



PODCAST TRANSCRIPTION SESSION NO. 270-TIM FLACKE

Welcome to the Lend Academy Podcast, Episode No. 270. This is your host, Peter Renton, Founder of Lend Academy and Co-Founder of LendIt Fintech.

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Peter Renton: Today on the show, I am delighted to welcome Tim Flacke, he is the Executive Director and Co-Founder of Commonwealth. Now, Commonwealth is a really interesting organization, they're a non-profit focused on helping the financially vulnerable gain financial security and they do this in a number of different ways.

You know, they first got on my radar with the BlackRock Savings initiative that was announced last year so we wanted to get Tim on the show for a while. We talk about that initiative in some depth and how it's going to work and the impact that it might have, we talk about the challenges, the biggest challenges for this group for the lower and middle income consumers who are struggling with financial security and we talk about the role of government and some new initiative, new guidance that came out of the CFPB.

We talk about income volatility and the challenges there and we talk about how Commonwealth is looking to work with fintechs and how they do work and Tim sort of gives us his perspective on what's happened over the last decade and why he is actually optimistic about the future. It was a fascinating interview, hope you enjoy the show.

Welcome to the podcast, Tim!

Tim Flacke: Hi, Peter, glad to be here.

Peter: Okay. So you've been doing this for a long time now, but maybe you could cast back, I don't know, 18/20 years whenever it was, when you started. Tell us about what you were thinking about when you started Commonwealth.

Tim: Yeah, yeah. So, it feels like a long time ago, but really, the thing that brought the three of us who started the organization together was this idea that we have spent a lot of time in this country thinking about, you know, needing to keep roofs over our head and food on the table for everybody and that's critical. We haven't succeeded, but we all understand that thinking about how to solve really poverty of what had been ...it's kind of a new idea that inspired us was the sense that if you're serious about lasting change in households, you really have to focus on what people own and their assets.



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That idea just made a ton of sense to me and I ended up connecting with a Finance professor, Peter Tufano, who had relatively recently been tenured and a fair gentleman who had been both a community organizer and a banker throughout the 1980's. We came together because we had thought this idea of helping low income, moderate income families build some assets and wealth deserved our attention, deserved some real effort.

You know, there are sort of three things that I look back and I see brought us together. One was as that point which was, you know, 1999/2000, it really felt like there were revolutions in technology that made new ideas possible. The thing I really remember was just this radical idea that the regular people, even low income people, could access the Internet and use technology for themselves and a lot of people thought that was notyou know, it wasn't clear that was really true.

The second thing was the sense that, you know, we needed some “ands” instead of some “ors” that we were serious about solving big problems, we needed to tap into technology firms and large financial service firms and also we had to go out to communities and talk direct to the consumers and the ability to kind of bridge that gap felt really powerful. So, I guess actually those are two things so, yeah, that was what brought us together.

Peter: Okay And so, maybe...you've obviously done a lot of things over the last 20 years, maybe you can talk about...firstly, maybe just talk about how you describe Commonwealth today, let's just start off with that and then we can dig into some of the history.

Tim: Yeah. You know, we are structured as a Not-for Profit so for us it starts with the Mission and the Mission is financial security and opportunity for low and moderate income families, you know, really sort of hardworking people who don't have a whole lot. So then the next question is that's a big mission, what do you bring to it? I'd like to say we bring innovation and influence.

We're in this really fortunate position that we get to look for challenges that families are facing and try to figure out solutions and do that with an emphasis on social impact first always knowing that we can't figure out a way for it to be sustainable, we won't really achieve anything. So, we still have that constraint, but that speaks to designing new product idea, sometimes new policy ideas trying to do it rooted really in the customer and that's hardworking, often say single parent holding up a couple of jobs just trying to make it through the month.

And then the second side is influence. You know, when we do is innovation work and we come up with something and we have evidence, purely work, you know, people want it and when they use it, they're better off and we think there's some way that it can be delivered sustainably then our theory of how we make a difference in the world is to take that to market actors and policy makers who have a lot more reach than we do and say, here's something to really look at and see what you can do with it.



