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**Office of Financial
Empowerment**

Office of Financial Empowerment | January 2024 SMART Act Report

Introduction

The Office of Financial Empowerment (“OFE” or “Office”) was created through 2021 legislation to grow the financial resilience and well-being of Coloradans through community-derived goals and strategies. The statute calls for the Department of Law to annually report “*on the state of affordable banking access in Colorado, the activities of the Office of Financial Empowerment, and local partnerships in implementing the objectives of the office as a part of its presentation*” under the SMART Act. C.R.S. § 24-31-1102. The statute provides that the report shall address “*access to secure, safe, and affordable financial products, including: (a) geographic and racial equity considerations; (b) an examination of existing financial products regulated by the state of Colorado and other financial products that are being offered within Colorado; (c) recommendations for reforms that would encourage greater access to secure, safe, and affordable financial products or would provide better protections to consumers; and (d) an examination of local financial empowerment work and the impact on economic security and mobility of residents.*”

In January 2023, OFE provided its first SMART Act Report to the Joint Committee on the Judiciary, through which it detailed the state of financial well-being for Coloradans, using the latest local and national data available. Because many of the data points referenced report are updated every two to three years, this report builds upon, but provides few new statistics. OFE will continue to track data and trends across the focus areas referenced in this report and will provide updates as available in future reports.

This report also details the OFE’s progress towards establishing the Office, building relationships across the state, and launching new programs and initiatives. For example, the OFE focused heavily on stakeholder engagement activities in 2023, including by launching two new subcommittees of the Office’s Financial Empowerment Council that focus on Community Voices, and Financial Coaching and Counseling, respectively. In addition, over 375 unique individuals from over 250 different organizations registered for at least one of the five virtual and in-person events that OFE organized and hosted over the course of the year. This represents the continued growth and interest in our financial empowerment community. In addition, this report will describe the Department of Law’s forthcoming \$3M investment in financial coaching and counseling services. The OFE is looking forward to supporting a cohort of grantees in building capacity for service delivery, capturing best practices, and finding opportunities to connect Coloradans to these impactful services.

Financial well-being: turbulent times for Coloradans

As described in OFE's January 2023 SMART Act Report¹, financial well-being for many Colorado households was buoyed by pandemic era relief. In Colorado and across the country, some communities were able to pay down debt, build savings, and improve credit scores. Between 2019 and 2022, the average U.S. household's wealth increased between 23-37%², due to stimulus payments, declines in consumption, and rising home prices.³ Higher net worth households gained the most wealth during the pandemic, while low-income households experienced modest gains, often by reducing their debt.⁴ However, national financial health data trends indicate these gains have eroded. Since 2021, the share of households classified as being "financially vulnerable" has been increasing, with notable and disproportionate increases amongst Black and Latino households as well as those under the age of 35.⁵ Another study conducted in 2022 by the Federal Reserve found U.S. Households' self-reported financial well-being to be "among the lowest levels observed since 2016."⁶ Inflation and housing costs are noted as drivers of the decline in financial well-being, counterbalancing some positive trends in the labor market.

As a result of decreasing financial well-being, households are saving less⁷ and borrowing more across different types of credit products.⁸ The return to repayment of federal student loans in the fall of 2023 may further constrain household budgets in the months and years to come.

With rising levels of financial instability disproportionately impacting low and moderate-income households, communities of color, and other financially vulnerable demographics, wealth and asset building goals remain out of reach for many. State and national policy and advocacy responses have included measures to address housing costs, expand tax credits for working families, and curb predatory lending and debt collection practices, and consider national strategies for financial inclusion.⁹

Financial services landscape: progress and opportunities

Banking access

Six percent of Coloradans are without a checking or savings account as reported by the FDIC using data collected in 2021.¹⁰ This represents one of the higher rates of unbanked households across the country. At the Bank On Colorado Financial Inclusion Summit hosted by the Office of Financial Empowerment in July 2023, Attorney General Weiser highlighted the barriers to banking access and the opportunities build financial inclusion and trust in financial institutions within unbanked communities. "The data is clear that Black, Hispanic, and Indigenous people are disproportionately unbanked and underserved

