Consumer & Community Context

A series examining economic and financial topics affecting consumers and communities

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The Pandemic's Early Effects on Consumers and Communities

The coronavirus pandemic has had devastating public health and economic consequences globally. In the United States, vulnerable populations, such as low- and moderate-income (LMI) communities and racial and ethnic minorities, have been particularly hard hit.

The Federal Reserve System has responded to this crisis using its monetary policy and bank supervisory tools. It has also conducted extensive research and analysis to monitor the financial health of consumers and communities, with a particular focus on financially vulnerable populations.

This issue of *Consumer & Community Context* contains four articles presenting analysis of how consumers, communities, and community development organizations are responding to the pandemic. The first looks at select results from the most recent Survey of Household Economics and Decisionmaking (SHED), originally fielded in October 2019, and from supplemental SHED surveys fielded in April and July 2020 to measure the economic impact of the pandemic. The second describes the operations of community development financial institutions and their roles responding to the pandemic. The third presents the results of an analysis of complaints consumers reported to the Consumer Financial Protection Bureau about their experiences with financial institutions. Finally, the fourth highlights the results of a survey of organizations providing services to LMI communities during the pandemic.

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The views expressed here are those of the authors and do not necessarily reflect the position of the Federal Reserve Board or the Federal Reserve System.

Note: PJ Tabit and Tenisha Brown of the Federal Reserve Board Division of Consumer and Community Affairs contributed to this introduction.

Household Finances under COVID-19: Evidence from the Survey of Household Economics and Decisionmaking

by Mike Zabek and Jeff Larrimore, Federal Reserve Board Division of Consumer and Community Affairs

As concerns about COVID-19 led states to shut down their economies at the start of the pandemic, a team of researchers at the Federal Reserve Board set out to measure the impacts on household finances by conducting supplemental surveys in early April and late July 2020. The supplements built off the Survey of Household Economics and Decisionmaking (SHED), typically an annual survey focused on everyday household finances. This article presents a few results from both supplements and the annual SHED concerning the impacts of the COVID-19 pandemic. It provides insights into how households fared early in the public health crisis, before the implementation of many new governmental programs. It then uses data from the second supplement to show how households were faring in late July, after the implementation of substantial assistance programs.

One finding from the April supplement, also reported in the annual SHED report, is that many jobs were lost, and workers living in households with lower incomes were the most likely to lose their jobs.[1] Thirteen percent of all adults, or 20 percent of people working in February 2020, lost a job or were furloughed from March to the beginning of April. Workers living in households with lower incomes and female workers were more likely to lose jobs.

The early financial effects observed from the pandemic and associated closures mainly affected respondents with employment disruptions, defined as a layoff or having one's hours cut. Respondents with employment disruptions reported reduced incomes, were less able to pay their monthly bills, and were less likely to say that they would pay a $400 expense with cash or a credit card paid off at the next statement. Those who did not have these employment disruptions in the weeks after the closures reported comparable levels of difficulties paying bills and handling unexpected $400 expenses as that seen for the population overall in October of 2019, before the pandemic. However, data from the July

1. Statistics presented here are from staff calculations from the SHED microdata. The public use data file and previous reports are available at https://www.federalreserve.gov/consumercommunities/shed.htm.

supplemental survey suggest that the financial assistance measures implemented as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) subsequently helped stabilize many households' finances, including those of people who experienced employment disruptions.

SHED results also highlight how unprepared some households were for unexpected expenses and income interruptions. The overall number of adults who said that they would pay an unexpected $400 expense with cash, savings, or a credit card paid off at the next statement in the main survey in October 2019 was 63 percent. In October, 28 percent of all adults either did not expect to pay all of their bills in full, or would not have been able to do so if they faced a $400 unexpected expense on top of their current bills. Also in October, 59 percent of Black respondents with a high school degree or less said that they would not be able to fully pay their current month's bills if they also had to pay an unexpected $400 expense. Fifty-one percent of Hispanic respondents and 35 percent of White respondents, both with high school degrees or less, responded similarly.

Thirty-nine percent of people working in February living in households earning less than $40,000 per year reported that they were laid off in March or early April.

Job Losses

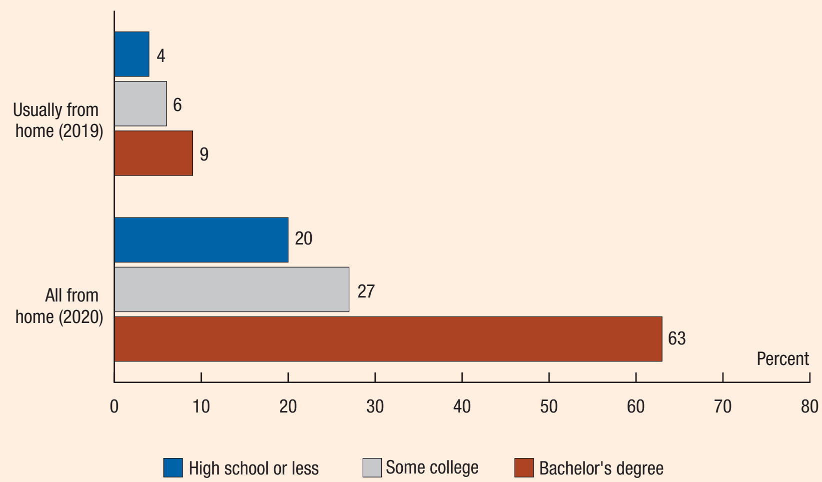
The first supplement showed an unprecedented number of layoffs from March to early April, when the survey was fielded. Twenty percent of people working in February either lost a job or were furloughed in March or the beginning of April. Layoffs were even more severe for workers in lower-income households. Thirty-nine percent of people working in February living in households earning less than $40,000 per year reported that they were laid off in March or early April.

The SHED's measure of layoffs is associated with the changes in the number of people employed, as recorded by the Bureau of Labor Statistics (BLS), but the measures in the SHED are conceptually distinct and are larger as a result. The SHED asked every respondent if they were laid off, while the typical approach with BLS statistics is to compare the number of people working in one month with another month. The number of layoffs is often larger than the decline in employment because counting only the number of layoffs ignores people getting jobs. Additionally, some SHED respondents only lost one of several jobs that they held. Still, the differences by education and by household income mirrored changes in employment and unemployment rates recorded by the BLS.[2]

2. For example, year-over-year changes in employment and in unemployment are larger among adults with high school degrees than for adults with bachelor's degrees (https://www.bls.gov/web/empsit/cpseea17.htm). Additionally, the industries that lost the most jobs in March, like leisure and

Layoffs may have been more severe among lower-earning workers because many jobs cannot be done remotely. Figure 1 shows that a much higher proportion of workers did all of their work from home in April than in October 2019, but the increase was concentrated among workers with bachelor's degrees. Sixty-three percent of workers with a bachelor's degree did all of their work remotely in early April. By comparison, only 20 percent of workers with a high school degree or less did all of their work from home in the same period.

Figure 1. Percent working from home, by education



Note: Fall 2019 results among employed for someone else, n = 6,312. April 2020 results among employed and self-employed, n = 532. Key identifies bars in order from top to bottom.

Another difference is that women were more likely to report layoffs compared to men. Twenty-four percent of women working in February said they were laid off between March and April, compared with 17 percent of men. The pattern of more layoffs among women than men is unusual, as men have been more likely to lose jobs than women in previous recessions. In the 2001 recession and the Great Recession, for example, men accounted for over three-quarters of employment declines.[3]

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hospitality, employed the lowest-earning workers (https://www.bls.gov/charts/employment-situation/employment-levels-by-industry.htm).