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Peter: Okay, okay. And so, then maybe let's just....love it if you could focus on two or three things since you began, particularly maybe even the last ten years that you would say have been, you know, successful partnerships, ventures, projects, whatever you want to call it, what are some of the things you've done?

Tim: Yeah, I know, and thanks for the question. So, we believe that in many ways savings is really the single most important thing for households. You know, the problem is that none of us like to save and it's not a fun thing. So, we began a while ago really with this notion that if we can reward savings with chances to win prizes...that something as simple as that can really make a difference in making it possible for people to save so that's a simple idea. It turns out it was illegal in this country, more or less, a decade ago so, you know, this is what we do.

We found a little hole, we were able to test that idea initially with credit unions in the state of Michigan. We built out a value of evidence that people would use it and a lot of them would never have had savings before and then we took that to policy makers in more than 30 states now and Congress and got a little bill from Congress and have cleared the way, sort of the legal pathway to allow this product idea. In parallel, we've seen an explosion of fintechs/startups that have seized on this idea, some depositories, especially credit unions.

We're very excited that several years back now, Walmart incorporated a prize based savings feature under their MoneyCard which is their premiere pre-paid card so that would be an example. We've done a ton of work to link up tax time and the large tax refunds that come from the IRS to working families to make that possible that it can go into savings. We actually pioneered and the Obama administration introduced an option for families to have some of those refunds into savings bonds so that would be another thing.

More recently, very recently, we worked with an organization called The Workers Lab to test out what happens if you offer gig workers a chance for just emergency cash assistance. Let's say something happens, we've got you, no questions asked up to a certain dollar amount. So, that was very recent, we have some literature about that on our site. Yeah, so, that's just a quick tour of some things we've been up to.

Peter: Okay. So then, when you're looking at your population, the lower and middle income people in this country, we always hear they don't have very much savings, they're struggling, particularly, they've been hit by the pandemic worse than other areas of the population so what is it...I mean, you talk about savings, but how can we change the.... that's a big question, but what do they need most, I guess, is what I'm really trying to get at.

Tim: Yeah, I really appreciate that question, Peter. So, I'll give you an unsatisfying answer which is, you know, low and moderate income people are a huge universe increasingly in this country so it varies a lot just like it does for any population so what are those cross cutting themes. Well, I guess, one thing is the amount of anxiety, financial anxiety, that most working people in this country live with is extremely extraordinary.



So, at a cross cutting level one of the few things that are going to bring down that temperature a little bit in these consumers' livesso, I would say, yes, savings is the thing that we think about first and that having even a modest amount, you know, even a few hundred bucks set aside really makes a difference in how you feel when something unexpected happens. Well, you know, there clearly have to be other ways to bring down that temperature.

The second thing that feels cross cutting is that experience of living, you know, very much in the moment and the present and thinking about next week or sometimes, you know, this week and will the cash be there to cover the rent and this sort of thing. It tends to squeeze out the ability to kind of be hopeful about the longer term.

Peter: Right.

Tim: And so, you know, I think we really need to look for ways to make that hope real for people. What are the things they can do for themselves longer term and oftentimes and their kids. I guess the last kind of cross cutting thing I'd say is some of these start with simply seeing these customers, you know, really understanding that reality in whatever your business is, you know, whether it's credit or insurance or what have you kind of go into extra measures to really understand what that experience of living very, very tight over long periods of time and then deciding on that basis.

Peter: Right, because, you know, I have a friend who is financially struggling and he said something to me many years ago that stuck with me. He said, if you have an unexpected expense come up, and I actually helped around a little bit, but she said, when you're living tight and then something bad happens, he said, you can't think about anything else, that's just all you think about every minute of every day, how am I going to get out, how are we going to get out of this.

And it just struck me like so that's all you think about and I think people like us who are comfortable and most of the listeners of the podcast are comfortable, I think we forget how hard it is when you are living paycheck to paycheck and then something bad happens. It's good to remind ourselves from time to time.

So, I want to move on and talk about the CFPB because I think it was just this month I think it was, new guidelines from the CFPB encouraging automatic enrollment of employees in emergency savings programs and I think we've done 401(k)s and it has been a huge success. I think this is a really great move, but I guess it brings up a question that I want to ask you, are employers the key to increasing savings rates in this country.

