Leading through COVID: Helping the hardest hit

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Credit: Sean David Williams

Even when the economy was roaring along, far too many Americans lacked the savings and support to respond to an unexpected loss of income. The COVID-19 crisis has thrown that fragility into stark relief. We talked with Andrea Levere '83, president emerita of Prosperity Now, about how we got to this point and how we can create more resilient and equitable structures for the future.

For 15 years, Andrea Levere '83 led Prosperity Now (formerly CFED), a nonprofit that creates programs and advocates for policies to help bring financial stability to more Americans; she is now the organization's

president emerita. That work has taken on special importance since the COVID-19 pandemic virtually shut down ordinary life in the United States and around the world, and caused unemployment to rise with an unprecedented suddenness. When we spoke to her on April 9, she was between calls with policymakers and the leaders of NGOs and financial institutions, discussing steps to strengthen support for vulnerable communities.

I've been able to do my job at home for the last month but when I see the bus go by my corner, it's full of people getting to work. What kinds of workers are being either forced to lose their livelihood because of social distancing or put themselves as risk?

One of the things I have seen across my career is how inequality in all our institutions and in our structures permeates lives in many, many ways. So I think about how many of these workers lack the autonomy and independence to shape their own personal lives in response to work, and at the same time, how the structure of their jobs and their benefits leave them with even greater risk—financially and otherwise.

Yesterday I saw an interview with two EMTs from Rockland County, which is where I grew up. These EMTs are working night and day, they have no health insurance, and they earn $37,000 a year. How profound is the inequality in our job structure, that these people who are literally doing the most important job in our society today have so little support in their work, and so little consideration of their own lives?

I think it goes back to us really assessing what the basic economic rights of everybody who's working in this country should be, to enable them to do the very best job they can do. And what was really striking about the EMTs is that both of them said multiple times how much they love their

work, but it didn't make up for the risks they were facing for themselves and their families.

Jacob Hacker at Yale wrote a book called The Great Risk Shift that speaks to how, over the last several decades, the financial risks that used to be shared between individuals and institutions have consistently been shifted from those institutions to the individual household, with none of the mediating structures to help manage that risk—with the end of defined-benefit pensions, the end of long-term job security, and too often the lack of basic benefits that are necessary to navigate in today's world. I think we see that reality vividly in this crisis.

Can you give us a sense of the scale of the economic turmoil that Americans are going through over the last few weeks?

I'm going to give you three data points that I think create a baseline, and that are now driving the financial experiences of so many people. Prosperity Now, over a decade ago, created a metric to complement the income poverty number, because we felt that while income poverty captured one element of financial insecurity, it wasn't a broader household metric that looked at all the assets on the balance sheet.

We created a financial metric called Liquid Asset Poverty, which assesses the ability of the household to live at the poverty level for three months if their main source of income is disrupted, such as by job loss, illness, or anything else. In January, the Liquid Asset Poverty Rate for the United States was 37%—in contrast to the income poverty rate, which was 13%. And so basically, that meant a household of four did not have around $6,275 in liquid savings, to help them get through that three-month period.

For Connecticut, the Liquid Asset Poverty Rate was 32%, so a little bit better; for New Haven, it's 52%. Over half of New Haven lives in the state of Liquid Asset Poverty. For communities of color in Connecticut, that number is 56%. We view this data as a measure of economic insecurity.

That's one set of metrics. The other, which is absolutely critical, is the level of people who are not part of the mainstream financial system: people who are completely unbanked, which means they have no mainstream financial account, or people who are underbanked, which means that they use alternative financial services—payday lenders, check cashers, rent to own—although they have at least one mainstream account.

Overall in the United States, 25% of Americans are financially underserved—a quarter. In New Haven, it's 39%. Almost 40% of people in New Haven are not really connected to the financial mainstream. So it comes to the stimulus package, how are we going to get those payments to these people in a way that doesn't harm them by making them wait in line—or miss them entirely?