3. Researchers who have examined differences in layoffs in recessions have frequently pointed to differences in which sectors employ men and women, as well as differences in what tasks women and men perform; see, for example, https://www.stlouisfed.org/publications/regional-economist/october-2009/the-mancession-of-20082009-its-big-but-its-not-great, http://ftp.iza.org/dp13183.pdf, and https://www.nber.org/papers/w26947.

In addition to layoffs, 9 percent of workers decreased their hours in March—both with and without pay. The most common reason was fewer hours offered by employers, but a substantial number of workers said that other factors led them to work less. Twenty-one percent of adults who worked fewer hours cited family responsibilities, and 16 percent cited health limitations. So, while the main reason for decreased employment in April was employers' decreased demand for workers' efforts, workers' family responsibilities and workers' health concerns also appeared to play some role.

Another feature of the layoffs in March and early April is that employers often told workers that they intended to rehire them, but most did not give a specific date. Among all workers who were laid off, 91 percent said that they expected to be rehired. Seventy-seven percent of all laid-off workers said that they expected to be rehired, but at a time that the employer did not specify. The trajectory of the recession and subsequent recovery will largely depend on how many workers return to the same jobs they had before the pandemic and how many will need to find new jobs. May data from the BLS, for example, suggested that workers awaiting a recall from an employer accounted for all the decline in unemployment from April to May.[4]

Only 51 percent of respondents who had employment disruptions said they were either doing okay or living comfortably in April.

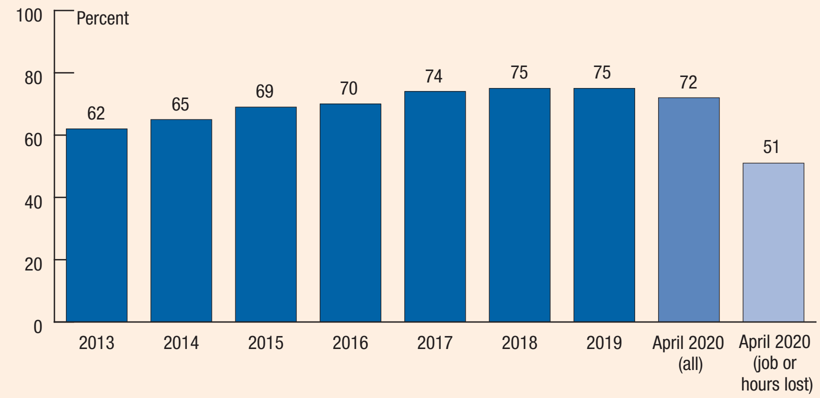
Household Financial Well-Being

The initial effects of the pandemic on household finances were largely limited to adults who had employment disruptions before the beginning of April. Figure 2 shows a time series of the percentage of respondents who said that they were either "living comfortably" or "doing okay" financially since 2013. Since 2013, a growing proportion of households has said that they were doing at least okay financially. The statistic among all adults had moved up from 62 percent in 2013 to its peak of 75 percent in October of 2019.

While our measure of household financial well-being was only somewhat lower (72 percent) among all households in 2020, it was much lower among respondents who had an employment disruption—losing a job or having hours cut. Only 51 percent of respondents who had employment disruptions said they were either doing okay or living comfortably in April. By contrast, 76 percent of respondents who had not experienced employment disruptions (either because they were working the same hours or were not working before the pandemic) said that they were doing at least okay financially. These respondents without an employment disruption reported similar well-being to that seen in October 2019.

4. Declines in the number of workers on temporary layoff were about as large as declines in unemployment in May BLS data; see https://www.bls.gov/news.release/empsit.nr0.htm.

Figure 2. Percent doing at least okay financially



Note: All respondents, n = 12,173 in 2019; 1,030 in April 2020. For the number of respondents in earlier years, see https://www.federalreserve.gov/consumerscommunities/shed.htm.

Effects of the COVID-19 pandemic on household finances also led to increasing differences in household finances by education. Among respondents with a bachelor's degree, the same percentage said that they were doing at least okay financially in 2019 and in the supplement in April (88 percent). However, the percentage of those without a bachelor's degree who said they were doing at least okay in April 2020 (64 percent) was 5 percentage points below the share in October 2019 (69 percent). As a result, the educational gap in financial well-being widened to the largest figure recorded since the survey began in 2013.

Additionally, there was a statistically undetectable overall difference from the main survey to the April supplement in respondents' abilities to pay their bills. Overall, 81 percent of people said they could pay all of their April bills in full. A smaller 64 percent of respondents who had employment disruptions said that they could pay all of their April bills in full, however. This lower proportion among people who had employment disruptions suggests meaningful new financial strains for this group shortly after closures began.

People who had employment disruptions also said that they would have more difficulties paying an unexpected $400 expense. Overall, 64 percent of respondents said that they would pay an unexpected $400 expense with cash or an equivalent in April.[5] However, among people with employment disruptions, 46 percent said that they would pay an unexpected $400 expense with cash or

5. The remaining households said that they would have to revolve a credit card balance, borrow from someone, sell something, use another loan, or that they would not be able to pay a $400 expense.

an equivalent. The lower proportion shows the strain that employment disruptions have put on affected households, which other households appeared to have avoided in early April, at least.

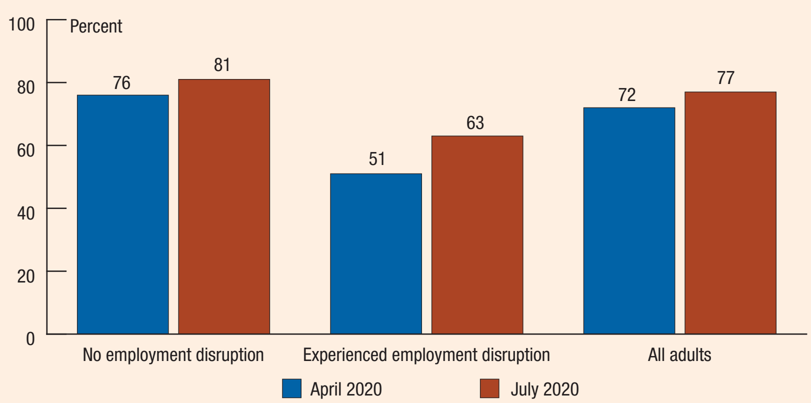
One positive sign is that relatively few responded that financial concerns were likely to keep them from seeking medical treatment. Only 4 percent of adults said that they would not contact a doctor about symptoms of COVID-19 due to concerns about cost. While financial strains can lead to worse health outcomes through other channels, like an impetus to accept dangerous work, few said that finances were a barrier to seeking treatment for COVID-19.

Effects of Financial Assistance Programs

Although the initial weeks of the public health crisis indicated growing financial strains among families experiencing employment disruptions, financial assistance programs subsequently offset some of these challenges. Starting in April, after the first supplemental survey was fielded, most families received Economic Impact Payments, businesses began to receive Payroll Protection Program loans, and unemployed workers began receiving enhanced unemployment insurance benefits.

Improvements in financial well-being were clearly apparent in a supplemental survey conducted in July. Among families that experienced an employment disruption since the onset of the pandemic, 63 percent were doing at least okay financially—up from 51 percent in early April. Those who did not experience a disruption similarly reported an uptick in their overall well-being (figure 3).

Figure 3. Percent doing at least okay financially since the pandemic, by employment disruption



Note: All respondents, n = 1,030 in April 2020; 4,174 in July 2020. Key identifies bars in order from left to right.

Although the initial weeks of the public health crisis indicated growing financial strains among families experiencing employment disruptions, financial assistance programs subsequently offset some of these challenges.

