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The Future of Banking:

Overcoming Barriers to Financial Inclusion for Communities of Color

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PolicyLink is a national research and action institute advancing racial and economic equity by **Lifting Up What Works®**. We work to ensure that all people in America are economically secure, live in healthy communities of opportunity, and benefit from a just society.

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The Asset Building Policy Network (ABPN) is a coalition of the nation's preeminent civil rights and advocacy organizations committed to expanding economic opportunities for low-income members of communities of color. Citi is the sole corporate supporter and a founding member of the ABPN.

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This report is dedicated to the 96 million people in the United States who are struggling the most with poverty and financial insecurity. We hope it illuminates a path to forward progress.*

* Previously published reports by PolicyLink have cited 106 million people living in poverty, which was calculated using the American Community Survey (ACS) data. Other researchers choose to use the Current Population Survey (CPS) data because it is the dataset used by the Census Bureau to make official estimates of the number of people in poverty. Using that data, one finds the figure of 96 million.

PREFACE

When we talk about banking, we may not immediately make the connection to economic opportunity. However, the financial services system impacts many parts of our daily lives. Whether the most vulnerable have access to financial tools to make the economy work for them and whether the system is responsive to their financial needs are questions of economic justice and opportunity. Many of the nearly 100 million people living in or near poverty lack full access to financial services, which stymies opportunities for economic well-being and upward mobility. This report, *The Future of Banking*, investigates barriers low- and moderate-income (LMI) consumers of color face in engaging with the ever-changing financial system.

This report follows up the Asset Building Policy Network's (ABPN) 2014 *Banking in Color*, which surveyed more than 5,000 low-income individuals about their interactions with the financial mainstream. This revealing look into the experiences within LMI communities of color with financial institutions shed light onto some of the challenges that approximately 63 million underbanked and unbanked people face every day.

In *The Future of Banking*, we look deeper and wider into those experiences, and connect the dots across the financial system as a whole—from banking and regulation, to financial technology and policy. Drawing on the experiences of LMI consumers of color, bankers, financial technologists, regulators, and policymakers, this report seeks to better understand the limitations of the current financial system and identify areas for innovation. It is our hope that this holistic view can help paint a picture of what a future banking system can entail that helps the 63 million who are currently un- or underbanked advance up the financial and economic ladder.

EXECUTIVE SUMMARY

As currently structured, the financial services industry makes financial inclusion—access to useful and affordable financial products and services that meet people's needs[1]—very difficult for low- and moderate-income (LMI) people of color. Financial exclusion exacerbates other economic challenges such as low wages and unaffordable housing and creates barriers to economic opportunity and mobility. This report, based on focus groups and interviews with community leaders and residents, and policy experts, describes the barriers to financial inclusion faced by lower-income people of color and shares ideas and solutions that can enhance full financial access and inclusion.

Some of the barriers to safe, regulated financial services include:

- Prohibitive identification requirements to open bank accounts.
- High interest loans, fees, and costs for accounts.
- Language barriers and lack of culturally relevant services available.
- Lack of access and inclusion within the credit system.
- Checking account reporting practices that bar populations from becoming banked.
- Scarcity of bank branches in low-income communities of color.

These barriers often compel LMI populations to rely on high-cost alternative financial services (AFS), which hold a virtual monopoly of the financial marketplace for people who are underbanked and unbanked. These services have historically left many households in perpetual cycles of debt and financial ruin. This underscores the need for more financial protections, but recent federal action has drastically weakened the Consumer Financial Protection Bureau (CFPB), the primary agency tasked with informing consumers about their rights and reining in potentially dangerous financial service practices.

For some segments, financial technology firms, or "fintechs" have developed solutions to barriers outlined above. However, despite their promise, fintech products and services generally do not cater to the needs of LMI consumers. There are many data protection and security concerns, and an uncertain regulatory climate creates the potential for predatory practices and abuses.

Innovation and technology can play an important role in advancing financial inclusion and equity. Our interview and focus group respondents identified and helped to shed light on several innovative steps, such as alternative credit ratings factors, new business models for financial institutions, and new types of loan products. Based on these conversations, we offer recommendations to expand access to financial services, help LMI consumers of color build wealth, and reach full financial inclusion. Our recommendations include:

- Creating a nationwide network of financial system “navigators” for the underbanked and unbanked.
- Increasing the accessibility, accountability, and utility of financial institutions to meet LMI consumers’ needs.
- Adopting a more inclusive credit rating system that works for all.
- Increasing transparency, and reforming the checking account reporting system.
- Increasing credit availability to LMI consumers.
- Strengthening federal consumer protections and safeguards for financial products, while fostering innovations for fintechs and traditional banking products to enhance financial inclusion.

Given that the financial services industry is essential to the nation’s economy,* we must ensure that the most vulnerable populations are brought into the economic mainstream. As financial services, fintech, public policy, and regulations continue to evolve within a changing global economy, it is essential to continuously focus on the goal of financial inclusion for all. An economically just society cannot be achieved without ensuring meaningful access to safe, affordable, and closely regulated financial services for LMI consumers of color and others who have historically been excluded.

* The financial services industry represents approximately 20% of the nation’s GDP.

INTRODUCTION

Systemic failures in the financial sector led to the financial crisis of 2007-2008 and the Great Recession that followed. These crises disproportionately impacted low- and moderate-income (LMI)* communities of color through job loss, foreclosures and an unprecedented loss of wealth. During the recession, Latinos' household wealth declined by 66%, and Blacks' by 53%, while White households lost 16%.[2] After the recession's official end, White household wealth began to recover, while Black and Latino families continued to lose wealth for years, causing the long-standing racial wealth divide to grow even wider.[3] Ten years after the financial crisis, communities of color have yet to fully recover,[4] and the financial system has failed to solve the problems that devastated communities of color. To help the most impacted communities recover and rebuild, the banking and financial services industry must increase their focus on serving LMI households, businesses, and communities of color. This report explores key opportunities within the banking industry, policy, and regulation that can lead to financial inclusion for all.

Key terms

AFS (used in the plural): Alternative financial services, such as payday lending, pawnshop loans, and rent-to-own stores

Financial inclusion: Access to affordable financial services, credit, and capital for households and entrepreneurs

LMI: Low and moderate income, defined as having household income up to 200% of the federal poverty line

Unbanked: No one in the household has a checking or savings account

Underbanked: Someone in the household has a checking or savings account, but they still used high-cost AFS in the past year

* In this report, LMI households include those with income below 200% of the federal poverty line.

In 2014, UnidosUS, the National Urban League (NUL), and the National Coalition for Asian Pacific American Community Development (CAPACD), who were working in partnership as the Alliance for Stabilizing Our Communities' network, published *Banking in Color*, a groundbreaking look into how the mainstream financial industry was underserving LMI consumers of color. *Banking in Color* revealed key insights from over 5,000 survey participants across several U.S. cities and neighborhoods of Black, Latino, and Asian American Pacific Islander (AAPI) heritage. It captured details of how LMI households of color were managing their finances and how they interacted with the financial services industry—from banks and financial technology (fintech), to payday lenders and check-cashing services. The report offered recommendations for policymakers and the financial services industry to meet some of the financial service needs of LMI communities of color.