Tim: I think they're definitely one of the keys, absolutely, so whyI mean, the first thing that I imagine many of your listeners know is that savings is not an obvious business case. The smaller the balances and the shorter durations, the tougher that business case gets. You know, in the extreme case someone who wants to be able to set aside \$50 or \$100 this month and then next month draws that \$50 or \$100 out and then the next week put it back. You know, how do you make money on that?



And so this is one of the geniuses of the workplace is the reason that an employer cares about the financial security and stability of their workers is they're not trying to make money on a product level, you know, P&L, they're really in it for other reasons. So, that's one piece on why we think the workplace is really powerful.

A little bit more sort of, you know, operational, they're right there at the moment of the income, right, so there's just a ton of research and basic intuition that the ability to be right there at that moment of riding the waves and say, would you like to use split direct deposit and have a little bit of that paycheck go into a savings account. It's the same rationale that gets money into retirement savings, that's just very, very powerful.

And then the last point is that, you know, employers.....first we all read about the changing nature of work and all of that is happening for sure, but for people who work for firms or institutions today, you know, they're used to getting benefits and some essentially financial advice, explicitly or implicitly, so to tap that infrastructure and that system around this issue is just so compelling. So, that's a long way of saying, yes, we believe a lot in the power of the employer around financial security and savings.

You know, if I could maybe just flesh out what you're alluding to from the CFPB, what they have done is provide a, it's called a CAST, Compliance Assistance Sandbox Template, it's a catchy title, but what it really must service is a guideline for safe harbor for firms that want to try this. As you said, automatically enrolling people into emergency savings and we have, right now, under something, hopefully, I have a chance to talk about, we are part of BlackRock's Emergency Savings Initiative. What that means to this conversation is we have both our time and access to some of the best legal minds in the country that we can bring to firms that want to test this out.

Let's say, I like to figure out, you know, what happens if we automatically enroll our workers into an emergency savings option obviously with opt out and so forth. You know, it doesn't deliver the way it has in the retirement space and we see those as facts in terms of workers' productivity and just overall financial wellbeing. So, this is a....blatant advertisement, if that sounds like you and you work for a company, call us up because, right now, for a limited time we're in a position to really offer a suite of resources that's pretty extraordinary to help you out on that.

Peter: Right, right. I actually want to dig into that because, you know, I've seen the Commonwealth name here and there and then I saw the BlackRock Savings Initiative coming out. You know, obviously BlackRock, the world's largest asset manager with...I don't know how many trillions they've got now, but it's many.

When they do something like this, they have the power to move the needle and I saw you guys and couple of names, I think it was....there was another organization that's part of that as well, from memory, maybe you choose to say that, but maybe...how did you kind of get involved with this and what is Commonwealth specifically bringing to the table for the BlackRock Savings Initiative?



Tim: Yeah. yeah. Like you, when we first learned that BlackRock was asking itself, and this is their social impact team, what could BlackRock really do that would be impactful and make sense, you know, for their firm given their capabilities and their reputation and the like. We were fortunate to get in conversation with them and we started talking about this importance and centrality of savings and, you know, through ongoing conversations with them and many other conversations I'm sure they had, they really came to see this as the issue just to dig into. So the Emergency Savings Initiative is Commonwealth and the Financial Health Network and the Common Cents Lab out of Duke and the three of us are anchoring this really ambitious effort to move the needle on emergency savings.

The way I think about this is really on the supply side so what does that mean? It means what is it that will make it possible for a large employer to offer its workforce a chance to build emergency savings. How do we make the retirement system which in many ways is just a fantastic piece of infrastructure and so well established, how do you make that work so that people who need to build up modest amounts of liquid savings can do so. How do we work with fintechs to make this more possible, you know, for those that are interested and inclined and so our work in that is just that, it's to work with those partners.

My colleagues are working with UPS, for example, and some record keeping firms that I don't think we can disclose right now to make this possible in a very large scale. And the legacy that I think we will leave is part demonstrating that this can work, that firms you would recognize the names of who have large numbers of workers or customers or stakeholders will do this, can do this and it achieves real impact so that's what we're up to and we're super excited about.

