February 20, 2024

Natalia Li
Director, Office of Consumer Policy
Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, D.C. 20220

Re: Request for Information on Financial Inclusion (TREAS-DO-2023-0014)

Dear Director Li:

Thank you for the opportunity to comment on Treasury's work to develop a national strategy to improve financial inclusion. We appreciate Treasury's recognition that true financial inclusion must address the historic and intentional exclusion of people and communities of color, low-income people and communities, and others who have been systematically excluded by the mainstream financial system. Treasury's development of a national financial inclusion strategy is an opportunity to close gaps in the community development field, hold financial institutions accountable for serving communities equitably, and expand opportunity for all.

Since our founding in 1974, Inclusiv's primary focus has been achieving financial inclusion through community development credit unions (CDCUs), which are member owned and governed not-for-profit financial cooperatives that provide affordable and responsible financial services to underserved people and communities. CDCUs ensure millions of people have safe and affordable checking and savings accounts to meet their daily needs and a long-term relationship with a trusted financial institution that can help them in their journey to achieve the level of financial security needed to consider taking out a small loan to build credit and then work toward wealth-building activities like buying a home. These basic financial services are the bedrock of financial inclusion but many financial inclusion and community development efforts focus on solely on lending, which overlooks people who have the fewest resources and face the most significant exclusion from the mainstream financial system.

There are many opportunities to advance financial inclusion in the United States, including by increasing federal supports for mission-driven community development credit unions that focus on financial inclusion, expanding access to asset building supports, addressing high-cost and predatory products and services through effective regulation, and ensuring that people living in frontline and historically redlined communities are able to access and afford critically needed investments in climate resiliency and clean energy. We look forward to continuing to work with Treasury to develop and implement effective financial inclusion interventions.

About Inclusiv

Inclusiv is the national network of community development credit unions (CDCUs) committed to promoting financial inclusion and equity through credit unions. The Inclusiv network represents more than 500 community development credit unions serving more than 20 million people in predominantly low-income urban, rural, and

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reservation-based communities across 47 states, Washington DC, the U.S. Virgin Islands and Puerto Rico. Inclusiv channels capital to and the builds capacity of these institutions that are dedicated to serving low-income people and redlined and disinvested communities that mainstream financial institutions fail to serve.

About Community Development Credit Unions

Community development credit unions provide safe and affordable financial services and loans that help low- and moderate-income communities and communities of color that have been shut out of the mainstream financial system thrive. CDCUs are member owned and governed not-for-profits and ensure that community members' deposits are reinvested in the local economy, including in small and worker-owned businesses, both traditional and cooperative homeownership, and investments in clean energy projects and energy efficiency upgrades for homeowners. CDCUs are also a vital part of the cooperative movement and have a long history of partnering with worker cooperatives, community land trusts and other housing cooperatives, and consumer and producer cooperatives to build democratic institutions that support community wealth building, household financial well-being, and thriving neighborhoods.

Defining Financial Inclusion

True financial inclusion means that all people living in the United States and its territories have ready access to safe, suitable and affordable financial products and services needed to carry out their daily lives, save for the future, and plan for and manage financial shocks—and that they know how to access and use these products and services effectively. Too often discussions of financial inclusion are limited to access alone when affordability, safety and sustainability are also key considerations for whether financial products and services will help or harm people currently excluded from the financial mainstream. It is important that Treasury consider outcomes of individuals' and households' use of financial products and services to determine whether they have succeeded in advancing financial inclusion.

Inclusive financial institutions must educate their members or customers on how to use their offerings, provide culturally and linguistically appropriate services, and help their members or customers avoid high-cost products and predatory debt traps. It is also critical that financial institutions design their products and services to take into account systemic racism in the financial system, for example, the well-documented racial bias of credit scores. Without affirmative steps to make affordable credit available to people whose credit has been damaged because they were targeted for predatory loans or experienced other forms of discrimination, Black communities and other communities of color will remain underserved.

Key products and services that everyone should have ready and affordable access to include but are not limited to:

- Checking and savings accounts and CDs with low fees and fair overdraft and nonsufficient funds policies that ensure a small number of low-income customers do not pay the majority of fees;
- Small loans to meet immediate households needs, including credit cards, credit builder loans and overdraft lines of credit;
- Affordable auto loans, including financial coaching to help borrowers understand and access tax credits for electric vehicles;
- Affordable unsecured loans for energy efficiency home improvements and other needs, paired with financial coaching to ensure borrowers are aware of any applicable tax credits or rebates;

- Mortgage loans, including for ITIN holders and first-time homebuyers;
- Small business loans – including start-up microenterprise loans, lines of credit and working capital, and larger loans for employer businesses;
- Free financial education and financial coaching to support financial well-being;
- Affordable remittance and other money transfer services; and
- Other financial products like property and casualty insurance, health insurance, and retirement savings options are all also critical to financial inclusion and people's ability to spend, save and plan effectively.

