What Do Washington, DC, Residents Need to Improve Their Financial Security?

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Washington, DC, is a city of contrasts with respect to the financial security of its residents. While some residents are among the most financially secure in the country, others find it hard to make ends meet. High housing costs, unequal opportunity, and economically segregated neighborhoods make it a challenge for some people to feel financially secure and to weather unexpected expenses.

We spoke with DC residents in a series of focus groups, as well as city nonprofit and government practitioners, to learn more about residents' financial security. We asked residents about their financial challenges and about the financial services and products they like, use, and need. More details are available in "What Would Help Washington, DC, Residents Have Greater Financial Security?"

BARRIERS TO FINANCIAL STABILITY

Three challenges strain DC residents' attempts to improve their financial security.

- **Distrust in financial institutions is prevalent.** Most residents in the focus groups were banked, reflecting the FDIC's finding that just 8 percent of DC residents were unbanked in 2017. But many people expressed distrust of large financial institutions resulting from their own and others' negative experiences. Consequently, some participants reported switching banks or credit unions after bad experiences or pulling money out of their accounts to save it at home.
- **Residents struggle to build up savings.** Most residents reported difficulties saving money for emergency funds and long-term financial goals for various reasons, including housing or transportation costs and financial disruptions.
- **Credit access and understanding is limited.** Despite an interest in improving their credit scores, respondents did not necessarily know the right information or the best path to achieve this goal. And, not all residents can access revolving credit (most commonly accessed via credit cards). In less affluent areas of the city like Wards 7 and 8, less than half of residents have revolving credit.

"All I see is after I pay my bills, I don't have anything. You know, a couple of hundred dollars is nothing, really. Because you're takin' that money and buyin' food. After you pay your utilities and your rent, it's like month to month that you're livin' just to live."—Washington, DC, resident

WHAT AFFECTS THE FINANCIAL HEALTH OF DC RESIDENTS?

Seventy-seven percent of low-income DC residents are **housing cost burdened**, meaning they spend more than 30 percent of their household income on housing.

The **median credit score** in DC neighborhoods where most residents are white is 739—a prime score. In neighborhoods where most residents are of color, it is 618—below the national average and below prime.

Higher shares of residents with **student loan debt** in collections live in zip codes where most residents are of color. Among all borrowers in DC, the median monthly student loan payment is $242.

DC has **higher than average income inequality** among its residents. This suggests two financial health experiences in the city: more stability for white and middle- and upper-income residents and less stability for residents of color and lower-income residents.

STRATEGIES TO BENEFIT RESIDENTS' FINANCIAL SECURITY

Focus group participants identified ideas for programs and products to help them improve their financial health.

Boost awareness of existing programs and products. The financial assistance ecosystem in DC includes very few small-dollar loan products. There is a need for additional safe and affordable products in the ecosystem, along with help promoting existing programs and products.

Partner with trusted organizations to reach more consumers. Residents indicated they were more likely to trust a loan product offered by a local nonprofit or the DC government. Financial institutions could provide the underlying design and infrastructure for administering small-dollar loans but offer them through a trusted partner.

Offer flexibility in credit products. Because residents' financial circumstances can vary greatly from week to week, fixed payment amounts and increments are challenging. Residents suggested several ways to make products more flexible, including allowing payment amounts to vary based on ability to pay, letting borrowers determine the length of time for repayment, and including a grace period at the start of the loan.

Avoid tying loans to designated purposes. Designing a loan product for a specific purpose may prove unsuccessful. Focus group participants shared diverse needs for money, including car repairs, housing emergencies, medical bills, and legal fees. Flexibility in loan purposes would expand access to more residents.

Weigh tradeoffs in setting appropriate loan amounts. Although most residents prefer to borrow small amounts, financial emergencies can reflect broader financial needs. Respondents told us that a larger loan amount repaid over a longer period might give them more leeway to regain their financial footing. But borrowers of larger loans might feel pressure to use some of the loan to help friends or relatives facing financial crises. These varying circumstances mean there is no one-size-fits-all loan amount.

Use loan products as an entry point to financial counseling, credit-building, and regular savings. Financial education can be especially effective when the related financial choices are most relevant. Experts we interviewed advised pairing loans with counseling to help borrowers manage their debt and prepare for future financial emergencies.

Create a DC financial empowerment center targeted to populations of interest. DC could better serve returning citizens, those transitioning off government assistance and housing programs, and immigrants by offering financial counseling, loan products, and programs targeting debt and housing expenses.

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