Peter: And so is there a duration for this program, is there an end goal where you say right, we're done, I mean, what's the future of the program?

Tim: Yeah. So, we're about midway through a three-year initiative so we have another.....through the end of 2021 and our focus right now is to open up really the channels, if you will, that I spoke about; large employers, retirement system, payroll companies, fintechs and then this automatic enrollment that I described. If we can show substantive progress of really marquee brands in each of those categories that's really what we're aiming for.

Peter: Right, right, okay. So then, I was also reading about another marquee brand that you're working with, JPMorgan Chase, the country's largest bank by assets so maybe you can share what you're doing with JPMorgan.

Tim: Yeah. You know, actually we had a long relationship with JP Morgan Chase and proud of that and they are supporting us to work on what we call emerging technologies and, you know, this is just the basic storyline and I think we've all read that there are a handful of technologies that, you know, pretty indisputably are transforming the world around us and will for decades.

And so, we're talking about Artificial Intelligence, machine learning, talking about distributed ledger and blockchain, things of that nature and so the work with Chase is taking just a piece of that, the AI piece, and saying how is this relevant to underserved consumers and what do we



need to know for that revolutionary technology to produce good positive impact in the lives of low and moderate income people. And so, the work for us is some original consumer research with underserved customers; what do you know about these, what are your fears, what are your perceptions, what are your aspirations.

Crucially, are there use cases that by going in deep in underserved communities we might raise up that might otherwise be overlooked and then to take those insights and work arm in arm with fintechs who are excited to kind of act on them and see what we can learn from that process. At the end of it, we should have insights and guidance that, you know, as a not-for-profit we just put out into the world for public good that we hope and believe will shape and influence the development of these technologies.

Peter: Right, right So, let's talk about technology for a minute and talk about the fintech space because, you know, from my perspective we've come a long way. I've been thinking in the last five years there are many.....just take overdrafts, for example, which is one of my pet peeves. I think it's a horrible product and, you know, banks have made huge amounts of money over the years at the expense of pretty much exclusively the low and middle income consumer and we've got a bunch of fintechs now that are really addressing that problem head on.

Dave might have been the first one that really built their business to try and create a better product than an overdraft. There are now many, it's almost becoming table stakes now for fintech.... if you're trying to go after that population you need to have something like that. So, maybeI'd love to get....you don't necessarily have to name names, but I'm sure you're following these companies as well, what are some of the approaches, not necessarily just on overdrafts. but fintechs that you think are moving the needle. What are the approaches they're using that really are helping lower and middle income consumers?

Tim: Yeah, I mean, that's obviously an enormous question and so I'll....there's two that I wanted to mention. I mean, one, we have just seen that....the way you cast the question sort of between the banks and everybody else that in the middle there are these prepaid providers. You know, when we first started this work we were sort of this stepchild, you know, that we didn't know what to do as an industry or something, but those prepaid cards have really graduated to the point where they've built a niche that is not otherwise built.

Peter: Right.

Tim: I mentioned we worked with Walmart, Green Dot around their MoneyCard....you know, I'm not advocating for that one as an example, but, you know, they have enormous scale and if you look at their customers that is clearly filling a need in a way that other products weren't. Maybe you prefer don't name names, but one that we've gotten to nail is MoCaFi which is a prepaid card that is probably black-owned and black-led and is specifically serving and aiming to serve black customers and bring a suite of products together on that platform. They're, frankly, would be tough to get from other sources so I think there's a lot there even if it doesn't feel like the latest and the newest.



The second thing I want to mention is more far out there....you know, as I mentioned at the outset, really the big motivating idea for me personally and for us was what can we do to strengthen the family balance sheet, you know, get some assets. There's an organization called Universal Basic Data Income (UBDI) and what they're trying to do is figure out how the data that we all are generating, you know, we can own that data and monetize it at the individual level.

I think that's, you know.....I love that, it's a source of found money for households who really need it or use potentially so very, very excited about that and, you know, there are some overlaps between this emerging tech concept I talked about and those sorts of individual enterprises that are asking where does the data come from and what can be done with it.