Since *Banking in Color* was published, there have been advances in technology, and several efforts and policies have helped to incrementally expand access to affordable financial services for LMI communities, including many of the 63 million adults who are unbanked or underbanked.[6] Consumer protections have also changed dramatically during this time period. For instance, the federal Consumer Financial Protection Bureau (CFPB) installed several protections in the financial market, including rules for pre-paid debit card products and regulations to protect consumers from ruinous payday lending practices. Many cities made strides from 2014 to 2016, such as New York's move to permit the use of municipal identification cards to help undocumented immigrants and others gain easier access to bank accounts. While these changes were hard won and championed by consumer advocates, recent political shifts under the Trump administration have threatened these gains and put future advances for financial inclusion and enhanced consumer protections in great jeopardy.

Financial and economic data for LMI consumers today remain bleak:

- Of the approximately 96 million people living on household incomes less than 200% of the federal poverty guideline, more than half (54%) are people of color.[7]
- Those with low- and moderate-incomes face numerous barriers to accessing regulated, low-cost, financial services that could improve their financial footing.
- 63 million adults in the United States are unbanked—with no member of the household having a checking or savings account—or underbanked—where someone has an account, but they still relied on high-cost AFS in the past year.[6]
- These barriers particularly impact communities of color; nearly half of all Black (47%) and Latino (43%) households are unbanked or underbanked.[6]

Being disconnected from mainstream financial services carries major costs for LMI consumers. In 2017, the unbanked and underbanked LMI populations, and those with little or no credit history, spent more than $173 billion in fees and interest for alternative financial services (AFS) such as check cashing, payday lending, pawn shop loans, and rent-to-own stores that notoriously charge upwards of 400% APR.[8-10]

To understand these barriers to financial inclusion and to offer recommendations on solutions, PolicyLink and UnidosUS coordinated with other members of the Asset Building Policy Network (ABPN)* to examine the challenges LMI consumers of color face in their interactions with the financial sector, considering evolving technology, public policy shifts, and decreased consumer protections. Drawing on focus groups with LMI consumers and interviews with experts from across relevant sectors, we highlight persistent barriers to financial inclusion, note opportunities for innovation, and make recommendations for public policy, regulation, and financial product development that can enhance financial inclusion for all. This report focuses on the financial services sector as a key lever within a broader context of creating a more equitable economy that enables all people to fully participate, prosper, and reach their potential.

* The Asset Building Policy Network (ABPN) was established in 2009 as a partnership between the National Urban League, National Coalition for Asian Pacific American Community Development (CAPACD), National Association of Latino Community Asset Builders (NALCAB), Prosperity Now, PolicyLink, UnidosUS, and the Leadership Conference on Civil and Human Rights, funded by Citi Community Development. Citi is the sole corporate supporter and a founding member of the ABPN.

WHY FINANCIAL INCLUSION MATTERS: THE FINANCIAL CASE FOR EQUITY

By the end of this decade, more than half of the children in the United States will be of color. By 2030, the majority of the young workforce will be of color.[11] By 2044, the United States will be a majority people-of-color nation,[12] and America's economic strength will depend on people of color contributing fully—as financially and economically secure innovators, workers, entrepreneurs, and leaders. Yet, as America undergoes this momentous demographic transition, economic and racial inequalities are compounding, and inequities remain widespread across multiple indicators from education to employment to wealth and health. For our nation and its economy to thrive, communities of color must access the opportunities they need to live healthy, economically secure lives and reach their full potential. This is no longer just a moral imperative—it is now crucial to the future of the American economy.

Financial inclusion is an important marker of economic health, yet 63 million people are not fully included in the regulated and mainstream financial system. The benefits of financial inclusion, which most middle- and upper-income households take for granted, include affordable and convenient tools for managing finances, savings, and building wealth. Financial products like checking accounts; interest bearing and investment savings accounts; auto loans, home mortgages, business loans; and bill-pay services offer banked households ample opportunity to manage, build, and preserve wealth. Government regulations on mainstream financial products protect their investments, prevent usurious fees, and disclose information needed for sound financial decision-making.

For LMI consumers of color, affordable and convenient financial products are remarkably hard to come by. Janneke Ratclliffe of the Consumer Financial Protection Bureau writes, "Mainstream [financial service] providers have little interest in competing for this high frequency/low-balance business, forcing lower-income families to rely on [AFS like] check cashers, payday lenders, pawn shops, automobile-title lenders, high-priced credit cards, tax refund advance lenders, and predatory mortgage lenders."[13] These AFS do not allow consumers to build credit histories, accumulate savings, or to take steps toward financial security. Worse, these AFS strip massive amounts of wealth from LMI communities. Each year, for-profit tax preparers collect $2 billion from the Earned Income Tax Credit for working LMI families, and AFS charge more than $173 billion in interest and fees.[8] AFS are not only extremely costly; they tend to be unregulated or underregulated, and they often prey upon LMI communities of color, exploiting the precariousness and lower financial capability of consumers.[14-16] Black and Latino consumers disproportionately fall prey to high-cost AFS.[14,17] Such services stand in the way of full financial inclusio—access to affordable financial services, credit, and capital—which is critical to facilitate economic mobility for LMI families and communities.

Consumers are increasingly aware of the high costs associated with payday lending and other AFS, and are interested in more affordable ways to meet their financial needs through mainstream financial institutions.[5] However, mainstream financial institutions also charge fees that strip wealth from LMI consumers. Most banks charge substantial fees for covering purchases when consumers overdraw their accounts, called "courtesy overdraft services." Such fees earned banks and credit unions between $12.6 and $32 billion in 2012—a substantial source of revenue.[18] The median debit purchase amount that incurs an overdraft is just $24.00, and median overdraft fee is $21.61 for those enrolled in overdraft protection. Since most overdrafts are repaid within three days, this is the equivalent of a 10.955% APR.[19]

These staggering figures illustrate both the harm done by a two-tier financial system, and the value of safe financial inclusion for vulnerable populations. The harms must be addressed across industry, while ensuring safe access and inclusion for those who have been historically excluded.

While the financial services sector plays a critical role in the economic well-being of families and communities, we recognize that the financial sector does not operate in isolation. It is interwoven with a variety of other sectors and systems that hinder economic outcomes for the 96 million people living in or near poverty in the United States, particularly the 63 million people who are unbanked or underbanked. The legal, health care, education, tax, and financial services sectors each play critical, specific roles in undermining LMI households' ability to achieve financial security and, in turn, economic mobility.[20] Each of these systems requires significant and comprehensive reforms to improve economic outcomes at scale for people living in or near poverty, and this report focuses on just one of them—the financial services sector.

METHODOLOGY

This report draws upon data from two sources: focus groups with LMI consumers of color; and interviews with experts from several sectors: financial services, financial technology (fintech), policy, regulation, and community advocacy.

Community focus groups with LMI consumers of color

UnidosUS conducted nine focus groups in communities of color in four U.S. cities: Los Angeles, California; San Diego, California; Chicago, Illinois; and Philadelphia, Pennsylvania. These groups were conducted in partnership with UnidosUS's partner agencies, National Coalition for Asian Pacific American Community Development (National CAPACD) and the National Urban League, and were recruited from community-based service providers that specialize in financial capability and education services for low-income residents.