Other measures of family finances similarly improved between April and July. The share who would pay a $400 emergency expense using cash or an equivalent increased from 64 percent in early April to 70 percent in July. The share who expected to pay all of their current month's bills in full similarly increased from 81 percent to 85 percent over this time. Each of these improvements suggests that the financial assistance programs lessened the financial challenges that families were facing early in the public health crisis. However, it is too early to determine whether these improved financial outcomes will persist.

Conclusion

Results from the SHED show how economic damage was concentrated among a subset of households, and how quick, targeted policies were important for addressing these financial strains. Many households were relatively stable financially in early April, but households where people lost jobs faced financial hardships after only a few weeks. Fast-acting programs targeted at households facing income disruptions can be particularly effective at alleviating these acute financial strains among the many families who operate with thin financial buffers. Policies targeted at these most affected households can also have benefits for the broader economy through containing the economic side effects for landlords and others in communities that also faced severe financial strain. Indeed, data from July shows an improved financial picture among many households—even among the many households that experienced employment disruptions.

Data from the survey also show that many households were struggling financially before the pandemic. In the main survey in October 2019, 28 percent of all adults either did not expect to pay all of their bills in full, or would not have been able to do so if they faced a $400 unexpected expense on top of their current bills. Fifty-nine percent of Black respondents with a high school degree or less said that they would not be able to fully pay their current month's bills if they also had to pay an unexpected $400 expense. And 51 percent of Hispanic respondents and 35 percent of White respondents, both with high school degrees or less, responded similarly. Consequently, a slow recovery combined with reductions in stimulus payments could have severe consequences for many households' well-being.

CDFIs' Response to COVID-19

by Mike Eggleston, Federal Reserve Bank of St. Louis Community Development Department, and Michou Kokodoko, Federal Reserve Bank of Minneapolis Community Development and Engagement Department

The COVID-19 pandemic has hit low-income people and communities of color particularly and disproportionately hard, not only health-wise but also financially. Many have difficulty accessing financial products and services from mainstream sources such as traditional banks even during normal times. But as job losses mount and small businesses struggle to stay afloat, access to financing has become critically important for these individuals and communities. Such access has repercussions not only for the financial well-being and development impacts of local economies, but also for our national economy. Community development financial institutions (CDFIs) have long provided targeted assistance to help foster economic growth among low-income populations. In this article, we focus on how CDFIs are supporting marginalized individuals and communities during the pandemic.

About CDFIs

CDFIs are mission-driven lenders that create economic opportunity for communities and individuals with low incomes throughout the United States. They provide financing to individuals, small businesses, and nonprofit organizations that have typically been unable to access credit through mainstream financial institutions. CDFI financing leads to the creation of jobs, affordable housing, and more. Based on data compiled by Opportunity Finance Network, 85 percent of CDFI beneficiaries are low income, 58 percent are people of color, 48 percent are women, and 26 percent are rural.[1]

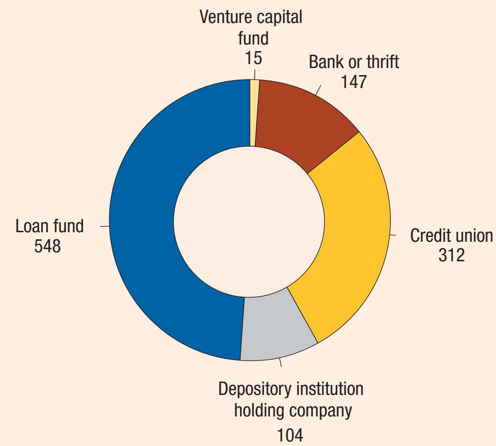
CDFI financing supports a range of activities—affordable housing, small business development, household financial security, and more. In addition to providing financing, all CDFIs provide development services. The most commonly offered of these are financial education, business technical assistance, and credit counseling.[2]

1. Opportunity Finance Network, "Fiscal Year 2018 Statistical Highlights from the OFN Membership," November 2019, https://cdn.ofn.org/s3fs-public/insidemembership_fy2018.pdf.

2. Emily Wavering Corcoran, *Community Development Financial Institutions (CDFIs) by the Numbers* (Richmond, VA: Federal Reserve Bank of Richmond, 2019), https://www.richmondfed.org/-/media/richmondfedorg/community_development/resource_centers/cdfi/pdf/cdfi_report_2019.pdf.

The history of CDFIs dates back to the 1970s.[3] There are currently about 1,100 CDFIs operating throughout the country of varying types (see figure 1). The total asset size of the CDFI field is estimated to be $222 billion.[4]

Figure 1. Number of CDFIs, by activity type



Source: CDFI Fund (as of June 12, 2020).

Responding in a Crisis

The COVID-19 pandemic is not the first crisis in which CDFIs have filled critical gaps by serving those who are most vulnerable. During and after the Great Recession, the CDFI industry was able to meet the financing needs of marginalized individuals and communities by leveraging public and private investments and growing lending activity. For instance, CDFI loan volume increased from $806 million in 2009 to $1.9 billion in 2012, even while the financial assistance grants from the CDFI Fund—which is operated and financed by the U.S. Treasury—remained relatively flat.[5]

COVID-19 has had a particularly negative and disproportionate effect on people of color and lower-income individuals and communities from both health and economic standpoints. From a health standpoint, COVID-19 hospitalization rates among non-Hispanic Black people and Hispanic or Latino people are both

3. The financial institutions formalized their operations in 1994 with the passage of the Riegle Community Development and Regulatory Improvement Act. The legislation created the CDFI Fund, an agency of the U.S. Department of the Treasury, which oversees the CDFI program.

4. Opportunity Finance Network, "About CDFIs," web page, https://ofn.org/CDFIs.

5. Michael Swack, Eric Hangen, and Jack Northrup, *CDFIs Stepping into the Breach: An Impact Evaluation—Summary Report* (Washington: U.S. Department of the Treasury, CDFI Fund, August 2014), https://www.cdfifund.gov/Documents/CDFIs Stepping into the Breach Impact Evaluation Report.pdf.

about 4.7 times the rate of non-Hispanic White people.[6] Additionally, 35 percent of adults with household incomes less than $15,000 are at risk of serious illness if infected with COVID-19, whereas only 16 percent of adults with household incomes over $50,000 are at risk of serious illness from the pandemic.[7]

Economically, researchers have found that Hispanic and Black Americans have been hardest hit with wage and job losses due to the pandemic. For example, in April, 61 percent of Hispanics and 44 percent of Blacks reported that they or someone in their household had experienced job or wage loss due to the coronavirus outbreak, compared with 38 percent of White Americans.[8] Meanwhile, 39 percent of workers with household incomes under $40,000 reported a job loss in March 2020, compared to 19 percent of workers with household incomes between $40,000 and $100,000 and 13 percent with household income greater than $100,000.[9] In short, the very people and communities that CDFIs serve have been affected the most by the pandemic. CDFIs have stepped into the breach to serve those most vulnerable during the pandemic through

- financing, such as loans, lines of credit, and other forms of credit, and
- providing development services, such personal financial coaching, business technical assistance, homeownership counseling, data collection, and real estate technical assistance.

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Financing

CDFIs offer a variety of financing products: term loans, lines of credit, equity investments, and more. As mission-driven lenders, CDFIs have a history of partnering with various government agencies, such as the U.S. Department of Agriculture and the U.S. Small Business Administration (SBA).

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6. William F. Marshall, "Coronavirus Infection by Race: What's Behind Health Disparities," web page, https://www.mayoclinic.org/diseases-conditions/coronavirus/expert-answers/coronavirus-infection-by-race/faq-20488802.