We need to think through how to create a stimulus package that actually works for the people who need it the most. But we also need to understand why we are in a situation where within two weeks, such a high percentage of American households are in great financial duress.

Do you think that the stimulus package is a good start?

It has to be a good start. That's how I think. They moved more quickly than you could ever have imagined them moving. Whether it was because the only thing the president cares about is the stock market or

for another reason, they did.

I was just on a call last night with the New York Fed and leaders of Community Development Financial Institutions around the country, who shared how they are planning to get sources of support, such as the Paycheck Protection Program through the Small Business Administration, to those folks who need it most. Many of the mainstream banks have no connection to the communities where CDFIs work, but the great thing is we've developed a whole industry over the last 30 years that does have those connections, while also having the financial skills and assets that enable them to survive.

I'm chair of the board of a social venture called ROC U.S., Resident-Owned Communities U.S., which helps owners of manufactured homes—who live in what you think of as a trailer park—buy their communities and turn them into resident-owned cooperatives. This is the largest source of unsubsidized affordable housing in America. We've created a strategy to keep each of those communities whole over the next four months by creating a special fund to handle any liquidity gaps in these communities so they can pay their mortgages and keep their debt current. And because of our relationship with these communities, we can get the information we need to be able to support them.

You mentioned the fact that for people who are unbanked, it complicates their ability to even take in the stimulus and make use of it. Are there other people who don't have preexisting ties into the system that just makes it hard to reach them? People who are homeless, for example? People who are not filing tax returns at all?

In addition to the ones you mentioned, I think the last category is really those communities who came from countries where they distrusted their financial institutions, and have come to this country with the same attitude. One of my favorite stories is of the Latino Community Credit Union, in Durham, North Carolina, which was created basically because many Latinx immigrants had come from countries where they didn't trust their financial institutions, and so they got their pay in cash. So this credit union—and this is one of the solutions I'd like to raise up—was created explicitly to welcome them in. It began with Latinos, but now it serves something like 80 to 90 different nationalities, as a place where they feel welcome and they feel that their interests are being served.

So I think one of the other innovations that has blossomed over the last two decades is the creation of these institutions, which are trusted by members of these communities who may be employed, may be relatively financially secure, but do not have experience with the mainstream financial system.

That's another category outside of the unbanked and the homeless and other very disconnected communities. And you can imagine how much of a fear of mainstream institutions these folks have, given the immigration practices of the last few years.

The recovery from this crisis is going to be a long process. What policy solutions do you think we need over the next year or two?

Let me raise up three. One is dedicating a significant amount of capital to community-based financial institutions—to really build out their capacity to provide the financial support and services that these communities need. There was a request that there be a billion dollars just for CDFIs in the stimulus bill that came out of the House, but that was

not included by the Senate.

Number two, when I was at Prosperity Now, we took over a network of community tax preparers. Volunteer Income Tax Assistance sites leverage billions of dollars of earned income tax credits and child tax credits for low income families. They are a delivery system for what is probably the most effective anti-poverty program we have in the United States. We spent a "pathetic" $15 million a year to give them operating support. One of our greatest victories over the last three years was to increase the amount of their funding and make the VITA program permanent. The funding is still insufficient but it represents progress.

How do we significantly expand the funding for these community tax prep sites, which do a host of other things? Some register you to vote; others help get you banked; others connect you to financial coaches—which is one of the things that people need desperately today. These programs have broad bipartisan support, because there's a community tax prep site in almost every congressional district in America, and that's how we were able to pass the successful legislation the last time.

And then number three is not an issue that I worked on directly. We have to raise the minimum wage. We just have to. Because how else can we scale a solution to the most fundamental driver of economic inequality—the lack of a livable wage for too many people?

Last April, I was at a special event at Yale Law School that was focused on the future of the middle class. Professor Robert Shiller shared his views about the automation crisis and its impact on the labor market and what solutions we could explore as people lost their jobs., and he said, it's really only at times of catastrophic crises that we can summon the will to profoundly change. To me, that's where we are today.

