JPMorgan Chase & Co.

*Policy*Center

Advancing Inclusive Growth and Opportunity

Data-Driven Policies to Support Household, Small Business, and Community Recovery and Advance Racial Equity

The COVID-19 pandemic has caused unprecedented health and economic consequences. Existing structural barriers in the U.S., made worse by the current crisis, have created profound racial inequalities – straining families' economic mobility and restricting the U.S. economy. In recognition that a successful, equitable economic recovery needs to go beyond a return to pre-pandemic baselines, JPMorgan Chase harnessed its expertise in business, research, policy, and philanthropy to identify and develop key policy considerations to support household, small business, and community economic recovery.

As decision-makers continue to develop policies that support households and small businesses facing economic hardship, we draw on the work of the JPMorgan Chase Institute and the JPMorgan Chase *Policy*Center and present the following research and policy recommendations to drive inclusive recovery.

Heather Higginbottom
President, JPMorgan Chase *Policy*Center

HOUSEHOLD POLICY IMPLICATIONS

1. ADDITIONAL PANDEMIC RELIEF FUNDING TO LOWER-INCOME FAMILIES IS NECESSARY TO SUPPORT EXPENSES AND PREVENT HARDSHIP INCURRED DUE TO COVID-19, WHILE RENEWED GOVERNMENT INCOME SUPPLEMENTS CAN SUPPORT FINANCIAL STABILITY AMONG THE UNEMPLOYED.

- Over 20 million Americans are collecting some form of unemployment insurance, and jobless claims remain above pre-pandemic records. Various stimulus programs like Economic Impact Payments and expanded Unemployment Insurance likely played a sizable role in helping to stabilize spending and liquid balances, especially for low-income households, but Institute analysis suggests that stimulus funds have been used up fairly rapidly. Institute research also found that when the $600 benefit supplement provided by the CARES Act expired in August, spending by the unemployed declined by 14 percent, roughly back to pre-pandemic baseline, and the August spending decline shows no signs of having plateaued, suggesting that spending among the unemployed could likely decline further. While the unemployed roughly doubled their liquid savings over the four-month period between March and July 2020, they spent two-thirds of the accumulated savings in August alone.
- **Policy: Provide additional stimulus relief efforts and expanded unemployment insurance.** Absent additional government stimulus, lower-income households and those who faced job loss may exhaust their accumulated savings buffer and be forced to further cut spending or fall behind on debt or rent payments.

2. INCREASING CASH BUFFERS TO WITHSTAND FINANCIAL VOLATILITY CAN IMPROVE FAMILIES' OVERALL FINANCIAL HEALTH AND RESILIENCE.

- Most families see large income fluctuations during the year, making it hard to manage expenses or prepare for emergencies, and low-income families are most susceptible to income dips. Institute research has shown that families need roughly six weeks of take-home income in liquid assets to weather a simultaneous income dip and expenditure spike. 65 percent of families across age and income groups didn't have enough in their checking or savings accounts pre-pandemic to weather such an event.

- **Policy: Promote policies to build emergency savings and asset building.** Tools that help families weather volatile income and spending could be better tailored to an individual's cash flows and families may need to more aggressively harvest savings opportunities during months where they experience an income spike. JPMorgan Chase supports policies that incentivize savings to help families weather a financial shock, such as side car savings accounts in existing retirement plans and preferable tax treatment without penalizing federal benefit access for low-income savers, as well as seed baby bonds to build wealth.

3. POLICIES AND PROGRAMS THAT BOOST INCOME AND LIQUID ASSETS AND ADDRESS THE UNDERLYING CHALLENGES BLACK AND LATINX FAMILIES FACE WITHIN THE LABOR MARKET CAN HELP TO CLOSE RACIAL GAPS IN FINANCIAL OUTCOMES.

- There are large racial gaps in take-home income and liquid assets that persist across age, income, gender, and geography. Institute research has shown that for every dollar the median White family earns, the median Black family earns just 71 cents, and the median Latinx family earns 74 cents. Racial gaps in liquid assets are twice as large. For every dollar of liquid assets held by White families, the median Black family has just 32 cents, and the median Latinx family just 47 cents.

- **Policy: To address racial disparities in income and wealth, support policies that boost earnings, improve job-quality, and increase access to good jobs.** Policies and programs that boost income and address the underlying challenges Black and Latinx families face within the labor market could help to close racial gaps in income in the short run. JPMorgan Chase supports strengthening the Earned Income Tax Credit, investing in job training programs, and reducing barriers to employment for individuals with criminal backgrounds – one in three working-age adults – to expand economic opportunity to millions of Americans.

- In addition to expanding unemployment insurance benefits, JPMorgan Chase supports ensuring access to workplace benefits and protections such as paid family and medical leave are available to as many working Americans as possible. JPMorgan Chase also supports piloting portable benefits tied to and that move with the worker regardless of employer.

4. EXPAND AFFORDABLE HOUSING AND HOMEOWNERSHIP FOR UNDERSERVED COMMUNITIES AND PROVIDE NECESSARY SUPPORTS TO WEATHER ECONOMIC UNCERTAINTY.

