited by prime households, who have access to personal wealth (in the form of savings accounts and home equity) as well as a variety of credit products from financial institutions. They are less likely to need to spend stimulus funds on basic necessities such as food and housing. From another angle, we can posit that families are indeed eager to have an additional level of savings available to them, which can undermine the stereotypical view of the American consumer who can't seem to keep from spending any money in their pockets.

Figure 6

% Households Using Stimulus Funds for Savings



3 | Financial Stability

The authors pivot now to assessing how households feel about their financial situation and stability. We find that equal percentages of non-prime and prime households—43% and 42% respectively—experienced an unexpected expense in the last three months that *disrupted their family finances*. We add this emphasis because it is likely that an even higher proportion of families experienced an unexpected expense but had the capacity to cover it due to their level of financial stability. Unexpected expenses are the rule, not the exception, for many American families.

Almost half of all non-prime and prime customers are experiencing financial disruption from an unexpected expense—and a majority of American families do not know where to go for help. SpringFour's 2020 survey of LMI consumers found that only 17% of households were very aware of local resources that could help them pay their bills. At the same time, a vast majority of respondents—83%—said they were interested in receiving resources from their bank, and 63% of respondents felt the same way about their credit card issuer.

This points to the strong opportunity that financial services providers have to partner with financial health experts to offer customers assistance in achieving financial health outcomes. As an industry, companies should design for this reality, offering products and resources that improve financial stability. The partnership between Elevate and SpringFour is one example of this: both companies acknowledge and expect that families will have financial struggles that require targeted solutions, and have come together to provide a more holistic and positive financial services experience.

This is important because so many households are experiencing financial stress and instability. NerdWallet found that 42% of households feel that the pandemic worsened their financial condition. The Federal Reserve Bank of St. Louis found that almost half of those who experienced a COVID-19 related job loss were “barely getting by” financially in early 2021. But even prior to the pandemic, the Financial Health Network found that two thirds of American households were not financially healthy.

To gauge how COVID-19 impacted families’ financial stability, the non-prime survey asked whether families felt less or more secure or the same since a year ago. The discrepancy in response between non-prime and prime consumers is noteworthy: 37% of non-prime consumers feel less financially secure compared to a year ago, in stark contrast to only 16% of prime consumers who feel less secure. Elevate finds that prior to COVID, 31% of non-prime consumers felt less financially secure than a year ago, compared to 12% of prime consumers. *This highlights the fact that COVID led to increased financial instability for a non-trivial group of households of both types. Crucially, non-prime consumers have experienced the effects of the recession more acutely, and have **always** felt 2-3 times as financially insecure as their prime counterparts—before a financial crisis, during such a crisis, and most likely in the years of recovery to come*.

This shows that even global financial crises that *impact everyone impact some already struggling consumers more than others*. This is an inequity that must be addressed head on by entities that interface with consumers as they strive for financial health and stability—including employers, financial institutions, fintech providers, and others.

And why exactly are American consumers feeling financially unstable? In the non-prime tracker survey, we explore which issues cause financial strain for consumers. The chart in Figure 7, we highlight categories that regularly cause financial strain for families. While there are some differences among prime and non-prime consumers, with non-prime consumers more strained by groceries, utilities, and housing than their prime counterparts, over half of all respondents experience financial strain from healthcare costs, housing, groceries, and utilities.

SpringFour referral data echoes the strain that families feel. The chart in Figure 8 outlines the top categories of referrals for all SpringFour customers in q2 2021. We see that food, housing, utilities and healthcare are in the top 6 of all categories for the quarter, with almost 1 in 5 families receiving referrals needing food assistance, for example. Indeed, in the second quarter of 2021, SpringFour made over 800,000 referrals to families needing financial assistance and access to basic necessities. Even with widespread vaccine availability and a fairly open economy, SpringFour continues to see demand for recovery-related resources, which accounted for 50% of all referrals. Healthcare and rental resources were also top Q2 categories of need in Q2.