7. Wyatt Koma et al., "Low-Income and Communities of Color at Higher Risk of Serious Illness if Infected with Coronavirus," *Coronavirus Policy Watch* (blog), Kaiser Family Foundation, May 7, 2020, https://www.kff.org/coronavirus-covid-19/issue-brief/low-income-and-communities-of-color-at-higher-risk-of-serious-illness-if-infected-with-coronavirus/.

8. Mark Hugo Lopez, Lee Rainie, and Abby Budiman, "Financial and Health Impacts of COVID-19 Vary Widely by Race and Ethnicity," *FACTANK* (blog), Pew Research Center, May 5, 2020, https://www.pewresearch.org/fact-tank/2020/05/05/financial-and-health-impacts-of-covid-19-vary-widely-by-race-and-ethnicity/.

9. Board of Governors of the Federal Reserve System, *Report on the Economic Well-Being of U.S. Households in 2019, Featuring Supplemental Data from April 2020* (Washington: Board of Governors, May 2020), https://www.federalreserve.gov/consumerscommunities/shed.htm.

As of May 30, 2020, 302 CDFIs had made over 93,000 PPP loans totaling more than $7 billion to small businesses and nonprofits.

Authorized under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) in March 2020, the Paycheck Protection Program (PPP) is an SBA loan program designed to incentivize small businesses and nonprofits to keep their employees on their payroll. Loans are made by private-sector lenders, including CDFIs, and are forgivable if certain conditions are met.[10] Initially, only bank and credit union CDFIs were eligible to make PPP loans. A few weeks later, eligible PPP lenders were expanded to include CDFI loan funds that participate in SBA's Community Advantage or 7(a) programs.

As of May 30, 2020, 302 CDFIs had made over 93,000 PPP loans totaling more than $7 billion to small businesses and nonprofits. To put this into perspective, between 2015 and 2017, CDFIs made approximately 50,000 loans totaling more than $5 billion to small businesses throughout the country.[11] Therefore, during the pandemic, CDFIs have shown a remarkable ability to scale up lending in a very short amount of time.

While some CDFIs had enough liquidity to scale up their lending, others relied on an infusion of capital. For the first time, CDFIs were able to access the Federal Reserve's Discount Window through the Paycheck Protection Program Liquidity Facility (PPPLF). Additionally, CDFIs received investment from the private sector. Examples of private investors making or increasing their investment in CDFIs during the pandemic include Bank of America, Goldman Sachs, Google, and US Bank.

In addition to corporate investors, CDFIs making PPP loans utilized the Federal Reserve's PPPLF to increase their capital so they could continue making loans. As of June 30, CDFIs had received over $1.9 billion in liquidity from the Federal Reserve's PPPLF.[12]

Community-Centered COVID-19 Recovery Program

Whether working with governmental agencies or the private sector, CDFIs continue to find innovative solutions to extend credit to marginalized individuals and organizations. For example, Community Reinvestment Fund (CRF), a CDFI

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10. U.S. Small Business Administration, "Paycheck Protection Program," web page, https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program#section-header-5.

11. CDFI Fund, https://www.cdfifund.gov/Documents/FY 2015 Data, Documentation, Instructions.zip. Note this figure includes data on CDFIs that received a CDFI Fund grant between 2012 and 2017.

12. Board of Governors of the Federal Reserve System, "Protection Program Liquidity Facility (PPPLF)," web page, https://www.federalreserve.gov/monetarypolicy/ppplf.htm, last modified July 28, 2020.

based in Minneapolis, is collaborating with several organizations on a solution to increase access to capital for small businesses and nonprofits in underserved areas.

The Community-Centered COVID-19 Recovery Program is a new collaborative effort led by CRF to increase access to capital and support for community-based businesses and nonprofits served by CDFIs across the country. This targeted recovery effort brings together aligned organizations with complementary capabilities across sectors, including CDFIs, banks, non-profits and governments at state, local, and national levels.

The following three basic principles and applicable action steps are guiding this effort:

- **Collaboration:** Garner resources from several organizations and distribute them into communities through a network of community-based lenders and CDFIs.
- **Infrastructure:** Utilize CRF's existing technology platforms to get support to small businesses and nonprofit organizations they are trying to serve.
- **Scale:** Maximize the potential of resources.

Project partners are proposing a national private fund that would purchase up to 100 percent of loans originating from CDFIs in their communities.[13] Individual CDFIs would provide flexible working capital to their existing customers and to new applicants, using a different recovery term from that of the PPP. For example, the CDFIs would provide businesses and nonprofits loans that could help them survive for the next 12 to 18 months before they start seeing revenue (see table 1 for a draft product design).

Table 1. Draft product design

Interest rate	0–18 months: 0–1% interest; 19 months-end of term (36–60 months): step-up in rate to 5–6%
Payment schedule	0–12 months: $10 principal payment to monitor account; 13–60 months: interest and principal payments with straight line amortization
Use of proceeds	Working capital, including payroll, utilities, rent, supplies, etc.
Recourse	No collateral or personal guarantee required
Fees	No fees to borrower (origination fee paid to lender by the fund)
Maximum loan amount	Lesser of $100,000 or 1.5 times average monthly revenue prior to COVID-19

Source: Community Reinvestment Fund.

13. Project partners include Calvert Impact Capital, CRF, and other national and local CDFIs.

By restricting the in-person support they are accustomed to providing, COVID-19 has created unique challenges for CDFIs to deliver services in new ways.

The overall goals are to provide small business owners with inexpensive capital and to make the CDFI lenders sustainable at the same time. Loan products may need to be customized based on the dynamics of the local market; however, there will be a minimum requirement of standardization so that these products can be delivered in a uniform manner into the fund.

CRF and its partners raised $100 million from investors, which helped fund a pilot model in Chicago called the Chicago Small Business Resiliency Fund. CRF worked with nonprofits, the city government, and a CDFI loan fund to build the Chicago model, which provides a lending program for struggling communities.

The Chicago Small Business Resiliency Fund launched in late March 2020, and the response was staggering: in less than a month, the program received nearly 9,000 applications requesting a total of $300 million.[14] Given the obvious demand for capital in struggling communities, CRF is currently pursuing private funding to set up a National COVID-19 Impact Fund & Platform.

Development Services

CDFIs are required to provide development services. Some development services that CDFIs offer, such as data collection and policy research, can be accomplished remotely without face-to-face interaction. Others, such as personal financial coaching, business technical assistance, homeownership counseling, data collection, and real estate technical assistance, have historically been conducted face-to-face. By restricting the in-person support they are accustomed to providing, COVID-19 has created unique challenges for CDFIs to deliver services in new ways.

Nevertheless, CDFIs continue to look for creative ways to support their clients. Some have turned to video calls as a way to deliver existing services. Others are providing entirely new services such as assisting small businesses with developing financial projections for when their businesses reopen amidst relaxing social distancing measures.

In a series of interviews, leaders from 10 CDFIs in Minnesota, Montana, and South Dakota reported to us that their organizations are fielding several calls a day from borrowers struggling with how to survive lost revenue and canceled programming, how to keep people employed, and even whether to close their doors entirely. The CDFIs we interviewed are also offering deferrals on loan

14. Chicago Small Business Resiliency Fund applications data for 3/31–4/18/20, via webinar recording, https://crfusa.com/publications/covid-19-recovery-program/.

payments for all of their borrowers. Other CDFIs approached deferrals on a case-by-case basis, expecting that federal or state aid might enable their loan clients to pay. Some CDFIs provided assistance to borrowers in need of modifying existing loan covenants to make it easier for borrowers to apply for and obtain additional financing.[15] Finally, the CDFI industry recognizes the pandemic as an opportunity to improve and expand upon the model for providing development services.