Community development credit unions are leaders in many of these areas:

- CDCUs provide safe and affordable transaction accounts to more than 20 million people. CDCUs typically offer accounts with accessible ID requirements, low minimum balance requirements and fair and affordable fee structures.
- CDCUs are committed to meeting members' credit needs, including by offering small loans that are not typically available from mainstream financial institutions but instead are offered with predatory terms by payday lenders.
- CDCU auto loans are deeply affordable and designed for low-income borrowers. CDCUs focus on used car loans and in 2022, the most recent full year of data available, CDCU used auto loan interest rates were a full 3 percentage points lower than the market average, which translates into savings of more than $2,000 for the typical borrower over the life of the loan.[1]
- CDCUs are also leading mortgage lenders, helping nearly 160,000 households become homeowners in 2022, in addition to providing affordable refinance loans and home equity lines of credit.[2]
- CDCUs made $11.7 billion in small business loans in 2022, often reaching sole proprietors and other very small businesses who are not served by typical small business lenders.[3]
- CDCUs have a strong focus on member education, providing financial empowerment services including coaching and financial education to help their members achieve financial stability and work toward their long-term goals. Inclusiv's research has shown that 93% of CDCUs offer financial education or coaching. [4] And this work is effective: more than 60% of participants in CDCU coaching offered through the Pathways to Financial Empowerment program improved their credit scores.
- CDCUs have a strong track record of serving immigrant communities by providing multi-lingual services (nearly half of CDCUs offer services in multiple languages) and relevant products like affordable remittances and ITIN loans.[5]

In short, financially inclusive products and services must be fairly priced, not use credit scores or other markers of socio-economic status to determine who has access to affordable products and services, be marketed and provided in the major languages spoken in the community, and be responsive to local needs – whether that's providing services in multiple languages and ensuring all products are available to ITIN holders in immigrant

[1] https://inclusiv.org/financial-inclusion-in-action-2023/
[2] *Ibid.*
[3] I*bid*
[4] https://inclusiv.org/financial-empowerment-impact-report/
[5] I*bid.*

communities or designing products and services that help people manage income volatility in low-income communities and communities of color in which many people work in the gig economy.

Barriers to Financial Inclusion

The mainstream financial system reinforces structural racism and other longstanding inequities based on gender, immigration status, ethnicity and other aspects of identity in many ways, ranging from widespread practices like using biased credit scores to price loans to more esoteric practices like considering an individual's level or education and job when pricing insurance. Examples of major barriers to financial inclusion in the financial system that stem from and reinforce systemic racism and other forms of discrimination include:

- Relying on credit scores for access or pricing, rather than considering the full picture of an applicant's qualifications and ability to repay;
- Ongoing redlining, including many banks' failure to open or maintain branches in communities of color and well-documented disparities in approval of mortgage loans by race and ethnicity, even when controlling for income, debt and other factors;
- Fee structures and pricing that do not support people in succeeding with the product—for example, the prevalence of high-cost credit in poor communities that penalizes people for being poor and creates a self-reinforcing cycle of damaged credit leading to higher payments;
- Predatory lenders that target people excluded from the mainstream financial system—most often people of color, immigrants and low-income people—for high-cost, exploitative products that are designed to trap people in cycles or debt and that limit their eligibility for mainstream products in the future by damaging their credit records or ChexSystems records;
- Using demographic and socioeconomic data to price insurance or other financial products;
- Restrictions on federal supports that limit financial institutions' access to the secondary market and federal guarantees for high-quality loans made to people with imperfect credit records and ITIN holders; and
- ID requirements that exceed regulatory requirements and exclude people with ITINs and people who are unhoused from accessing needed financial services.

Many of the other systemic barriers to financial inclusion are symptoms of broader social inequities like lack of broadband access in rural and low-income areas, lack of language access services for people with limited English proficiency, and income volatility experienced by gig workers and others with unstable employment. People who have been incarcerated face additional barriers to financial inclusion and should be a key area of focus in financial inclusion efforts.

Measuring Financial Inclusion

The FDIC's bi-annual National Survey of Unbanked and Underbanked Households provides key measures of financial inclusion, including how many Americans are unbanked and underbanked by race, ethnicity, and other demographic and socioeconomic markers. The Survey's data on use of alternative financial services and why respondents do not use mainstream banking options are critical tools to understand where the mainstream financial system is falling short in providing inclusive options.