Peter: Right, right. I think that's a great idea and I feel like....it's interesting, I feel like this decade we're going to make....I think we'll have some changes when it comes to owning your own data and I'd love to see.....I think, eventually, you're going to grant permission to anybody who wants to use your data. I don't know how long it's going to take, but there's lots of companies out there that I know of that are really attacking this problem head on and I think it's going to be interesting.

But, I want to switch gears a little bit and talk about something else we haven't really discussed, but I feel like it's a huge issue for so many people, and that is income volatility, where so many people don't have a W2 income that is the same every single pay period. They're the gig workers or they're working part time jobs where the hours change a lot. So, when you look at those people, how are you thinking about them and how can we address this volatility problem of their income.

Tim: Yeah. I don't have a grand solution for this one. I mean, the first thing I'll say is, you know, at the risk of being a broken record, we do such a poor job on savings that if we can lift everybody up in having that baseline savings, I think that is probably the single biggest hedge on the volatility.

Peter: Yeah.

Tim: You know, I think the second thing to say is that in terms of the changing nature of work, you know, there's clearly a need that nobody has quite figured out how to fill yet to replicate the stability of the infrastructure of that, you know, old school employer. You know, I predict that it will get filled at some point in some way, but we're in a moment where we don't have great answers to that although I've seen, I'm sure you have too, some startups and fintechs that are trying to plug that gap.

Peter: Yeah.

Tim: You know, and then the third thing is I just think we have to at least keep in the conversation what are the limits of what private sector fintech can do and where is there a need for a broader government solution. You know, maybe it is around volatility, but increasingly that's part of the political conversation and so it makes sense for us to keep that in mind too.



Peter: Yeah, for sure. So then, if there's a fintech CEO listening to this and they're interested in kind of a lot of things you're talking about, how do you engage with fintechs, what's the message that you want for them to know about Commonwealth?

Tim: Yeah. I mean, we're an outside ally that can help you get where you want to go, I think it's probably the quickest answer. What does that look like? Sometimes we do research together either with your existing customer base or a customer base you would like to serve and, you know, obviously we work out those details. We really like to test actual ideas in partnership and as I mentioned on the emerging tech work that we're launching, we're actually actively looking for partners who want to test things. We can often bring an outside additional resources so that it's not a case of we all have to take off our roadmap to test something or even better, if it's something's already on your roadmap.

You know, in the long run we do just straight up advise fintechs in some cases, particularly on things we spend a good team of time on. I mentioned prize-linked savings as an example about the use of prizes to make savings fun and, you know for us, the first question is, is this our mission, is this about trying to make financial security and opportunity happen for low/ and moderate income people. If that test is met then really the sky's the limit in terms of how we can work with fintechs.

Peter: Right, right, okay. What about the government? We've talked about the CFPB already and I'd love to sort of know....I mean, what are you working on right now with the regulators, what are some of the policy goals you have that you think would help this community?

Tim: Yeah. We have talked about one of them, you know, in a very sort of tactical level, right, we really believe this idea of automatic enrollment needs to be tested and, you know, a little more broadly that's a comfortable place for us to be thinking about a very specific idea that can be advanced that has a policy dimension.

Having said that, you know, the second thing that really for 20 years has dogged us is that getting to a place for everybody has access, it's really, really tough. You know, one click down, everybody having access to a savings opportunity. Even if we get all the employers, it's tough and we know that....frankly, the Treasury Department has capabilities that nobody else has in that regard so it's been a professional interest of ours, you know, is there a way to use some of that apparatus, the most unique capabilities to make sure everybody has a good place to save. So, that would be something that's an evergreen interest of ours.

Peter: Okay, that makes sense. So then, how are you guys funded, what's your source of operational capital?

Tim: Yeah, no, great question. You know, there is a little bit year to year, but actually three quarters of our revenue does come from philanthropy which is a very privileged place to be, but it allows us to kind of put the impact metrics higher up on the heirarchy and, you know, roughly a quarter comes from some part of our revenue, consulting, contracts and the like so that's us.



Peter: Right. So then, we're running out of time, but I want to get a couple of more things in here. I'm curious about...you know, you've been doing this a while and put the pandemic aside for a second because that's really a, you know, unforeseeable event, but I'm just curious, if you look back at, let's just say, the last decade, after the financial crisis we had that and we've been in this recovery for about a decade. Are you surprised we haven't made more progress than we have when it comes to really the financial health of the lower and middle income consumer?