¹ <https://coag.gov/app/uploads/2023/02/OFE-Smart-act-report-2023.pdf>

² <https://www.federalreserve.gov/publications/files/scf23.pdf>

³ <https://www.pewresearch.org/race-ethnicity/2023/12/04/wealth-surged-in-the-pandemic-but-debt-endures-for-poorer-black-and-hispanic-families/>

⁴ *ibid*

⁵ <https://finhealthnetwork.org/wp-content/uploads/2023/09/2023-Pulse-U.S.-Trends-Report-Final.pdf>

⁶ <https://www.federalreserve.gov/publications/files/2022-report-economic-well-being-us-households-202305.pdf>

⁷ *ibid*.

⁸ <https://finhealthnetwork.org/wp-content/uploads/2023/06/FinHealth-Spend-Report-2023.pdf>

⁹ <https://www.aspeninstitute.org/of-interest/aspen-and-partners-call-for-national-financial-inclusion-strategy/>

¹⁰ <https://www.fdic.gov/analysis/household-survey/>

by mainstream financial institutions. That’s a clarion call for action and exploration as to how we can build a more inclusive and equitable banking system.”¹¹

While many Coloradans still remain unbanked, financial institutions are gradually moving towards offering products and services that better meet the needs of lower-income communities. For example, overdraft revenue is declining nationwide, yet overdraft charges are still paid by financial vulnerable households.¹² More and more financial institutions are joining the Bank On movement and offering safe, affordable, and nationally-certified checking accounts. Over 400 Bank On Accounts are now available across the country, including 30 available in Colorado. The OFE-led Bank On Colorado coalition along with partners Bank On Pueblo County and Bank On Denver continues to grow participation and promote these accounts across the state.¹³

In addition to expanding access to safe and affordable accounts in 2023, Bank On Colorado has also been exploring the root causes and cross-sector solutions to address banking barriers such as trust¹⁴, cultural resonance of account services, and economic abuse. For example, the Office gathered feedback from its Community Voices and Bank On Steering Committees to inform a comment letter to the Office of the Comptroller of the Currency regarding public trust in banking.¹⁵

Consumer lending landscape and credit building

Amidst rising cost of living and the end of pandemic-era relief, consumer debt and reliance on credit to cover household expenses has begun to increase in Colorado.¹⁶ This aligns with the declining number of households who say that they would be able to cover a financial emergency using cash or cash equivalents.¹⁷ And while credit card and auto loan debt are rising sharply, many households without access to these types of products also increasingly rely on Buy Now Pay Later services as well as higher-cost unsecured installment loans from retail lending establishments to meet household needs.¹⁸ Finally, repayment of federal student loans resumed in October 2023, impacting hundreds of thousands of Coloradans.

With a focus on protecting consumers from high-cost lending and harmful debt collection practices, the Colorado legislature passed several bills during the 2023 session designed to curb products and services that exacerbate cycles of debt and credit problems. These include new protections relating to collection and credit reporting of medical debt, as well as changes to consumer lending laws that reduce the cost of small-dollar loans and restrict out-of-state state-chartered banks from importing interest rates that exceed Colorado’s caps.

The Household Financial Recovery Pilot Program, created by HB22-1359 and housed in the Colorado Department of Treasury will provide responsible small-dollar loan products to Coloradans beginning in 2024.¹⁹ The OFE intends to work with the Treasury to learn from the progress of the pilot program, while also identifying other safe and responsible small-

¹¹ <https://coag.gov/blog-post/financial-inclusion-summit-remarks-7-25-23/>

¹² <https://finhealthnetwork.org/research/overdraft-trends-amid-historic-policy-shifts/>

¹³ Learn more at <https://coag.gov/bankon/>

¹⁴ <https://www.urban.org/urban-wire/building-trust-financial-system-key-closing-racial-wealth-gap>

¹⁵ <https://www.regulations.gov/comment/OCC-2023-0003-0016>

¹⁶ <https://www.bellpolicy.org/2023/06/16/debt-lending-landscape-in-colorado/>

¹⁷ <https://www.federalreserve.gov/publications/files/2022-report-economic-well-being-us-households-202305.pdf>

¹⁸ <https://finhealthnetwork.org/wp-content/uploads/2023/06/FinHealth-Spend-Report-2023.pdf>

¹⁹ “Colorado Household Financial Recovery Program Annual Report.” November 1, 2023. Colorado Department of the Treasury.

dollar loan options that exist in Colorado, such as those offered by non-profit lenders and Community Development Financial Institutions.