Over the course of nine moderated discussions, 90 focus group participants shared insights from their experiences using financial services. Focus group participants ranged in age from 18 to 79 and were clients of the participating community-based organizations. They were selected primarily based on having familiarity and exposure to banking and credit systems, and the majority reported low- to moderate-income. Efforts were also made to ensure gender balance. Focus groups were conducted in English, Spanish, Thai, and Cantonese between March 2018 and May 2018.

Expert interviews

PolicyLink conducted research interviews with 17 experts and leaders from four categories:

- *Financial services institutions*: Executive staff at mainstream banking and financial institutions and community development financial institutions (CDFIs)
- *Fintech*: Executive staff of current and former fintech companies
- *Civil rights and advocacy organizations*: Senior leadership at organizations focused on expanding civil rights and/or economic opportunities for LMI communities, particularly communities of color
- *Federal policymakers and regulators*: Senior staff of federal elected officials and staff of regulatory agencies.

Detailed notes from interviews were analyzed thematically, and issues that were common across respondent categories were identified. The interview and focus group respondents' views shared in this report reflect their experience as leaders within their respective fields and/or as consumers. To protect our respondents' privacy and maintain confidentiality, we have omitted identifying details from the report.

FINDINGS

A. Barriers to Financial Inclusion

Interview and focus group respondents identified six major barriers to financial inclusion: Unaffordable accounts, language barriers, credit history requirements, checking account reporting, the scarcity of bank branches in lower-income communities, and identification requirements.

Costly accounts

A major challenge among LMI banking respondents were the high fees mainstream financial institutions charge for basic banking services. Account maintenance fees, initial deposit requirements, and minimum-balance requirements at mainstream financial institutions are burdensome and often prohibitive for LMI consumers. The costs of banking are also higher for communities of color than for White communities on average. Compared to the average costs and fees paid by White consumers for checking accounts, financial institutions charge Latinos $262 more, Black consumers $190 more, and Asian American consumers $26 more.[21] Interview respondents noted that bank fees often exceed the exorbitant costs of check-cashing services, which on average drain 10% of low-income users' annual income.[22] A financial institution leader described this issue by stating, "They're living so close to the edge that paying a $25 overdraft fee is worse than check cashing." Another respondent from a financial institution described this as a mismatch between traditional bank accounts and LMI consumers' needs: "They go 13 cents over and incur $40 in fees, for instance. The typical amount putting someone in the red is very small, but there is no forgiveness and no buffer built-in."

"They're living so close to the edge that paying a $25 overdraft fee is worse than check cashing."

While many consumers are aware that they can bypass monthly account maintenance fees by utilizing services like direct deposit, consumers whose employers do not offer direct deposit—approximately 18% of the U.S. workforce in primarily low-wage jobs—are left out of this benefit.[23] Discrepancies in account costs at different financial institutions also requires vigilance on the part of consumers to ensure they are accessing the most affordable accounts and services. Consumers often change banks to avoid high fees, as one focus group participant noted: "Anything with low fees and higher interest, I'm there." Participants in San Diego said that the high cost of living in their community made banking fees an additional burden to factor into their budget. Across all nine focus groups, high account fees were identified as a common challenge in banking. In Los Angeles, a focus group participant said that the fees charged on her savings account made her feel as though "you're punished for trying to save."

Language barriers

The lack of language access services at mainstream banks, both in terms of their staff and written materials, is an impediment to accessing financial services, particularly for low-income consumers whose first language is not English. Language barriers were prevalent for non-English speaking participants in the Asian American Pacific Islander (AAPI) focus groups from Chinese and Thai communities. In the Philadelphia focus group conducted in Cantonese, participants noted that to access financial services or help in-language, either in person or over the phone, they were limited to the few financial institutions in their immediate community. A Chinese respondent said that she opened an account at a Cantonese-speaking bank near her but did not believe they provided access to the same services as larger banks. Participants from the Chinese and Thai focus groups in Los Angeles described challenges conducting banking transactions online and on phones because services in their languages were simply not available. In the Los Angeles focus group, a participant said, "Language barriers keep people from knowing what is even available to them." In Philadelphia, Chinese community members said that because they generally watch television broadcast in Cantonese, they are not informed of local services unless businesses advertise on these channels, and that they did not see many financial services through this medium.

For non-English speaking consumers, there can also be cultural and generational barriers to banking. In the Thai community in Los Angeles, older non-English speaking community members who need banking assistance must overcome a cultural stigma to seek help from younger community members who speak English.

When financial institutions invest in resources that reflect the language needs of their clients, consumers' banking experiences seem to improve. In contrast to the experiences of the Thai and Cantonese-speaking focus groups, Spanish-speaking Latino focus group participants in Chicago were able to access more banking services in-language in their communities. They felt confident that they could speak to bank branch staff in person if needed and access services online. However, participants from this focus group who only spoke Spanish said that they were intimidated when going into an unfamiliar financial institution if they did not know whether there would be Spanish-speaking staff available to help them.

A respondent from an advocacy organization noted that language inaccessibility contributes to the "credit invisibility" of immigrant populations, where individuals have no U.S. credit records. One Cantonese-speaking participant in Philadelphia wanted to buy a car when she first moved to the United States but was denied a car loan. She said she was not given the reason for the denial, nor was she given resources to help her along. Participants in this focus group reported that language barriers make it hard for them to access credit, credit guidance, or financial advice in general.

In addition to language barriers, other issues of cultural capability and sensitivity within financial services were a notable theme for respondents, who reported an overall lack of institutional and cultural acceptance. Some regarded this as an overall impediment to their long-term financial security. In the Chicago focus group, several Muslim participants discussed barriers to interest-bearing accounts such as savings accounts and retirement accounts because earning interest is prohibited by their religion. Participants from this community said that there was not enough information provided by financial institutions about alternative long-term savings products, and as a result they knew members of their community would avoid savings accounts altogether.

Credit barriers

Poor credit and the lack of established credit are significant barriers for LMI consumers attempting to access mainstream banking and/or credit products and services. Nearly 30% of consumers in low-income neighborhoods are credit invisible, meaning they have no record with the three nationwide credit reporting agencies — Experian, TransUnion, and Equifax. An additional 15% have records that are deemed "unscorable" due to insufficient credit history. Black and Latino consumers are also more likely to be credit invisible or deemed unscorable than White consumers.[24] In all, one in 10 U.S. adults (26 million people) are credit invisible, and an additional 19 million have unscorable credit files.[25] A leader from a national policy organization explained the problem:

> A lot of people, mostly low-income, mostly people of color, don't have an entryway into the financial system, and the credit score is your ticket into accessing the financial system. Without either a strong credit score or a prime credit score, or some people don't have a score at all, you can't get access. The credit system as it's set up is really meant to reward people who participate in the mainstream credit market... So, if you're a young person out of college and you're able to get a good credit card, you're able to participate. If you get student loans and pay those back, you're able to participate. If you can't access those things, you basically can't get into the system. The credit system doesn't recognize those folks.

