Policy Perspective: Supporting Consumers in a Financial Health Crisis

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One striking feature of the Covid-19 economic crisis is just how different it is from our most recent financial crisis. While the subprime mortgage crisis began with an immediate shock to financial markets, the economic crisis brought about by this pandemic began with an immediate shock to public health that quickly impacted financial health. That has important implications for policymakers’ priorities as they seek to provide economic relief. This time, it is not large financial institutions who need the most immediate relief, but consumers, workers, employers, and patients.

On March 26th, the Senate passed a $2 trillion relief package after bruising negotiations between the leaders of the majority and minority parties, as well as the Administration. As the bill moves to the House of Representatives, there is broad agreement that the deal is far from perfect. However, there is also a sense of urgency to ensure that relief does not arrive too late. That is particularly challenging in a financial health driven crisis, as it is much more difficult to put money in the hands of the specific Americans who need it than it is to inject capital into a bank. Nevertheless, providing timely support to consumers is critical, and policymakers must make it a top priority as they move into the implementation phase of crisis response.

Supporting Consumers

At the core of the Financial Health Network’s mission is financial health for all. To that end, we advocate for public policy that incents market actors to design products and services that build financial health. In recent weeks we have been heartened to see such policy measures begin to take shape in response to the crisis. For example, regulators at both the federal and state levels have encouraged financial institutions to serve their customers’ needs in this challenging time by waiving fees. Taking an even stronger stance, the relief bill passed by the Senate requires the Secretary of Education to defer federal student loan payments for six months and provides some protection to consumers with federally-backed mortgages.

However, more work remains to be done, and implementation will be critical. One much-discussed aspect of the relief bill involves direct payments of up to $1,200 to all
Americans making less than $75,000. There is a clear need for such emergency liquidity, but there is also a risk that many consumers will be waiting for these funds far longer than they anticipate. At present, it is unclear how funds will be distributed to consumers who do not have direct deposit information on file with the Internal Revenue Service (IRS), or whose information is out of date. This may mean that those consumers will receive their payment via check. In that case, consumers would have to wait for the checks to be printed, wait to receive the check in the mail, and then wait for the check to clear once they've deposited it. Consumers who wish to cash the check would face their own set of obstacles, including the challenge of cashing a check during a quarantine and the likelihood of paying fees at a check casher or a bank where they don't have an account.

The upshot is that many of those most in need of emergency liquidity - particularly the unbanked - might be the last to receive it, undermining a core objective of the direct payments program. With this in mind, policymakers should look for the most expedient ways to deliver emergency liquidity to those without direct deposit information on file at the IRS. Additionally, financial institutions should be encouraged to make funds available in real-time to any customer depositing their government check, and waive fees for non-customers seeking to cash their checks.

**Supporting Workers, Employers, and Patients**

As policymakers finalize and implement the current bill, they will need to find time to take stock of what they missed and assess where there is room for improvement. It is likely that further policy measures will be needed still, and that consumers will need support in ways that we have not yet anticipated or that here wasn't believed to be time to address. Yet while supporting Americans as consumers is necessary, it is not sufficient to maintain their financial health. Americans also need support as workers, business owners, and patients in order to weather this crisis. The relief bill currently on its way to the House of Representatives provides a great deal of that support in the form of expansions to unemployment insurance, employee retention credit for small businesses, and free testing for Covid-19.

These provisions are an important start, but consumers, workers, employers, and patients are sure to need more in order to maintain some measure of financial health. As policymakers shape and implement Covid-19 response measures, they should consider them through each of these lenses - consumers, workers, employers, and patients - in order to ensure that a financial health-driven economic crisis is met with a financial health-focused economic response.