Although CDFIs have responded to the pandemic through increased small business lending and continued provision of development services, their ability to scale up their operations has been constrained in part by the level of services that CDFIs provide to clients. The high-touch nature of CDFIs, while providing tangible benefits to their clients, requires a level of investment in time and money that affects the size and reach of the CDFI industry.

Conclusion

The financial products and development services offered by CDFIs are designed to serve the needs of people and communities underserved by mainstream financial institutions. CDFI loan funds, banks, venture capital funds, and credit unions can all help people realize their full potential and contribute to thriving communities. And, CDFIs are important to economic survival and recovery from the pandemic. In the face of COVID-19 and its uncertainties, CDFIs continue to ensure that credit flow continues in vulnerable rural, urban, and low-income areas and in communities of color nationwide. The financing and development services CDFIs provide are designed to help small businesses, nonprofit service providers, and affordable housing providers sustain themselves through this economic downturn.

15. To satisfy lenders and qualify for the cheapest capital, some borrowers would often agree to maintain certain financial ratios that serve as indicators of liquidity, profitability, or capital adequacy. Some loan covenants may also include operational safeguards and guidance.

Analyzing Consumer Complaints for Emerging Risks during the Pandemic

by B.J. Bloom, Federal Reserve Board Division of Consumer and Community Affairs

The COVID-19 pandemic has led to sudden job losses for millions of Americans, which in turn has dramatically altered or disrupted their financial lives. Consumer complaints submitted to the Consumer Financial Protection Bureau (CFPB) in real-time provide an opportunity to better understand challenges and risks that consumers face in using financial products that are important for paying bills, managing debt, accessing credit, and receiving government benefits. Such data can also help researchers and agencies identify emerging economic trends and consumer risks.

Why Look at CFPB Data?

Although the Federal Reserve handles consumer complaints for the banks that the Federal Reserve supervises, the CFPB receives far more complaints each year, covering a wide range of financial services companies. For example, in 2019, Federal Reserve Consumer Help, the Federal Reserve's centralized system for handling consumer complaints about financial institutions, handled roughly 3,700 complaints while the CFPB received nearly 280,000 complaints. This higher volume of consumer complaints provides rich real-time insights into how consumers are faring in the midst of this highly dynamic situation.

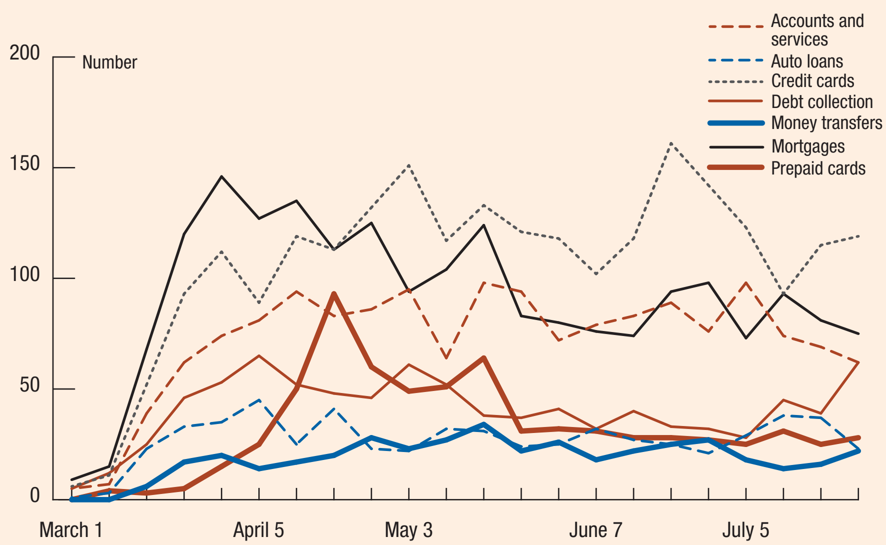
When consumers file a complaint with the CFPB, they are given a set of issues to choose from to categorize the nature of their complaint. They also submit a written narrative describing their complaint. To extract useful information from the written narratives, a Natural Language Processing (NLP) technique called "topic modeling" was used to categorize these complaints. Topic modeling converts the narrative text of the consumer complaints into data and uses an algorithm to create a series of topics as a set of words, then categorizes each complaint into one or more of these topics. The Federal Reserve's data-sharing agreement with the CFPB enabled access to real-time complaint data.[1] For this analysis, each topic model was updated weekly, which allowed for timely tracking of key trends of consumer experience during the pandemic and ensuing economic disruption to the lives of millions of U.S. consumers.

1. The CFPB does not share complaints related to credit reporting with other government agencies due to a provision of the Fair Credit Reporting Act, so this article does not contain an analysis of complaints about credit reporting.

In light of some limitations of the CFPB data, the purpose of this analysis was to use the data as a leading indicator of broad risks to consumers.[2] The complaints are not necessarily an indication of compliance shortcomings with consumer financial protection laws. The overall goal was to use these real-time data in a quickly changing environment to identify broad themes that help describe the experience of consumers in financial distress during these turbulent times. Using NLP to analyze real-time data provided important insights into economic trends before they were apparent in other data sources.

CFPB consumer complaints mentioning words associated with the pandemic or unemployment offer deep insight into how the pandemic has affected consumers. Figure 1 shows the weekly volume of consumer complaints, by product, that contain keywords related to the COVID-19 pandemic or unemployment. This does not represent the overall volume of complaints, but it

Figure 1. Number of pandemic-related CFPB complaints
March–July 2020 (weekly), by product



Source: Authors' calculations of CFPB consumer complaint data.

2. There are three main limitations to the data. First, consumer complaints are not a random sample of consumers, but rather a specific set of consumers who choose to go through the process of submitting the complaint to a federal regulator. They are thus not necessarily representative of the full set of U.S. consumers who use financial products. Second, just because a consumer complains about something does not mean that the financial institution violated a law or regulation. Third, while the CFPB does take steps to confirm a commercial relationship with the company, they cannot verify all of the allegations in each complaint.

does highlight those complaints likely related to the pandemic and shows how the nature of consumers' financial concerns may have shifted over time.[3]

Main Trends in the CFPB Consumer Complaints

Consumers who recently experienced a loss of income and are under financial stress appear to be particularly concerned about additional fees charged by their financial institution.

The rapidly changing nature of the pandemic and economic crisis means that the following trends may have changed by the time this article is published. However, as of late July 2020, five broad trends in CFPB complaints submitted between March 1 and July 26 emerged:

- Consumers reported several issues related to maintaining and accessing their currently available funds.
- Consumers complained about difficulty in managing their debts.
- Consumers complained about maintaining access to credit (such as credit cards).
- Consumers reported problems reaching customer service or receiving accurate information.
- Consumers complained about several problems related to receiving unemployment benefits on prepaid cards.

Trouble Maintaining and Accessing Currently Available Funds

The outbreak of COVID-19 in the U.S. led to state-level stay-at-home orders beginning in mid-March. As millions of Americans experienced a sudden loss of income, consumers increasingly relied on sources of short-term liquidity, such as savings and credit cards. The initial analysis focused on these short-term liquidity products. As figure 1 demonstrates, many consumers immediately complained about short-term liquidity products in the initial phase of the pandemic.[4]

Consumers who recently experienced a loss of income and are under financial stress appear to be particularly concerned about additional fees charged by

3. Out of the approximately 57,700 complaints from March 1 to July 26, 2020, approximately 8,100 complaints were related to the pandemic or unemployment (roughly 15 percent). This is an imperfect estimation since these search terms may have missed some complaints and included others not related to the pandemic. Note that these numbers exclude complaints about credit reporting but include all firms in the CFPB database.