Lack of credit history directly excludes vulnerable consumers from the financial and economic mainstream. This exclusion leads LMI populations directly toward more predatory, alternative financial services (AFS). One focus group participant described it this way, "When you have good credit, they open the door. When you have bad credit, they take away the key." A financial institution executive highlighted the value of good credit, saying, "Credit is an asset. Credit can be your best asset. People say poverty is expensive; bad credit can be really *expensive*. If you raise your credit, this can literally generate hundreds of extra [dollars] each month."

"When you have good credit, they open the door. When you have bad credit, they take away the key."

Knowledge about credit, and the factors impacting credit scores, vary across LMI communities. Focus group respondents who enrolled in financial counseling or prospective homebuyer education classes said they learned the most about their credit in these settings. They were also seen as experts in their own networks and were often the people who their friends and family went to for financial information and advice.

While most focus group participants understood the importance of having good credit and the opportunities that came with having a good score, there was often misunderstanding about how much control consumers had over their score and the discretion a lender had in offering a line of credit. A woman in Philadelphia described an attempt she made to access a loan from her financial institution to help pay bills until she received her paycheck days later. She was denied the loan and was told by her bank that she did not have sufficient credit history. She believed that her relationship with the bank as a long-time account holder should have been enough for her to be a creditworthy borrower, since they knew she had regular deposits into her account from her job. Another participant in Philadelphia was denied a car loan and did not realize it was because the student loan she co-signed with her daughter impacted her debt-to-income ratio and her credit score.

Across the focus groups, a number of participants shared experiences with attempting to access credit. Several participants who had qualified for loans for lower amounts than they originally sought believed that banks offered them the smaller loan amounts due to their low incomes. From these experiences, many myths and misconceptions exist among LMI consumers who are underbanked. Several focus group respondents noted that if they had a low credit score, they would avoid applying for new credit, even though doing so could ultimately improve their score. In Chicago, several African American focus group participants believed that income and race were weighted heavily into a person's credit score. A woman in Philadelphia described credit bureaus as "the original gangsters, because they have their own system," that was not transparent or logical to most in her community.

Focus group participants in Philadelphia said they believed credit and lending decisions were related to race:

> White people don't have perfect credit but because they want certain properties near the city of Philadelphia, or any other major city…they're preventing [non-White] people who want to fix their homes and who have owned their homes… they're rejecting those people… there's a big banking issue with red-lining.

Another participant echoed this, saying, "They're not lending Black people money to fix up their houses."

Checking account reporting issues

Another critical barrier to banking relates to the lesser-known system of checking account reporting that banks utilize to determine customer eligibility to open or maintain ordinary checking accounts. Two private companies, ChexSystems and Early Warning Services, create files on consumers who have had an unpaid negative balance or were suspected of fraud on previous checking accounts.[26] Banks pay a fee to access these databases. Although these systems were originally intended to detect fraud, in practice, they exclude more than a million people from accessing retail banking accounts, often due to relatively small infractions like bouncing a check or incurring a checking overdraft fee.[27]

As one financial institution executive stated, "A quick one or two strikes, and you end up with a Chex report." This "Chex report," which remains on the consumer's file for up to seven years,[26] serves as a banking blacklist prohibiting LMI consumers from entering the financial mainstream. A federal regulator stated that although "70% [of those with reports] are people who made mistakes and couldn't afford to pay," staff at financial institutions tend to "see someone on ChexSystems as a fraudster" who intentionally cheated the system. Unlike credit scores, most consumers are unaware of the checking account reporting system and have little knowledge of how to identify or correct errors that may be on record. Similarly, staff at financial institutions tend to be unaware of how to help clients remedy their checking account reporting histories. Ultimately, these systems are "a much bigger barrier to financial inclusion than most people realize," as a community advocate observed, adding, "If we want to get 70 million people banked, a large portion of that is due to them being barred due to [checking account reporting issues]."

Limited access to bank branches

A barrier to accessing financial services and products is the relative scarcity of bank branches in many low- and moderate-income neighborhoods[16] and most markedly in Black neighborhoods.[28] The trend points to even fewer bank branches in the future, particularly in communities of color, as many banks close physical branches in favor of doing more business online.[29] In Philadelphia, a focus group participant stated that in her community, "…banks are closing up and moving further out." When describing how she had kept an account for decades, though her bank had been acquired by larger banks more than once, another participant noted that, "All the banks have left me, I never left my bank." In the same vein, a financial institution leader observed that financial education for LMI individuals can be beneficial, "but if the individual doesn't have access to a financial product, then it doesn't do any good…We tell them they should save, but there are no bank branches in their neighborhood."

Though there are more account services available online, and many institutions no longer require a customer to be at a branch location to open an account, physical presence still has an impact on whether LMI communities of color are banked. Convenience is often cited as one of the major factors that determine where people bank. Focus group participants noted that a bank's proximity to home or work was an important factor when choosing where to open an account. Not all respondents regularly used a physical branch location to deposit or withdraw funds, but nearly all respondents had opened their accounts in person at a financial institution. Most of the focus group participants had used online or mobile services, but when asked how they resolved questions or problems with an account, the majority said they preferred to resolve issues in person at a branch. The next most popular option was to handle concerns over the phone. A participant who preferred going in person to her bank said she preferred it to online banking because "computers make so many mistakes." Access to conveniently located ATMs to access cash was also important across focus group participants, regardless of whether people preferred to use a branch or did most of their banking online or via mobile phones. Bank branches bring benefits to LMI communities which are lost when branches close. One important way that bank branches benefit communities is through their obligations to provide credit in their local neighborhoods under the Community Reinvestment Act (CRA). Passed in 1977 to remedy some banks' refusal to lend in lower-income areas and communities of color, the CRA created "a continuing and affirmative obligation on banks to help meet the credit needs of the local communities in which they operate [branches]."[30] Banks no longer have CRA obligations in communities once branches close their doors, resulting in diminished credit access for those communities. A federal policymaker described the various ways that physical banks benefit communities: "There still are benefits to banks because they have to comply with the CRA, so something has to go back into the community. There are also consumer protections that you have with a bank that you don't have with [non-bank online payment services]…"

Importantly, bank closures have a prolonged negative effect on the credit supply to small businesses, and these effects are concentrated in areas with low-income and high proportions of residents of color.[31]

Identification requirements

Identification requirements to establish or access bank accounts pose a significant barrier for LMI consumers, particularly immigrants and those with very low incomes. Many financial institutions do not accommodate alternative forms of identification, such as matricula consular IDs or municipal IDs. While other banks formally accept alternative forms of identification, participants indicated that individual branches still refuse to accept them as valid. This is one example of the inconsistent requirements across the industry, which discourage low-income and immigrant populations from engaging with mainstream banks. One regulator stated that their team had investigated banks' various requirements and discovered that often, "if you had two bankers from the same institution, there was no agreement about what the rule required… The problem isn't regulation, but consistent interpretation" and enforcement.

"ID issues disproportionately affect LMI consumers, based on what I've observed. Those who can afford the least get the most hassle. It shatters the confidence we're trying to build with the customer."