How did we get to the point where the financial structure for so many families is so fragile that it only takes a couple of weeks to knock it out from under them—and how do we rebuild that structure in a more solid way?

One of the things that I learned over the years is that only a complex response will solve a complex problem. At Prosperity Now, we developed a framework for building household financial security. And essentially, it includes six elements that have to come together—in different ways, because people's circumstances are different—to create enduring solutions to this problem.

One is, what's the knowledge and learning that we need to provide? Then, how do people earn what it takes to live sustainably? How do they then save? And then how do they invest to help build wealth? And, finally, how do we protect their earnings and wealth, through legislation that controls predatory lending practices or through insurance products?

That picture looks different depending on where you are. But what's incredibly powerful about this framework is that everybody can see themselves in it. Whether you're providing financial products or services, whether you're doing policy, or wherever you are on the continuum towards financial security, you can see what the different elements are and how to put it together.

It starts with really engaging people in the mainstream financial system, providing a living wage, creating incentives to build savings over time. And then it's creating mechanisms for everybody to build wealth in a safe and non-predatory way. One of the ways I got engaged as an executive fellow at the Yale School of Management is that William Goetzmann, the head of the International Center for Finance, heard me

speak and then shared the opening chapter of his new book, which is called Equity. It's all about how we restructure the capital markets to let anyone build equity in those markets, not just people who have their own private financial advisor to do it. There's a host of other innovations that are creating new structures for low-income people to build ownership—in land, in development, in their communities. All of those pieces need to come together.

What kinds of policies do we need to support those aims?

We need to restore the Consumer Financial Protection Bureau to its original mission. That's going to take new political leadership. To me, that was one of the most important policy victories under the Obama administration. And it was transformative. You may know that it returned $12 billion to households that had been affected by predatory practices. That alone is transformative. And they did it in just five years.

One of the things we did at Prosperity Now to help people build savings to purchase longer term assets—such as a home or a business—was to design matched savings programs. But we realized that if we didn't provide emergency savings for shorter term needs, we were never going to get to the longer term, because most people weren't ready to be there yet.

One of the most interesting innovations that we tested was called the mortgage reserve account. One of the things we see is that when low- and moderate-income people buy a home, almost all their savings goes into the down payment, or other closing costs. If anything goes wrong in their lives or in the house, suddenly they can be at much higher risk for delinquency or default. So why don't we structure a payment plan where when they pay their mortgage, some percent of it automatically goes into

an emergency savings account? When something happens to the roof, they have the resources to fix it and it doesn't then turn into an exponential problem.

Another big piece is tax policy. If anything has created inequality, it was the Tax Reform Act that was passed two years ago. Our tax code is one of the greatest drivers of inequality. And there are a host of ways that we need to change that.

You are currently an executive fellow at Yale SOM's International Center of Finance. How do you think a business school like Yale SOM can help contribute to solutions to these problems?

As a result of what's happened to government, we've seen the critical role of the nonprofit sector and social enterprises in fulfilling some of the most essential functions in our economy and in our society. We need to really think about, with everything we teach, how we build that sector alongside all the other sectors we're focused on, which is a hallmark for SOM. We have also seen the private sector take a major pivot to broaden their responsibilities to society, rather than solely to return value to shareholders.

And that's the real focus of my fellowship. How do I take the lessons of finance I learned on how to build a financially strong business and apply them to nonprofits? How do we apply the lessons from the capital markets to create more efficient financial channels for the social sector? The kind of capital that businesses need from venture capitalists is just the kind of capital that nonprofits and social enterprises need to build their infrastructure, strengthen their service delivery and invest in innovation. How do we create best practices for philanthropy to invest in this sector in ways that will return multiple times? In so many ways,

there is no business school better positioned to think this through and train the people who will create a more inclusive economy in the future than SOM.

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