4. The sharpest increase in complaints related to the pandemic occurred for Accounts and Services (checking and savings accounts), Credit Cards, and Mortgages. Mortgages are not short-term liquidity products but they are generally the largest asset a consumer owns, and it's clear that many consumers were concerned about their mortgages in addition to their short-term liquidity products.

their financial institution. Many consumers complained specifically about overdraft fees, which are one of the most common complaints submitted to the CFPB. Prior research has indicated that a small number of consumers account for a disproportionate share of overdraft fees.[5] The particular increase in complaints about overdraft fees may reflect a broader population of consumers encountering these fees as their bank account balances grow smaller due to a loss of income. Similarly, consumers complained about late fees for credit cards or money transfer fees in their depository accounts.

Other consumers complained of difficulty accessing their funds due to deposit holds on their accounts, trouble logging into their online account, and problems setting up mobile banking applications. While deposit holds are common at every bank, consumers under financial stress who engaged in potentially uncommon transactions, such as large balance transfers, were frustrated by any delay in access to their funds.

Problems Managing Debt Payments

While consumers were concerned about making their monthly debt payments for many products (credit cards, auto loans, small-dollar loans, etc.), for consumers who experienced a sudden loss of income, making their monthly mortgage payment was of particular concern. These complaints increased the fastest of any product in early March (see figure 1). Many consumers complained about the options they were offered when they called their mortgage servicer to try to defer their monthly payment. In particular, many consumers said that their servicer offered to put them into forbearance for a period of time (typically 90 or 120 days) during which they would not have to make monthly payments. However, many consumers were told that they would be required to pay the full amount accrued during forbearance as a balloon payment even though that is not the case for borrowers with government-backed mortgages.[6] Many consumers who experienced a sudden loss of income found this option to be impractical and unaffordable.

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5. In 2017, the CFPB found that 9 percent of consumers account for 79 percent of all overdraft and NSF fees. See *Data Point: Frequent Overdrafters* (Washington: CFPB, August 2017), https://files.consumerfinance.gov/f/documents/201708_cfpb_data-point_frequent-overdrafters.pdf.

6. The Coronavirus Aid, Relief, and Economic Security Act provided relief to consumers who have mortgages backed by government-sponsored enterprises (GSEs), which include Fannie Mae and Freddie Mac, or by certain federal government agencies (the Federal Housing Administration, the U.S. Department of Agriculture, and the Veterans Administration). First, the lender cannot foreclose on any consumer with a GSE-backed or federally backed loan until August 31, 2020. Second, consumers experiencing hardship can request and obtain a forbearance for up to 180 days and can request an extension for an additional 180 days. In addition, the Federal Housing Finance Agency has established a new payment deferral option that does not require a balloon payment.

The most common complaint across all consumer financial products has been consumers having trouble resolving issues over the phone with their financial firm.

Problems with Credit Access

Many consumers have complained about an unexpected decrease in their credit limit or an unexplained closing of a credit card account that they say had been in good standing. These unexpected changes can often be quite dramatic. For example, one consumer reported the reduction of an $8,000 credit limit to $500. Other consumers complained that their card issuer lowered their credit limit to the current balance on their credit card. Consumers expressed confusion over why their credit limits suddenly decreased so significantly and were concerned about being able to meet their short-term liquidity needs. Consumers also complained that these sudden changes to their credit limit increased their credit utilization, which in turn led to a decrease in their credit score. For some consumers, this made it more difficult to apply for additional credit.

Customer Service Problems

The most common complaint across all consumer financial products has been consumers having trouble resolving issues over the phone with their financial firm. Companies were inundated with calls to customer service, and, in some cases, call centers closed, making it difficult for consumers to communicate with their firms. Consumers reported long wait times and dropped calls. Some firms redirected consumers to online chat and email resources, but response times sometimes took up to a week.

In addition to having difficulty reaching customer service, consumers complained about inaccurate information once they did get through on the phone. Many consumers complained that what they were told over the phone was not reflected in their account. For example, many consumers were told that the bank waived a late fee, but later saw that charge still reflected in their account.

Trouble Accessing Government Benefits via Prepaid Card

As the pandemic unfolded and many consumers lost their jobs, millions of Americans filed for unemployment benefits. Some consumers chose to receive their unemployment benefits via a prepaid card; in some states, prepaid cards were the only option. As a result, there was a significant increase in the number of newly issued prepaid cards distributing unemployment benefits and a

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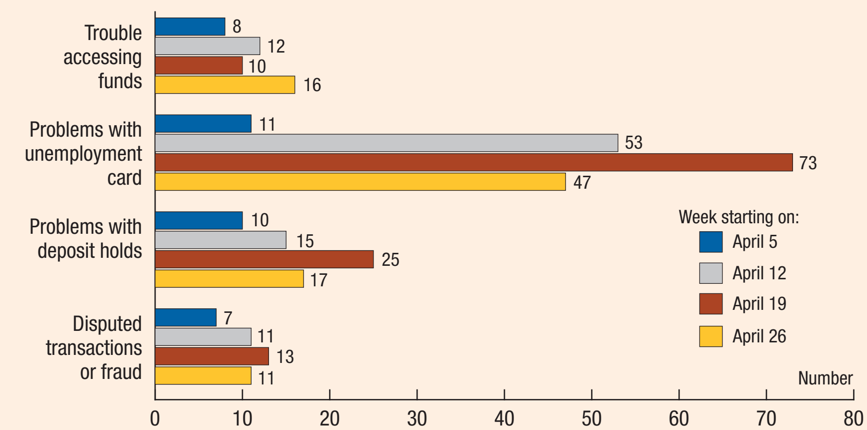
Consumers with loans not backed by a GSE or federal agency do not necessarily have these options. In addition, early in the pandemic there was significant confusion about these protections among mortgage servicers, so even some consumers with GSE-backed loans may have been told their only option was the balloon payment option.

subsequent increase in the number of complaints about prepaid cards, most of which related to these unemployment benefits.

Figure 2 shows the dramatic increase in complaints about prepaid cards that distributed unemployment benefits, especially compared to other topics related to prepaid cards. Many consumers complained that they knew there was money deposited into their unemployment account, but they had not yet received their card. These consumers also reported difficulty reaching customer service to resolve the problem. Some consumers complained that receiving a replacement card required having information about the card, such as the card number or PIN code, which they never received. Other consumers reported that the customer service representative had incorrect personally identifiable information associated with their account. While there were some complaints about prepaid cards in March, the major increase occurred in April (see figure 1 and figure 2). This may reflect a delay between when a consumer lost their job and when they filed for unemployment benefits.

Figure 2. Number of CFPB prepaid card complaints

April 2020, by topic



Note: Key identifies bars in order from top to bottom.

Source: Author's Natural Language Processing analysis of CFPB consumer complaints.

Notably, even in the two years before this crisis began, there had been an increase in consumer complaints about other government benefits distributed via prepaid card, such as Social Security benefits and veterans' benefits. These complaints were mostly related to fraud. Given this past trend, federal and state regulators should carefully monitor this development.

Conclusion

As the pandemic unfolded, real-time CFPB consumer complaint data were used to supplement the standard data sources analysts at the Federal Reserve use to monitor the consumer financial markets, which are often reported on a monthly or quarterly basis. Using NLP techniques allowed for analysis and better understanding of the underlying topics consumers complained about as the pandemic led to a sudden loss of income for millions of Americans. This analysis showed how valuable interagency cooperation and data sharing can be to understanding consumer financial markets in new ways. In addition, NLP techniques can allow regulators to unlock rich sources of data that may have been previously underutilized.