Variation within and between banks makes it difficult for consumers to identify which banks accept alternative IDs. As a result, these consumers are reluctant to visit institutions out of fear of being turned away. One regulator noted:

> Fear in the community is so great that it's hard to convince folks that they can open an account with the identity documents they have. Holding a training to tell people which identity documents they need is complex in itself. People both need to understand which documents they need and be convinced that a bank is a safe *and* affordable way to keep your money.

A fintech leader noted, "ID issues disproportionately affect LMI consumers, based on what I've observed. Those who can afford the least get the most hassle. It shatters the confidence we're trying to build with the customer."

Another identification issue is that low-income consumers tend to have a smaller digital footprint, which makes it difficult to verify their identity electronically. A fintech expert suggested that financial institutions' initial screening protocols often flag low-income consumers because they live in "high-risk" neighborhoods. In order to verify their identity, the system would generate questions based on the consumer's credit history, such as, "You had an auto loan in 2006; what type of car was it?" When consumers have a limited credit history, the system cannot generate those verification questions, and instead, consumers are asked to go through the onerous steps of mailing, faxing, or hand-delivering copies of utility bills, Social Security cards, or other identifying documents. This time consuming and inconvenient process is often a prohibitive barrier to establishing accounts at mainstream financial institutions, excluding many LMI consumers from the rest of the financial and economic mainstream as well.

B. The Role of Fintech

Given the numerous barriers to accessing and utilizing mainstream financial institutions, many are looking to the financial technology sector, or fintech, to meet the financial servicing needs of LMI consumers. Referring to fintech's promise, a regulator stated, "Ways to disrupt the usefulness that people find in payday lending are very welcome." Indeed, fintech has great potential to provide services to LMI consumers in an affordable way, because of their reduced physical footprint and online business model. Since they work almost exclusively online or through mobile applications or "apps," fintech companies are not limited by brick and mortar locations or branches like traditional banks. While they offer convenience and accessibility to unbanked and underbanked individuals, the majority of whom have access to smart phones,[32] the lack of physical branches also means that fintechs have lower costs[33] and can pass along these savings to customers. Investments pouring into fintech have grown more than tenfold in recent years, reaching $19 billion in 2015,[34] indicating a thriving field with potential to fill many of the barriers and service gaps within traditional banks.

According to interview and focus group respondents, despite the promise of fintech products and services, most do not see fintechs centering on the needs of LMI consumers; data security remains an issue, and the lack of regulations leaves ample room for predatory practices.

One financial institution executive observed how many fintech firms "get a lot of money behind them, but then they don't know how to reach the consumers." As a result, several fintechs have turned to this respondent's organization, which specializes in serving LMI consumers, for advice on how to reach this population. When financial products are not designed with LMI consumers in mind at the outset, gaps in usability and access can often result.

For non-English speaking consumers in the focus groups, having apps developed in their language is a major factor in using fintech. The Spanish-speaking community in Chicago reported having more experience in using technology in their banking than the Thai or Cantonese-speaking focus groups. Latinos in Chicago said they saw advertisements for fintech companies on Spanish language television, and some had learned how to use specific apps by watching videos online. In San Diego, younger English-speaking Latinos were generally comfortable in trying new online banking services and in using features such as fingerprint identification to access them on their phones.

Data security is also an important concern. Several focus group participants noted that there is no clear process for LMI consumers to identify trustworthy digital financial services among thousands of choices. A fintech leader noted that fintech companies "are not catering to the needs of inexperienced users, so consumers instead opt for the store on the corner that's doing payday lending." Focus group respondents shared that though many had adopted mobile banking apps, they were skeptical about newer fintech products that were not tied to traditional banks because of concerns about data security and identity theft. For the Cantonese-speaking community in Philadelphia, the lack of apps available in their language made them skeptical of the overall usefulness of banking apps.

"Technology could help make products more affordable, but it also opens the door to predatory products. We must find a way to leverage tech innovation while also protecting vulnerable consumers."

Compounding the data security concerns of focus group participants were recent examples of data breaches at large corporations like Target and Equifax. This seemed to fuel distrust among respondents, evoking fears from those who did not regularly use apps to conduct financial transactions. One focus group member in San Diego said she used apps for banking despite her doubts about their security, because she felt there were no alternatives to send and receive payments among many in her network. There were generational differences in the regular use of fintech across focus groups, but respondents in every discussion described privacy and security concerns about these apps. People were concerned that if they lost their mobile phones, having banking apps would lead to security breaches and loss of their funds.

Respondents also raised concerns about consumer protections and fintech. They acknowledged the reality that fintech products do not come with the same degree of consumer protections and insurance as traditional banking accounts, and several raised concerns about fintech products that did not help consumers build credit. A policymaker explained:

> People will have either prepaid cards or [online payment services] and think that they are banked when they're really [not]… These products can open up doors, but I wonder about people getting left behind or thinking that they're getting something better, but it may not be better for them credit-wise and may not be improving their credit score. Or you may be "banking" with an entity that doesn't have insurance, so you could lose your investment or be taken advantage of.

While many fintech firms have embarked on innovative, cutting-edge approaches to address the needs of LMI consumers, they are not subject to the same regulations as financial institutions. Respondents noted that fintechs often blur the line between mainstream and non-mainstream financial services, leaving room for high-tech predatory products targeting LMI consumers, such as newer, online versions of payday lenders. A respondent from an advocacy organization expressed the concern this way: "Technology could help make products more affordable, but it also opens the door to predatory products. We must find a way to leverage tech innovation while also protecting vulnerable consumers."

Regulating fintech is one way to hold firms accountable to the needs and vulnerabilities of LMI consumers, and to address concerns about data security and trustworthiness of new kinds of non-bank financial institutions. One fintech leader advocated for "principles-based regulations that can evolve with technology." State consumer protection laws play an important role in regulating the fintech space, and in July 2018, the federal Office of the Comptroller of the Currency (OCC) announced that it will issue special-purpose national bank charters to non-depository fintech companies.[35] Many in the consumer advocacy arena have argued that by creating a new class of "national bank," the OCC would allow fintechs to circumvent state consumer protection laws like interest rate caps and limits on fees for loans and services.[36] To prevent widespread, predatory, high-tech AFS, it is essential that the special-purpose charters for fintechs take steps to ensure meaningful, enforceable, and consistent consumer protection standards.

C. Alternative Financial Services Fill a Dangerous Void

As mentioned previously, the high barriers to utilizing mainstream financial services and limited fintech options drive many LMI consumers to turn to high-cost AFS like payday lending, pawn shop loans, check-cashing, and auto title loans. Underserved communities paid more than $173 billion in fees and interest for AFS in 2017.[8] One financial executive mentioned that pawn shops are of particular concern, noting that "Their largest revenue stream comes from lending. In many states, there aren't usury laws around lending in pawn shops, so you can get $300 loans at 300% interest rate." Since pawn shops do not require established credit, a bank account, or a job, loans through pawn shops are one of few options available to the most vulnerable low-income consumers.[10]

Interview and focus group respondents pointed out that rent-to-own stores that sell items such as furniture, computers, and even car tires specifically target LMI consumers. Where middle- and upper-income consumers can often rely on reasonably priced credit cards or cash to make certain purchases, LMI consumers who lack the creditworthiness or reliable financing options often turn to rent-to-own services that can legally charge exorbitant rates and fees for financing. In one example, a computer priced at $851 would cost a borrower $4,459 if paid over the full duration of a rent-to-own store's 21-month term.[37] Further, if borrowers default on rent-to-own payments, severe consequences can result, such as the repossession of cars—the primary mode of transportation for many LMI workers and those seeking employment.