In addition to data on use of financial products and services, Treasury should also track the outcomes of people's interactions with the financial system by developing and monitoring national benchmarks including:

- Equity in mortgage lending, including analyses of loan applications, decisions and homeownership rates by race, ethnicity, gender and age for individuals as well as examining outcomes in communities of color and low-income neighborhoods.
- Levels of consumer debt and payment/default status in communities of color and low-income communities compared to white and upper-income communities.
- Comparisons of credit scores by both individual and neighborhood demographics to track how inequities built into the credit scoring system affect people's financial well-being and whether interventions to reduce bias are working.
- Equity in small business lending outcomes once the Consumer Financial Protection Bureau's new small business lending data disclosure rule goes into full effect.
- The cost of tax preparation and financial products sold alongside tax preparation, like refund anticipation loans, by neighborhood demographics.
- The provision of homeowners insurance, including examination of policy non-renewals, by neighborhood demographics and incidence of climate-driven disasters.

Treasury should also track systemic metrics, like availability of bank branches, credit union branches, non-depository CDFI locations, and high-cost/fringe financial services locations, comparing communities of color, rural communities and low-income communities with their typically better-served white, urban and upper-income counterparts. Understanding which institutions are reaching underserved communities and where gaps still exist will help Treasury develop effective financial inclusion programming and direct existing resources to the places that need them most.

<u>How Inclusiv Monitors Financial Inclusion</u>

Inclusiv tracks financial inclusion in the communities our member credit unions serve using our Financial Inclusion Data Analytics Platform, which collects and analyzes data from hundreds of CDFI credit unions and documented the impact of more than a million loans totaling more than $25 billion last year. Our analysis helps community development credit unions ensure they are directing their lending to low-income people and communities as well as to people of color. We also provide impact metrics to our members to help them monitor their progress on advancing financial inclusion in their communities. In addition to working with our CDFI credit union members to track their impact, Inclusiv also partnered with Neighborhood Trust Financial Partners to develop Pathways to Financial Empowerment, a financial coaching platform that tracks coaching activities and outcomes, helping credit unions support their members in improving their credit scores and reducing debt.

Actions to Promote Financial Inclusion

There are many opportunities for Treasury to expand on its work to promote financial inclusion, under its own authority and in collaboration with other federal agencies.

<u>Office of Community and Economic Development</u>

The Community Development Financial Institutions Fund (CDFI Fund) plays a critical role in funding mission-driven, accountable financial institutions, supporting them in creating high-impact products and services and providing high quality financial coaching and other development services. The recent updates to the CDFI certification standards will strengthen this vital program that has allowed hundreds of community development credit unions to deepen their financial inclusion work in underserved communities across the country. Increasing opportunities for CDFI depositories to use CDFI funding to expand their provision of financial services rather than lending, especially in communities experiencing persistent redlining and poverty, is an important step toward achieving financial inclusion.

In addition to the CDFI Fund, Treasury's Emergency Capital Investment Program (ECIP) has had a transformative impact, providing more than $2 billion in long-term subordinated debt to high-impact CDFI and Minority Depository Institution (MDI) credit unions, fueling expansion of their small business lending, mortgage lending and other key programs. ECIP's incentives for deep impact lending are unique among federal funding programs and should be considered a model for future lending-focused programs. ECIP is especially critical for MDI credit unions, as many MDI credit unions are significantly under-resourced and are under-represented among CDFIs despite many MDIs being potentially eligible for CDFI certification.

IRS

Treasury also supports access to free tax preparation through the IRS's support for VITA sites. Many community development credit unions and their non-profit affiliates organize VITA sites, saving low-income tax filers hundreds of dollars each in fees and ensuring they have affordable and safe accounts in which to have their tax refunds direct deposited. VITA sites help ensure that vital income supports like the Earned Income Tax Credit stay in low-income people's hands and prevent unscrupulous actors from siphoning off those benefits with high fees and expensive short-term credit. Increasing grant support for VITA sites and supporting the expansion of key income supports in the form of tax credits, like the Child Tax Credit, are both efficient ways to promote financial inclusion.

As Treasury continues to develop rules to implement the Inflation Reduction Act's tax incentives, it should ensure the rules focus on increasing opportunity for communities of color. Once the tax incentive programs are active, Treasury should monitor the performance of the programs to ensure they are meeting their racial equity and emissions reductions goals and revisit the program rules, if necessary to achieve these goals.

The IRS also has the opportunity to enhance financial inclusion for tax filers who use ITINs by streamlining the ITIN acceptance process as detailed in comments submitted by UnidosUS. Expanding access to ITINs will help more people effectively manage their finances, pay taxes, and invest in their futures.