Spotlight: expanding financial coaching and counseling services

Free, professional financial coaching/counseling is a promising financial empowerment strategy. Financial coaching and counseling services help individuals improve their financial capability, address challenges, and achieve financial health and asset-building goals. These strategies are successful because they are tailored to individuals' needs and circumstances, are culturally responsive, outcome and data driven, delivered by trained professionals, and can be integrated into a wide array of public service programs.

However, the OFE believes that free financial coaching and counseling services are not currently widely available, known, or accessible to all Coloradans. Thus, OFE identified an opportunity to increase capacity and support resource development of financial coaching and counseling programs in order to make these services more readily available across the state. In August 2023, OFE launched a competitive Request for Applications (RFA) to solicit grant applications from government and non-profit organizations aspiring to launch or expand financial coaching or counseling programs that serve Colorado residents.

The OFE received 29 applications with funding requests totaling almost \$13 million, underscoring the need for these services across the state. In 2024, the Department of Law will announce funding awards totaling a \$3 million investment in expanding financial coaching and counseling services, and work with grantees and other partners to make these programs more widely known and utilized across the state.

Wealth building: emerging strategies

Colorado households' ability to build wealth and assets long-term is interconnected with day-to-day household financial stability. Thus, it is no surprise that modest pandemic-era gains in net worth for communities who had negative or zero net worth prior to COVID-19 were quickly erased with rising levels of financial instability in 2022 and 2023.²⁰ Looking at national level data, the racial wealth divide remains stark. Despite some narrowing of the gap between the wealth of White and non-White households, typical White families still have approximately five and six times as much wealth as their Hispanic and Black counterparts, respectively.²¹

As the barriers to household wealth-building are numerous and compounding, so too are the potential solutions. In its efforts to expand community wealth-building strategies²², OFE is exploring the various programmatic and policy opportunities that it is best positioned to engage with, as well as which solutions have the most potential to impact underserved communities. The OFE has begun to convene stakeholders, including OFE's advisory council, in dialogue about how to identify and prioritize impactful wealth-building strategies.

Recommendations and Conclusion

In 2023 the OFE has made progress towards two focus areas, expanding access to safe and affordable banking and financial coaching and counseling services. The Office submits the

²⁰ <https://www.pewresearch.org/race-ethnicity/2023/12/04/wealth-surged-in-the-pandemic-but-debt-endures-for-poorer-black-and-hispanic-families/>

²¹ <https://www.federalreserve.gov/econres/notes/feds-notes/greater-wealth-greater-uncertainty-changes-in-racial-inequality-in-the-survey-of-consumer-finances-20231018.html>

²² C.R.S. § 24-31-1102.

following recommendations for how Colorado can prioritize the financial resilience and well-being of residents, and in particular for those communities that have faced historic and systemic barriers to financial security.

- Continue efforts to increase the number of households using safe and affordable banking products. Banks and credit unions can become certified to offer a Bank On nationally certified product and actively participate in Bank On Colorado and/or local Bank On coalitions. State and local government partners, along with nonprofit and community organizations can contribute to expanding banking access by establishing and expanding the work of local coalitions, and by promoting Bank On amongst the communities that they serve.
- Encourage banks, credit unions, non-profit loan funds, and other financial services companies to offer forms of affordable and responsible small-dollar credit that meet household cashflow needs, while also offering opportunities for building credit and providing opportunities for graduation to other forms of asset-building financial products.
- Support and promote access to high-quality professional financial coaching and counseling services that support the financial capability and asset-building goals of Colorado households.