Tim: Yeah. I am surprised, but I think the key point there is it's just to repeat it, we haven't had progress that we should and that we need to. I guess, I'm leery of trying put a silver lining, you know, label on the events this year. I think they're too painful and too horrific, but I do think it's really brought home.....you know, just how many of us are pretty close to the edge and just can't go on like this. So, I guess I prefer to think about that question, what does the next ten years look like.

Peter: Right.

Tim: You know, this is a turning point andyou know, the other fact that I just want to try to express is that everywhere I turn it's so clear that people are desperate for institutions they can trust in and thenyou know, we have a lot at stake in that collectively and fintechs are not first order institutions that everybody thinks of in terms of shaping their sense of our society, but there are these examples of fintechs that transparently put out a business model that say, look, I only win if you win.

Peter: Right.

Tim: Right. (laughs) That feels pretty different and so I take a lot of optimism from those little signs of different ways of thinking, different ways of relating to customers, with empathy and really seeing where people are at and I think those are things that I take, you know, just I feel for what we can accomplish as a field, as an industry.

Peter: Right. So, just expanding on that as the last question here. I mean, obviously some of these is a political kind of conversation that I don't really want to get into at all, but where would you like us to be, where do you think we can get to as a country over this decade when it comes to savings and having a healthy financial life for the vast majority of consumers?

Tim: Well, I'll give you one answer. If we could preferably in the first part of the next decade (Peter laughs) come to a statement about what sort of outcome is acceptable for us as a society and a country around a whole bunch of metrics, but even in just in the personal finance space, you know, then I think we've set the terms of the conversation.

I just was recently reminded by getting some data.....I don't remember that precisely in Canada they have some miniscule fraction of population that's not part of the banking system, right, and in this country it's not a very new idea, but there's a sizable fraction. You know, those are policy



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choices, right, but these things can be....they are choices we make. And so, I think we need to think about that instead of the hand wringing and, you know, there's nothing to be done, it's just the nature of markets or it's just the nature of the world.

It's actually, no, we probably do have choices to make about where the floor is, in terms of household financial well being and we get that nailed down the first part of the decade. I mean, you know this better than I do, there's a world of innovators out there that will operate in the envelope once it's established, but let's try to get clear on what the outcome we want to achieve in the next ten years.

Peter: Yeah, that's great, that's a great place to end. I feel like we have the capacity to do this, we have the capacity to solve this problem as a nation. I applaud you for the work you guys are doing, I think it's very important. We need organizations like you that are taking the lead here. Thanks very much for coming on the show today, Tim.

Tim: Oh, thank you so much for the chance, really appreciate it.

Peter: My pleasure. See you.

Tim: Great, bye.

Peter: You know, Tim and I were chatting after we stopped the recording and we were just commenting that this country...we have it in us to solve this problem, to really vastly reduce the numbers of people who are, you know, financially vulnerable, but it's going to take a multi-pronged approach. It's going to take, I think, some regulatory initiatives, it's going to take fintechs and banks really working together to create products that are "win-win."

They should not be a financial product available today that is "win lose" and we certainly have many of those kinds of products, that needs to go and I think....you know, there's plenty of fintechs, as we said on the show, that are addressing certain areas in a "win-win" way and I think we are really going to have to rely on the entrepreneurs because this has to be....well, government has a role here, I think the entrepreneurs are going really have to implement products, create products that actually help the lower and middle income consumer and deliver products that really improve their lives. I feel like that's one of the reasons why I'm excited about fintech, I feel we have an obligation and an opportunity to change the world and I'm excited about what we can achieve this coming decade.

Anyway on that note, I will sign off. I very much appreciate your listening and I'll catch you next time. Bye.

Today's episode was sponsored by LendIt Fintech Digital, a new online community for financial services innovators. Today's challenges are extraordinary with upheaval affecting all areas of finance. More than ever before, we need to come together as an industry to learn from each other and make sense of this new world. Join LendIt Fintech Digital to connect and learn all year long from your peers and from the fintech experts. Sign up today at digital.lendit.com.



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