AFS provide services that LMI consumers need, including small-dollar and short-term loans. However, this comes at high cost. These products tend to be unaffordable, exploitative, and ruinous for LMI families and communities when AFS operate without meaningful market-based competition by more regulated financial institutions.

When asked if they had used an AFS in the past few months, the majority of focus group participants said they had not and specifically cited the high fees associated with products like payday loans as reasons to avoid having to use them. It is important to note, however, that focus group respondents were recruited from community-based service providers that specialize in financial literacy and education services for low-income residents.

D. Weakening of the Consumer Financial Protection Bureau

Consumers, who may often be unaware of their rights, are vulnerable to unscrupulous financial practices. The Consumer Financial Protection Bureau (CFPB) has a critical mission and purpose to inform consumers of their rights and promote consumer protections for financial products. One regulator explained that the CFPB's charge was to help the "common person," who may not understand the important role that consumer protections play in their financial condition. However, several interview respondents expressed concern that the CFPB has been significantly weakened under the current federal administration.

"I'm very concerned that some of the headway that the CFPB has made in the lives of consumers is really being disrupted significantly."

For instance, the 2018 reorganization of the CFPB stripped away the enforcement powers of the unit responsible for pursuing discrimination cases,[38] and added a new focus of addressing "outdated, unnecessary, or unduly burdensome regulations."[39] One banking executive described the "systematic dismantling of the CFPB" as a dire threat to the future of banking for LMI consumers. A regulator stated, "I'm very concerned that some of the headway that the CFPB has made in the lives of consumers is really being disrupted significantly." As a result of recent federal actions, the CFPB has decreased its focus on several threats to LMI consumer financial protections, such as the adoption of alternative credit-scoring models and tighter regulations on payday lending services.

E. Opportunities for Innovation

The challenges that LMI consumers of color face within the financial services sector are substantial but not insurmountable. Interview and focus group participants identified opportunities for innovation, industry improvements, and regulatory actions that would lower barriers to effective financial inclusion for LMI people of color. Respondents suggested innovations in several areas, including reforms to credit rating models, new business models for financial institutions, and ideas for connecting more vulnerable consumers to existing safe, affordable financial products that are more tailored to specific needs of LMI consumers and the most vulnerable of the underbanked population.

Alternative data for credit ratings

The barriers related to poor credit and limited credit-building opportunities for LMI consumers, immigrants, and others who are left out of the financial mainstream led many respondents to discuss alternative credit rating models. Under the present scoring system, public utilities, telecommunications companies, and landlords report delinquencies to credit bureaus that often harm credit, but they are not required to report on-time payments that could improve credit histories for LMI consumers.

Adding on-time payments from these sources could open the credit market to a larger segment of the 45 million responsible consumers and borrowers who are currently credit invisible and/or un-scorable.[24] This change would unleash the full financial market potential of those who have historically been excluded by increasing credit access to LMI households, non-native English speakers, immigrants, and other segments of the unbanked.[40] A community leader explained the strategy in this way:

> Most [LMI] people have a phone or cell phone and pay their bills regularly. That could be captured on a credit report. Right now, it isn't, unless you're delinquent. Those on-time payments could be captured into the credit system, showing that this person has a history of paying their bills on time. Same thing with utilities. [The goal] is really just to pull in more data so that people who are currently not visible to the credit system become visible.

There are varying perspectives among experts and advocates on the inclusion of alternative data like utility bills and rent payments for credit-scoring purposes. Some critics argue that amending the credit reporting system would harm people who are late in paying their rent or utilities. However, these delinquencies can already be reported to the credit bureaus. The experts we interviewed suggested that additional positive data and reporting requirements would have a net benefit by increasing the scoring potential of millions of LMI consumers who are not currently in the system at all. Policymakers should continue to weigh the options to reform the credit-scoring systems to help unlock the positive benefits for LMI consumers, who need access the most and pay the highest costs for being excluded.

New business models for financial services

As noted previously, the fees and balance requirements for ordinary checking accounts at commercial banks are often too costly, prohibiting LMI consumers from entering the financial system in a productive way. Interview respondents noted that this is largely due to outdated business models upon which most banks operate. A fintech leader explained, "Banks' business models are still reliant on overdraft fees. The business [revenue] model doesn't quite exist" that would allow banks to offer LMI consumers a truly free checking account that promises more long-term revenue once they are in the system. To address this issue, interview and focus group respondents emphasized the need for mainstream financial institutions to establish updated business models that allow for lower-cost financial services and fewer barriers to entry for new account holders. The Center for Financial Services Innovation (CFSI) suggests that financial services organizations should update their business models by using an expanded definition of "success" that includes positive outcomes for clients, as well as positive returns for the business. Doing so, according to CFSI, would improve consumers' financial health and enhance institutions' competitive advantage and financial returns from other products down the line.[41]

Innovative loan products

LMI consumers need low-cost, accessible financial services, including quick, affordable credit with flexible repayment options, in all areas of financial life—ordinary checking/savings options, auto-financing, home mortgages, small business supports, and long-term investment vehicles. Interview respondents emphasized the need for financial institutions to provide low-cost, small-dollar loans with shorter terms. They stressed this point due to the lack of market alternatives to AFS that are often predatory, overpriced, and fail to build credit histories. A federal regulator explained that people use payday loans because "It's convenient and they're friendly. It's convenient because it's quick and on demand, so they're happy to pay the fees. Banks could do that: banks can offer low-cost loans and turn them around quickly."

LMI consumers also need access to products that are specifically designed to help them establish and build their credit. Experts in the financial services field highlighted several models for consumer loans that were specifically designed to help LMI users manage and pay back debt, that also addressed the need to build credit, such as credit builder loans, small business micro-loans, and a loan fund for contractors. More widespread use of similar products could have long-term economic benefits for consumers far beyond their short-term needs. A financial institution executive described the benefits of one such loan product by saying, "…[T]hey can take care of a problem that they would've gone to a payday lender to address. When they do this loan instead, this actually builds their credit *and* takes care of the problem."

In discussing the need for affordable credit and loan products across various areas of financial life (home, auto, retirement, etc.), respondents highlighted lending models that incorporated financial education and coaching in tandem with the products themselves. Focus group participants felt empowered by learning how to navigate various aspects of the financial system, while simultaneously addressing a financial need. Several respondents expressed a desire and appreciation for services that helped them understand the fundamentals and importance of the financial service sector, and how it can be useful in their everyday lives and aspirations to purchase a home, pay bills, or save for the future. They expressed a desire to better understand the importance of credit lines and credit scores, and how good scores translate into cheaper pricing for financed goods and services.

A community organization leader focused on financial coaching for residents described the value of one model that married good loan terms to credit counseling for LMI borrowers:

> One thing [a large national bank] had pre-foreclosure crisis, was a program where if you signed up for housing counseling, you'd pay no mortgage insurance—zero—for the life of the loan. It was below market interest rates. It was linked in partnership with housing counseling groups to say that the likelihood that these applicants are going into foreclosure is much less due to housing counseling. It made a huge difference in terms of housing payments.