The Initial Impact of COVID-19 on Communities and the Entities Serving Them

by Heidi Kaplan, Federal Reserve Board Division of Consumer and Community Affairs

The onset of the COVID-19 pandemic and the implementation of policies intended to slow its spread are deeply affecting communities across the nation, particularly communities of color and low- and moderate-income (LMI) communities. As the agency tasked with promoting the health of the U.S. economy and the stability of the U.S. financial system, the Federal Reserve has closely monitored these effects.

In March 2020, as mandatory closures quickly swept through the country in response to COVID-19, the Federal Reserve sought additional sources of information on challenges facing communities and the governments, businesses, financial institutions, and nonprofit organizations that serve them.[1] As part of this effort, it fielded a brief "Disruption Survey" between April 8 and April 10, 2020, to monitor how COVID-19 is affecting LMI communities nationwide and to identify promising interventions. The respondents represented a variety of entities, including nonprofits (64 percent), government agencies (13 percent), private-sector entities (7 percent), financial institutions (5 percent), and other entities (11 percent).[2]

Respondents represented work on a wide range of issues, including housing (44 percent), workforce development or jobs (36 percent), small business (31 percent), and consumer finance (16 percent). Some organizations work on more than one community issue. The initial survey yielded 3,899 responses collected through a convenience sampling method in which the 12 Federal Reserve Banks and Board of Governors distributed the survey to their stakeholders. Going forward, the Federal Reserve plans to field a version of this survey every eight weeks.

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1. While this survey serves as an important baseline for the impacts of pandemic on these organizations, follow-up information is critical for understanding long-term effects. The second and third surveys were fielded in June 2020 and August 2020, respectively. The results are available at https://www.frbatlanta.org/community-development/publications/national-covid-19-survey.aspx. That page will continue to be updated as new results are released.

2. Most respondents (72 percent) identified themselves as "direct service providers," such as lenders, workforce trainers, and housing counselors. The remainder were "intermediaries," such as funders and umbrella organizations.

Given the financial stress as well as the health and social distancing requirements placed on many organizations . . . respondents expect a diminishing ability to serve their clientele if the current conditions persist.

In April 2020, the Federal Reserve provided a summary of the results in a report titled *Perspectives from Main Street: The Impact of COVID-19 on Communities and the Entities Serving Them*.[3] This article highlights many of the results included in the report and offers additional information collected in the open-ended questions.

Impact of COVID-19

Organizations

The survey revealed that organizations serving LMI communities were experiencing a high level of disruption by April 10, 2020. More specifically, 72 percent of respondents reported that their organizations experienced a "significant disruption," while an additional 25 percent reported "some" level of disruption. The level of organizational disruption varied by type of entity.

Nonprofit entities were the most likely to report a significant disruption (74 percent), followed by private industry (73 percent), government agencies (66 percent), and financial institutions (54 percent) (figure 1).[4]

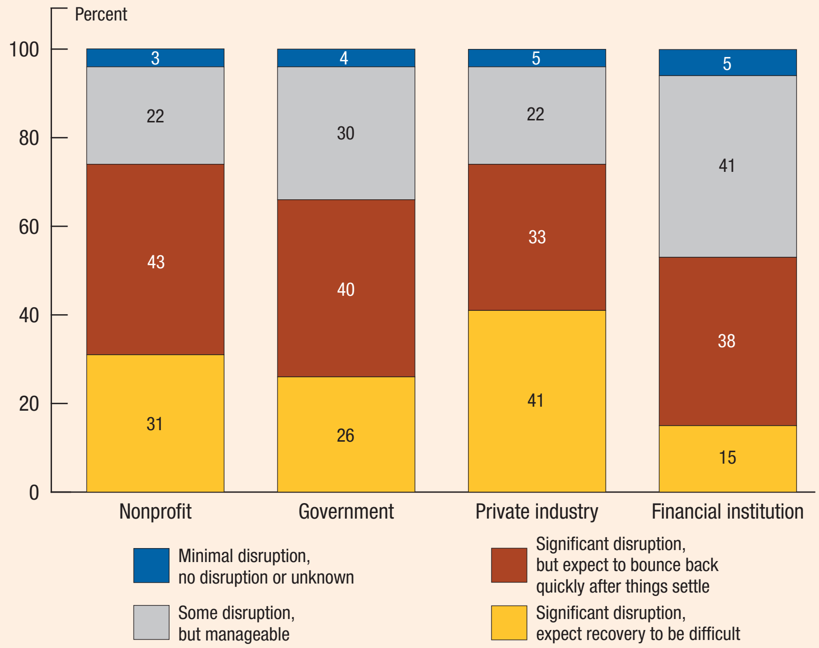
Many respondents anticipated that their organizations can operate for six months or less in the current environment before exhibiting financial distress. One-quarter of respondents said their organization could operate for less than three months under current conditions, and 26 percent estimated that their organization could operate for only three to six months. Forty-three percent of respondents reported that their organization would not experience financial distress for six months or more or that they are not sure how long it would take. Few organizations (6 percent) stated that the "current environment does not impact our financial health."

Given the financial stress as well as the health and social distancing requirements placed on many organizations, the survey showed that respondents expect a diminishing ability to serve their clientele if the current conditions persist. More specifically, 66 percent of respondents have experienced, or expect to experience, an increase in the demand for their organization's services. At the same time, 55 percent experienced, or expect to experience, a decrease in their ability to provide support to their clients.

3. See https://www.frbatlanta.org/-/media/documents/community-development/publications/federal-reserve-system-resources/05/04/perspectives-from-main-street-the-impact-of-covid-19-on-communities.pdf.

4. "Private Industry" indicates for-profit organizations other than financial institutions.

Figure 1. At this point in time, what level of disruption is COVID-19 having on the entity you represent?



Note: This analysis includes 3,473 organizations. This analysis does not include 426 respondents who identified their organization type as "Other" or did not respond. Here and in subsequent figures, percentages may not sum to 100 due to rounding. Key identifies bars in order from top to bottom.

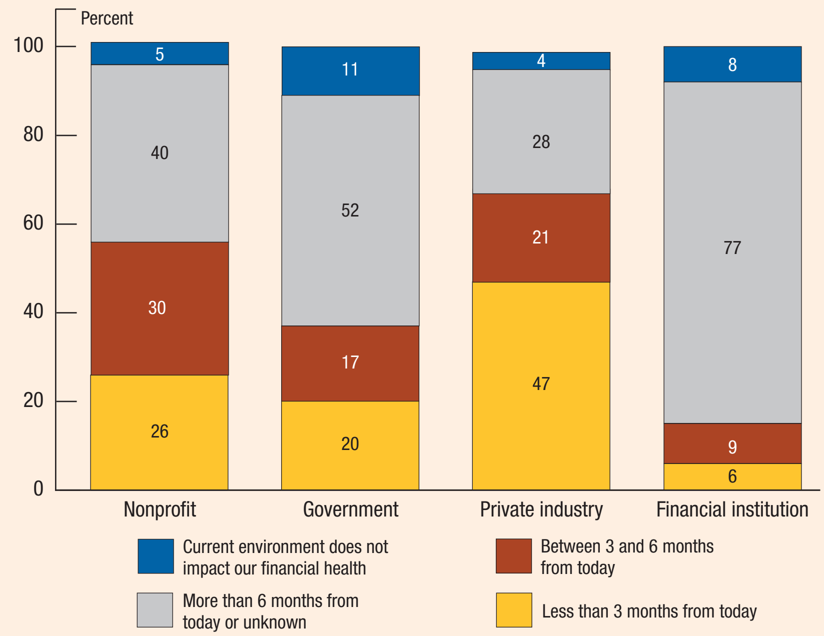
Source: The Federal Reserve System, *Perspectives from Main Street: The Impact of COVID-19 on Low- to Moderate-Income Communities* (April 2020).