- Black and Latinx households face a housing affordability crisis. Homeownership rates are 25 percent lower for Black and Latinx families. As rents continue to rise and COVID-19 creates more financial instability, Black and Latinx households are more likely to be cost-burdened than White households and are at the highest risk for eviction.
- The CARES Act mortgage forbearance policies have played an important role in helping homeowners experiencing financial hardship, particularly those with less of a financial cushion at the outset of COVID-19. Institute research shows that homeowners in forbearance had lower total income and much lower levels of liquid assets than those not in forbearance and making payments. Also, over 80% of those in the research sample who received unemployment insurance were in forbearance but continued making mortgage payments, underscoring the pivotal role unemployment benefits played in helping homeowners stay current on their mortgages.
- **Policy: Ensure all homeowners have access to mortgage forbearance and understand their options.** A small fraction of homeowners facing hardship did not benefit from forbearance as defined under the CARES Act, and survey evidence shows that an impediment to homeowners signing up for forbearance was confusion around whether a lump sum of missed payments would be required when forbearance ends. Policymakers might consider specifying that balloon payments would not be required when forbearance ends, expanding forbearance to non-federally backed loans, and encouraging additional efforts to increase awareness of the availability of forbearance.
- **Policy: Support comprehensive housing reforms to increase access to homeownership.** JPMorgan Chase supports the U.S. Department of Housing and Urban Development (HUD) lowering the cost and availability of mortgages to consumers by modernizing FHA servicing and origination, improving loss mitigation options, and simplifying policies and procedures, as well as encouraging the GSEs to meet Duty to Serve commitments and working with regulators to open private securitization markets for safe loans. These actions could increase homeownership, increase economic growth by up to 0.2 percent per year, reduce mortgage cost by 20-30bp, and add $500 billion of additional mortgages to the market. Approximately 70 percent of this increase will be in GSE production and 30 percent in FHA production.
- **Policy: Increase federal funding for affordable housing programs.** JPMorgan Chase and Business Roundtable support a doubling of federal funding from $14 billion to $28 billion to support production and preservation of affordable rental units, including in mixed-income neighborhoods accessible to Black and Latinx households. These programs include the Low-Income Housing Tax Credit, Housing Trust Fund, Emergency Solutions Grants, Community Development Block Grants and HOME for FY21-26 and should add additional incentives in transportation and infrastructure funding for land use and local zoning reform.
- **Policy: Encourage federal housing policies that advance fair housing and address discrimination.** JPMorgan Chase and Business Roundtable support prioritizing policy that reinforces the importance of disparate impact under the Fair Housing Act, reinstating Affirmatively Furthering Fair Housing, and, banning source of income discrimination affecting renters to ensure equal opportunity and access to affordable housing,

5. TARGETING RELIEF EFFORTS AT THOSE MOST BURDENED BY STUDENT DEBT REMAINS A CRITICAL COMPONENT OF CONTINUED STUDENT LOAN POLICY SOLUTIONS.

- The economic impacts of COVID-19 are likely to exacerbate the burden of student loan debt, particularly for those already most financially vulnerable. While most borrowers are not unreasonably burdened by student loan payments, many borrowers, especially lower-income and younger borrowers, face payment burdens well over 10 percent. Compared to White and Latinx student loan borrowers, Black borrowers are less likely to be making progress on their loans. And almost 40 percent of individuals involved in student loan repayment are helping someone else pay off their student loan debt, with most helpers holding no student loan debt themselves.
- **Policy: Extend federal student loan forbearance as the COVID-19 crisis continues.** Policymakers have taken measures to alleviate some of the short-term challenges through student loan forbearance efforts, but to prevent a payment cliff forbearance should be extended.

SMALL BUSINESS POLICY IMPLICATIONS

6. ADDITIONAL SMALL BUSINESS AID WILL BE NECESSARY TO SUPPORT BUSINESSES DISPROPORTIONATELY IMPACTED BY COVID-19 THAT HAVE DEFERRED EXPENSES BUT FACE LOOMING CHALLENGES AS PAYMENTS COME DUE.

- The financial health of the small business sector is important for both the broader economy and the 30 million households whose income and wealth are tied to the success or failure of the businesses they own. Prior to the pandemic, half of small businesses had enough cash liquidity to cover only 15 days of expenses in the case of a disruption to inflows. While COVID-19 relief efforts helped bolster small businesses' cash balances, expenses remained materially lower in September 2020 than they were a year prior, suggesting that small businesses may be deferring payments to maintain cash liquidity. A sector with depleted assets or growing accounts payable may be less well positioned for a recovery than basic financial health measures may indicate.
- Large racial gaps in small business revenues, profit margins, cash liquidity, and survival existed pre-pandemic and persisted across industry, geography, and owner gender and age, and the pandemic has disproportionately impacted Black- and Latinx-business owners. Black-owned businesses earned 59 percent less and Latinx-owned businesses earned 21 percent less in first-year revenues than White-owned businesses. Women-owned businesses also had lower revenues and experienced slower growth. The varying outcomes of small businesses based on owner race, gender, industry, and geography suggest that targeted interventions may be necessary to support the small businesses hardest hit.
- **Policy: Support Small Business Administration (SBA) reforms and new COVID-19 small business aid.** JPMorgan Chase supports realigning SBA products to better meet the needs of Black and Latinx businesses and communities, including improving the 7(a) Loan program to meet unmet credit needs, making the Community Advantage Program permanent, and ensuring more diverse asset managers are certified under the Small Business Investment Company program. Additional targeted aid for small businesses impacted by COVID-19 should be provided, such as an extending the SBA Community Advantage Recovery Loans.
- JPMorgan also supports strengthening Community Development Financial Institutions (CDFIs) and Minority Depository Institutions (MDIs) and will invest up to $50 million in the form of capital and deposits in Black and Latinx-led MDIs and CDFIs, and will continue to mentor and advise select MDIs and CDFIs to help them achieve future success. JPMorgan Chase and Business Roundtable have endorsed increasing the federal CDFI fund from $250 million to $1 billion, including a carve out for Black-led CDFIs.

The JPMorgan Chase *Policy*Center develops and advances sustainable, evidence-based policy solutions to drive inclusive economic growth in the U.S. and around the world. It is powered by the firm's unique global business resources and expertise, including data, research, talent, and philanthropic investments. The *Policy*Center works with policy, business, and community leaders to drive effective public policy solutions at all levels of government.

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