However, the respondent suggested that they were not aware of similar programs since the foreclosure crisis. Several other respondents also observed that credit for LMI consumers had indeed "dried up" in recent years. One community leader stated succinctly, "We were trying to get rid of all the predatory financial products, but instead people aren't lending at all."

While this concern is substantiated,[42,43] a handful of mainstream financial institutions have stepped into this space and begun offering innovative loan products. One Community Development Financial Institution (CDFI) in our sample offers a range of loan products designed to meet the needs of LMI consumers. One of their executives described their small business micro-loans as "business loans in that five, six, seven, 12,000 dollar range, where even someone with perfect credit wouldn't get from a bank because it's just too small." If they became widely available, services of this kind would offer a viable, affordable alternative to payday lending.

Spotlight: Fuente Credito

Fuente Credito, a small-dollar credit pilot program coordinated by UnidosUS, facilitates access to affordable loans to help LMI consumers, with an emphasis on assisting immigrants to afford the costs associated with adjusting their immigration status or pursuing citizenship.

Fuento Credito:

- Enables community-based service providers to pre-qualify their clients for safe and affordable small-dollar credit or lending circles.
- Offers an online credit application designed to provide fast and personalized options for immigrants who need assistance in financing immigration fees related to Deferred Action for Childhood Arrivals (DACA), citizenship, or other legal services.
- Provides a secure website; compiles loan products from FDIC-insured credit unions, CDFIs and online lending circles; and leverages the expertise of UnidosUS Affiliate organizations in serving immigrant populations in culturally and linguistically relevant ways.

More information at www.fuentecredito.com.

Spotlight: Justine Petersen

Justine Petersen, a credit-building and microlending organization in St. Louis, Missouri, offers several loan products targeted to the needs of LMI consumers:

- **Small business micro-loans:** Loans typically up to $10,000 for small businesses that do not have access to commercial or conventional loans.
- **Contractor loan fund:** Offers short-term financing so contractors can afford to bid on larger construction jobs that require upfront capital but do not pay until the end of the project.
- **Credit builder loans:** Loans designed to build the practice of making on-time payments, while also saving or paying off a debt; all on-time payments are reported to the credit agencies.

More information at www.justinepetersen.org

The above findings from consumers and leaders from the community, banking, and policy sectors highlight numerous challenges that LMI consumers of color face in pursuit of financial inclusion, as well as opportunities for innovation. To address the challenges identified in this report, various sectors must work together, building on existing models, to create a truly inclusive financial system. The following section provides recommendations to move toward a financial system that advances full financial inclusion for LMI consumers of color and allows opportunity for safe innovation.

RECOMMENDATIONS: REFORMS TO POLICY, PRODUCTS, AND PRACTICES TO ADVANCE FINANCIAL INCLUSION

This research underscores ongoing barriers to financial inclusion that must be addressed to help the 63 million unbanked and underbanked reach financial inclusion. Altogether, the following recommendations can enhance industry practices, government policies and regulations, and support communities to collaborate with banks, fintechs, and public officials to advance full financial inclusion for LMI consumers of color.

Financial Services and Banks | Government
Community Organizations | Fintechs

Connect LMI consumers to appropriate financial products

Problem: Navigating the banking world is complicated, especially for people with low-income and those living in high-poverty neighborhoods. Barriers to access include identification requirements, language access, costly services, and limited product offerings that address the financial needs of LMI populations.

Solutions:

Create a nationwide network of "financial navigators." Financial institutions should collaborate with their local communities, government, fintech firms, and philanthropy to create a network of "financial navigators" who can reach customers within the underbanked and unbanked population nationwide, help them connect to appropriate financial products, and guide them as they progress through various financial needs.

- Navigators can build on existing networks of community-based credit and financial coaching/education models, and additional partnerships should be developed to reach full scale.

- Banks should tap into direct pipelines, resources, and connections in their existing networks and should partner with community organizations, online fintech platforms, government agencies that contract with local service providers, and others who can advance effective public/private/community partnerships to reach the underserved.
- Navigators' and partners' strategies and activities should advance opportunities to bank the underbanked by onboarding people into a safe banking relationship—a banking home—that connects them to the financial mainstream and offers opportunities for progression from "pre-prime" to prime credit products.

Build partnerships to meet the multidimensional needs of LMI and underbanked consumers. Financial institutions, fintechs, government agencies, and community-based organizations (CBOs) should build partnerships and referral networks to better serve the complex needs of LMI consumers and help underbanked individuals connect to the financial mainstream.

Financial institutions and fintechs should work in partnership with public agencies and CBOs to connect LMI clients to public resources, such as food assistance (Supplemental Nutritional Assistance Program, or SNAP), offer budgeting tools, and direct them to internal or external financial coaches or "navigators" (see above).

Public agencies and CBOs should establish relationships with reputable financial institutions, to which they can refer unbanked and underbanked clients, as well as those in need of particular financial products.

Financial Services and Banks | Fintechs

Increase accessibility and utility of financial products and services for LMI consumers

Problem: Many LMI consumers cannot afford to bank with mainstream financial institutions due to high fees and minimum-balance requirements. Faced with few affordable alternatives, LMI consumers spend millions in fees and interest for high-cost AFS each year. In addition, identification requirements and lack of linguistic accessibility prevent many LMI consumers, particularly immigrants, from achieving full financial inclusion.

Solutions:

Update business models to monetize client success. Banks and financial institutions should create new business models that refocus on customers' success.

- Reduce or remove initial deposit requirements, minimum-balance requirements, and high fees that deter LMI consumers.
- Create innovative loan products that work for LMI consumers, including short-term, small-dollar loans, and loans designed to build credit.

- Offer products that are sensitive to religious or cultural restrictions, outside of what is traditionally offered, particularly with savings products. This generates revenue for banks.
- Design products to meet clients where they are and help them move from “pre-prime” to prime credit status. This can help establish a healthy financial ecosystem of widely available supports, resources, tools, and products that work for people at every income level.

Increase language access. Financial providers should partner with effective language service providers to co-design and offer the full suite of products, services, and written materials for all common languages spoken within the banking footprint.

- Example: Offer remote translation services in banks where multilingual staff are not available.
- Partner with community-based organizations working with clients who are not predominantly English-speaking to develop fintech models.

Accept alternative identification. Banks and financial institutions should accept matricula consular and municipal identification cards, and Individual Taxpayer Identification Numbers (ITIN), and ensure consistent identification rules are transparent, enforceable, and made publicly available to all potential customers, staff, and community residents within the banking footprint.

- Conduct public awareness campaigns in target markets to inform the public of acceptable forms of identification, new developments toward language accessibility, and product offerings. Invite recommendations for product/service innovations that work for LMI users to attract them to the banking system in a safe, sustainable manner.
- Provide updated training to bank staff and customer service representatives to ensure that they have accurate information on bank policies guiding the acceptance of alternative forms of identification.