According to the survey, the ability to withstand financial distress varied across types of organizations. Forty-seven percent of respondents representing private industry reported their organizations will experience financial distress in less than three months, compared to 26 percent of nonprofits, 20 percent of government agencies, and 6 percent of financial institutions (figure 2). Some of the differences across organizational types may be driven by their source of funding. For example, nonprofits that rely on stable philanthropic or government funding may be less sensitive to swift economic changes.

LMI Communities

The survey revealed that LMI communities, served by the organizations described above, are experiencing a high level of disruption due to COVID-19. Nearly all respondents (91 percent) reported that their communities experienced a "significant disruption." However, respondents' expectations about recovery varied geographically. Respondents that serve urban areas were the most likely to expect their recovery to be difficult (75 percent), followed respondents

Figure 2. How many months can the entity you represent operate in the current environment before exhibiting financial distress?



Note: This analysis includes 3,473 organizations. This analysis does not include 426 respondents who identified their organization type as "Other" or did not respond. Key identifies bars in order from top to bottom.

Source: The Federal Reserve System, *Perspectives from Main Street: The Impact of COVID-19 on Low- to Moderate-Income Communities* (April 2020).

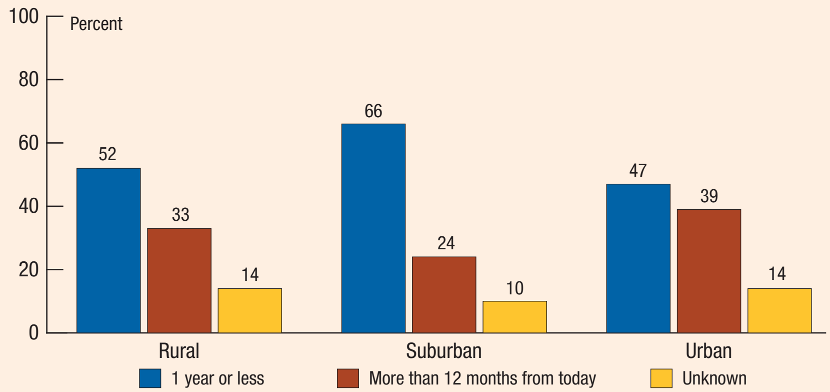
who serve rural areas (64 percent, and those who serve suburban areas (56 percent).[5]

As noted, many respondents expect it will be challenging for their communities to return to the conditions experienced prior to the pandemic. More than half (51 percent) reported that it would take a year or less to recover, 35 percent said it would take more than 12 months or more to recover, and 14 percent were unsure how long it would take for their communities to return to their prior conditions.

Again, geography is a factor in the level of community disruption. Respondents that serve suburban communities were most likely to anticipate a quick recovery of a year or less (66 percent), followed by rural communities (52 percent), and urban communities (47 percent) (figure 3).

5. This analysis includes the 2,391 organizations that serve only an urban, a rural, or a suburban community. Organizations that serve multiple geographies are not included in this analysis.

Figure 3. How long do you expect it will take for the communities you serve to return to the conditions they were experiencing before the impact of COVID-19?



Note: This analysis includes the 2,391 organizations that serve only an urban, a rural, or a suburban community. Organizations that serve multiple geographies are not included in this figure. Key identifies bars in order from left to right.

Source: The Federal Reserve System, *Perspectives from Main Street: The Impact of COVID-19 on Low- to Moderate-Income Communities* (April 2020).

Promising Programs and Policies

Reactions to Federal Relief

The federal government has provided stimulus packages that offer financial relief to businesses and households affected by COVID-19. When asked which federal programs are helping to minimize financial instability and improve resilience during the pandemic, many respondents commented on the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). About 60 percent of the comments regarding the CARES Act were favorable, finding that the stimulus is providing needed support to communities. One-third of the comments showed a mixed reaction to the CARES Act, and the remainder contained negative reactions toward the CARES Act.

The respondents provided feedback on a variety of programs authorized by the CARES Act, as well. While many respondents provided hopeful comments about the support from the Paycheck Protection Program (PPP) and expanded Unemployment Insurance (UI) programs, other respondents were concerned about the complicated application processes needed to access these programs.

Finally, some respondents expressed great concern that the existing legislation is insufficient. For example, a respondent stated, "federal and state efforts around food instability and unemployment benefits are helpful, however we need more assistance for basic needs like rent and utilities. Landlords cannot evict for nonpayment, which is good on the one hand, but bad for the landlord."

Promising Local Programs

Nearly 80 percent of respondents reported that local efforts were underway to minimize household and business financial instability and improve resilience in their communities.

Nearly 80 percent of respondents reported that local efforts were underway to minimize household and business financial instability and improve resilience in their communities. Respondents praised local partnerships and collaborative efforts that were working to address many of the new challenges and disruptions. While most respondents provided broad comments about these efforts, some respondents provided specific observations about local initiatives:

- **COVID-19 general relief efforts.** Respondents from across the country described local, emergency relief funds supported by corporate, philanthropic, and government cooperation. One respondent described a partnership of organizations that developed a "seamless application process" to relieve nonprofits of the burden of multiple, cumbersome applications for funding.
- **Food insecurity.** Respondents noted local initiatives sponsored by school districts, food banks, and religious organizations that focus on providing meals to families, the elderly, and disabled individuals. One respondent highlighted a local partnership between a farmers union, a nonprofit, and the state Department of Agriculture to establish alternative channels for food distribution.
- **Funds to support small businesses.** Many communities are working to identify sources of financial support for small businesses affected by the pandemic. While the federal programs appear to be the primary source of capital, in some cases, local entities have stepped up to support their community businesses. For example, one respondent described a grants and loans program being offered by a "CDFI-led effort to build a multi-phase emergency fund for small businesses" that "will be funded by multiple public, private, and community crowdfunding efforts."
- **Technical assistance for small businesses.** Some organizations are collaborating to provide technical support to small businesses, with a particular focus on helping small businesses navigate the federal programs.
- **Employment.** As unemployment remains elevated, a few communities have efforts underway to re-deploy workers in both temporary and permanent positions. For example, in one community, a local restaurant owner has partnered with a supermarket chain "to transition their work staff between organizations during this time, resulting in more than 700 individuals sustaining employment and responding to the decreased operational function of restaurants and increased demand on grocery stores."

While many respondents provided promising examples of local efforts to mitigate the impact of COVID-19, a sizeable group of respondents noted concerns. Some respondents provided comments about the distribution of limited resources, noting, in particular, a lack of provisions for rural communities, people of color, immigrants, and other vulnerable populations. A few respondents were unsatisfied with the short-term nature of the local efforts, reflected in statements such as "much of this work is just a bandaid [sic] for the instability that is occurring."

Conclusions

COVID-19 is having a significant impact on LMI communities and the organizations that support them. Many respondents expect the demand for their organizations' services to increase, while their financial support decreases. In fact, 25 percent of respondents anticipate their organization could operate for less than three months under current conditions, and 26 percent estimated that their organization could operate for three to six months. While the respondents acknowledge the positive effects of the current stimulus, the survey indicates that additional resources for the organizations that serve LMI communities could bolster their resilience and decrease the impact of the pandemic in these communities. The survey also reveals a noteworthy list of promising programs cropping up at the community level. Sharing these effective programs can help communities learn from each other's experiences.

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