Figure 7

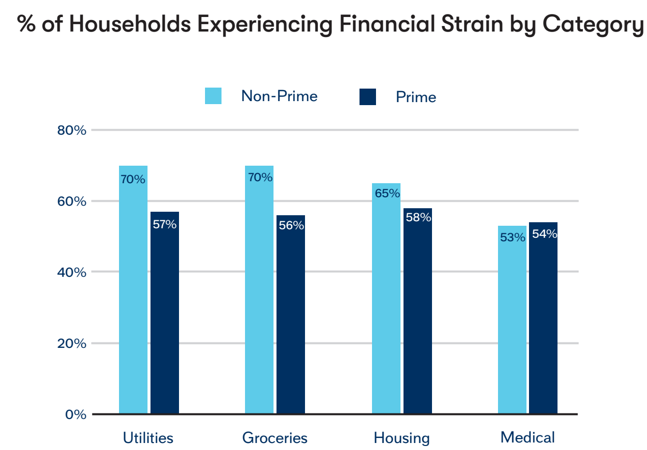
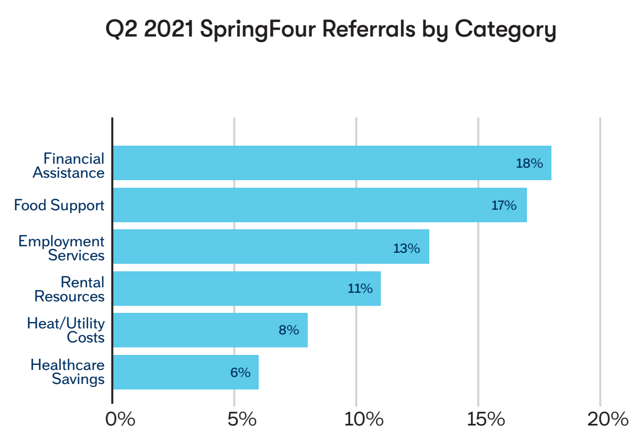


Figure 8



"The pandemic demonstrated the precariousness of households' financial health – and showed that banks, financial institutions, and nonprofits must all prioritize their customers' financial health. When they do, everyone benefits – customers, companies, employees, and the economy. Now, we all must continue to step up and build on this momentum because none of our customers are immune to financial challenges."

Rochelle Gorey | *Co-Founder and CEO*, SpringFour

"The income volatility that resulted from the pandemic put many already financially vulnerable Americans into an even more challenging situation. While we can't predict when unexpected events such as the pandemic will occur, we can be better prepared. That means equipping both prime and non-prime Americans with the tools and resources they need to make informed decisions about their finances so that they can meet their basic needs, reach their savings goals, and achieve long-term financial stability."

Jason Harvison | *CEO*, Elevate

CONCLUSION

The summer of 2021 has proven to be a crucial juncture as the country begins to open up post- pandemic. As we see in the data presented here, COVID-19 uncovered the hidden state of most Americans' financial struggles and exacerbated those struggles for many. On the plus side, the government, nonprofits, and the private sector honed in on financial health and thousands of new resources were created to help people in financial distress. Customers began to demand robust relationships with their banks and lenders in their journeys towards financial health and stability. At the same time, a nationwide financial crisis impacted non-prime and prime consumers differently, and different solutions are needed to help all families achieve financial health. The financial services industry must recognize that there are consumers who live in personal recessions even in boom times, and that meeting the needs of non-prime consumers will always require more forbearance, flexibility, and patience.

Here at SpringFour and the Center for the New Middle Class, we know that empathy and appropriately designed resources and products drive results: being a partner in financial health is a win-win-win for customers, companies, employees, and the economy. The authors of this report firmly believe that the momentum gained during COVID-19 to address the ongoing financial strain that many American families experience every day should build, not lessen, in the pandemic's wake.

In conclusion, we find that:

- **The COVID-19 pandemic's effect on American households was uneven, with some Americans improving their financial situation and others struggling;**
- **Americans made efforts to improve their financial resilience through debt payoff and by increasing their savings;**
- **Struggling households need continued support and sometimes don't know where to turn;**
- **Through targeted partnerships, together we can provide families with the products and resources they need, deserve, and indeed, have come to expect from their financial institutions.**