Government – Federal Policy and Regulations*

Reform policies and regulations to create meaningful access for LMI consumers

Problem: LMI people of color are excluded from the consumer credit and banking systems partially due to reporting systems practices, limited use of data, and a lack of consumer understanding of how to engage reporting systems and standards. Additional channels are needed to properly protect against fraud, and to assess creditworthiness, and federal consumer protections must set the standards for how all LMI consumers are protected under the law.

* The focus of this report is on federal reforms and needed protections that can be uniform across all U.S. vulnerable populations and jurisdictions.

Solutions:

Reward inclusive finance models. Federal regulators and policymakers should create a system of formal, public recognition and incentives for financial institutions that successfully serve LMI clients' financial needs and maintain branches in LMI communities.

- Metrics should be based on financial outcomes that are tied to enhanced economic mobility and financial capability. For instance, financial institutions may be recognized for offering a wide range of products that meet the needs of people from all wealth and income levels, and for successfully helping people to matriculate and graduate from starter checking accounts with no fees, to prime consumer or business loans.
- Credit bureaus should allow the reporting of credit activity by ITIN holders and clarify this in guidance to lenders.

Require transparency and access to checking account reporting systems. Oversight agencies should develop regulations to make the checking account reporting system more transparent to consumers, and actively encourage the industry to raise awareness about how to properly address concerns or discrepancies that exclude potential customers from banks.

- ChexSystems and Early Warning Services should be required to offer full, plain-language disclosures, similar to time-to-repayment tables that are required of credit card companies.
- Regulators should establish a clear process for resolving consumer disputes that require an agency response and provide public channels for consumers to report abuses.

Require review of alternative credit data. Credit reporting agencies should be required to explore the potential net benefits and consequences of adding alternative data sources to credit scoring algorithms.

- The long-term goal should be to reduce the number of credit invisibles and unscorables from 45 million[24] to zero.
- Government should consider the short- and long-term effects of credit bureau data collection to produce a uniform metric that is more inclusive for all segments of U.S. borrowers and potential borrowers.
- Alternative data considerations should include information such as on-time rent payments to corporate landlords, telecommunication services, and utilities.
- Policymakers should review this industry study to provide guidance on how to achieve the greatest benefit for all consumer segments, including underserved LMI users.

Expand the Community Reinvestment Act (CRA). Policymakers should update the CRA to include credit unions, non-bank mortgage originators, and fintechs within CRA jurisdiction, and maintain a focus that ensures access for underserved populations and communities.

- Representatives of some fintech products have argued that they exist to plug financial sector gaps in consumer lending and retail banking products. Thus, they should be subject to similar CRA obligations as other consumer retail banks.

Enhance federal consumer protections. The federal government (including all federal bank regulators such as Federal Deposit Insurance Corporation (FDIC), OCC, and CFPB) should recommit to protecting consumers and informing them of their rights.

- Prevent predatory lending practices: Regulators should renew their commitment to strengthening regulations on alternative financial services (AFS), including limits on fees, and require AFS to report on-time payments to credit bureaus.
- In order to address the decline in available affordable credit, particularly for LMI consumers and consumers of color,[42,43] regulators should set aside funding to encourage financial institutions to develop innovative loan products aimed at building wealth among LMI consumers, such as mortgage loans that are tied to the completion of financial counseling.
- Expand consumer education and make efforts more visible and accessible, particularly in communities with high concentrations of LMI populations. Information should be included in print and digital media, statement disclosures, written correspondence, and community-wide resources in all areas of consumers' financial lives (e.g., on bank statements, fintech, and financial institution websites; utility bills; etc.) and meet the language needs of non-English speakers.
- Enforce fair lending and anti-discrimination laws to protect against red-lining practices, allowing LMI communities of color to fully access credit.
- Encourage financial institutions to accept various forms of identification and the information necessary to open an account and have a sufficient customer profile.

Regulate and support fintech solutions that work for LMI users. Create a regulatory structure that fosters innovation while protecting consumers from predatory lending practices.

- Ensure products and services are safe, secure, and advance the financial interests of the end-user, particularly LMI users.
- Align fintechs' data security and consumer protections standards to match or exceed traditional banking product regulations under the original intent of the CFPB, regardless of agency jurisdiction (*i.e.*, Office of the Comptroller of the Currency, Federal Depository Institution Corporation, and others that may have different jurisdictional authority).

Community Organizations and Consumers

Raise awareness and encourage reform and innovation

Problem: The financial industry needs community input in product and service development, industry regulations, and corporate practices in order to reach the 63 million unbanked and underbanked adults, improve services for LMI consumers, and build a thriving system for all.

Solutions:

Connect community organizations with financial institutions. Community organizations should continue to seek out relationships with financial institutions in order to forge pathways for ongoing communication and innovation.

Expand community organizations' advocacy for inclusive, affordable financial products and services. Community organizations, which already play a critical role in understanding the financial needs of their members, should continue to listen to clients' needs and amplify their clients' voices in discussions with financial institutions, fintechs, regulators, and policymakers.

- Community organizations can provide simple ways for consumers to share their concerns, frustrations, and ideas.

Raise the voices of individual consumers. Individual consumers, including people struggling with low- and moderate-income, those who are frustrated with the high fees associated with AFS, those who want to become fully banked, and those who have innovative ideas for financial products and services, should share their thoughts with decision makers via community organizations and other advocacy efforts.

CONCLUSION

Low- and moderate-income people continue to face significant barriers to banking with mainstream financial institutions, including identification requirements, the high cost of services, language barriers, credit requirements, checking account reporting, and fewer bank branches in LMI communities. Although fintech holds promise, LMI consumers will still face obstacles to full financial inclusion if reforms, incentives, and careful regulations are not in place. Federal consumer protections are waning, and high-cost AFS remain problematic at wide scale. A comprehensive review and set of reforms are needed to ensure LMI communities will be able to access safe, affordable, and productive financial services and products that empower them to enter the economic mainstream. There is ample room for innovation to ensure that everyone has access to affordable short-term credit, retail banking, and savings for future events like retirement and children's education. Careful collaborations among financial institutions, fintechs, and government can lead to financial inclusion and success for those who are currently underbanked.

As financial services, fintech, policy, and regulation continue to evolve in response to a changing economy, it is essential to continuously focus on the goal of financial inclusion for all. A more equitable economy is possible if LMI consumers of color and others who have historically been excluded are ensured meaningful access to safe and productive financial services that help consumers participate, prosper, and reach their full potential. This report represents only a segment of concerns that were shared by LMI consumers and experts throughout U.S. communities. Government, philanthropy, banks, and fintechs need to hear community voices. Local efforts, state advocates, and national movements are essential to inform and reshape how the financial services industry interacts with the most vulnerable populations.

A financial economy that works for the 63 million unbanked and underbanked will also work for the 96 million living in or near poverty—and thus, for the nation. The nation needs the 63 million unbanked and underbanked as contributors to the mainstream financial economy and enhancing their financial inclusion will directly impact the nation's economic growth. It will support the emerging majority's ability to afford stable housing, build wealth, and to save for the future. The implications cannot be ignored: the future of the nation's economy is dependent on how low-income communities and communities of color are able to advance up the financial and economic ladder.

ENDNOTES

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