Federal Insurance Office

The Federal Insurance Office also plays a key role in advancing financial inclusion. The November 2023 data call on climate-relate financial risk to consumers is critically needed to address the dual insurance crises of insurance redlining of Black communities and other communities or color and the surging cost and lack of availability of homeowner's insurance in front-line communities facing climate disasters. Lack of affordable insurance options can lock people out of homeownership, endanger long-term homeownership and significantly reduce geographic and economic mobility.

Interagency Coordination

In addition to work Treasury can undertake under its own authority, there are many other opportunities to advance financial inclusion through interagency coordination. Key opportunities include:

- Working with FHFA to expand the GSEs' credit box and the development of a robust secondary market for high-impact, currently non-conforming loans, including ITIN loans.
- Coordinating with the SBA to develop and implement streamlined guarantee programs for small loans to very small businesses and guarantee loans made to ITIN holders.
- Sharing the results of any systemic analysis of financial inclusion Treasury conducts with the prudential banking regulators to highlight areas of concern for Community Reinvestment Act examinations and create opportunities to engage banks in advancing financial inclusion.
- Coordinating reporting requirements across federal programs for financial institutions participating in financial inclusion grant programs. Consistent data will not only save grantees time and resources but will also provide the federal government with a consistent data set with which to monitor the progress of financial inclusion initiatives.

Financial Inclusion in Action – Highlights from the CDFI and CDCU Movements
Inclusiv and community development credit unions across the country are already enacting innovating financial inclusion programs that can serve as models for mainstream financial institutions. Just a few examples of this work include:

Lower East Side People's Federal Credit Union, a CDFI and MDI credit union serving New York City, is working to provide critically needed financial services in the Bronx—one of only three persistent poverty counties in the Northeast—after a spate of bank branch closings left many residents without an accessible financial services option. While it works to open a new branch location to serve the South Bronx, the credit union has partnered with local nonprofits to schedule regular events that allow the credit union to serve the community using the credit union's mobile branch. New members are predominantly low-income and immigrant New Yorkers who are seeking basic transaction accounts and small loans.

River City Federal Credit Union, a CDFI and MDI credit union serving San Antonio, has advanced financial inclusion by using CDFI, Rapid Response Program, and the Equitable Recovery Program grants to expand their reach into their markets by making more loans available to communities and neighborhoods that have been traditionally underserved. Additionally, they were able to open two community center-based branches with ECIP funding—in addition to increasing their business lending more than 300% as a result of ECIP. These branches are located in areas of their market without other financial service providers, and has led to the credit union to being able to bring more financially underserved members into the credit union.

Stepping Stones Community Credit Union, a CDFI and MDI credit union, is a leader in working with people who are incarcerated. As highlighted at Treasury's recent roundtable on enhancing financial resilience for the justice-impacted and summarized by NCUA Chairman Todd Harper, "Stepping Stones serves a membership in the Wilmington, Delaware, area that includes incarcerated men, providing them with a much-needed financial lifeline. Stepping Stones is also seeking to expand its reach to local women's prisons and thus open the door to financial well-being and financial security for more justice-impacted individuals."[6]

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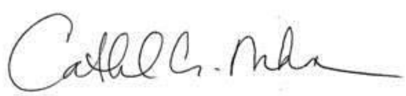
[6] Available: https://ncua.gov/newsroom/speech/2024/ncua-chairman-todd-m-harpers-remarks-us-treasury-department-roundtable-enhancing-financial

Inclusiv, in partnership with SaverLife, just launched a new program, Community Financial for Climate Action, that will lift up innovative solutions that both address climate change and support the financial well-being of households with low incomes. Supporting lower-income households to shift toward a greening economy can reduce their energy cost burden, strengthen their financial stability, and increase job, business, and economic opportunity. Community Finance for Climate Action will track the financial impacts of climate change on households living with low incomes and bring their experiences to light; engage with impacted households and those who serve them to identify effective solutions; and generate meaningful engagement and collaboration throughout the financial health field.

Many additional examples of how community development credit unions advance financial inclusion are available in Inclusiv's recent impact report, Community Development Credit Unions: Financial Inclusion in Action.[7]

Thank you for the opportunity to comment. We look forward to working with Treasury to advance financial inclusion and ensure everyone has the opportunity to achieve financial well-being. Please contact Alexis Iwanisziw, Senior Vice President, Policy and Communications (aiwanisziw@inclusiv.org), with any questions about these comments.

Sincerely,



Cathleen A. Mahon
President and CEO, Inclusiv

[7] Available: https://inclusiv.org/financial-inclusion-in-action-2023/