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Statement for the Hearing Record

Presented at

"A Biased, Broken System: Examining Proposals to Overhaul Credit Reporting to Achieve Equity"

Submitted to

House Committee on Financial Services Hearing

Submitted by

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UnidosUS, formerly the National Council of La Raza (NCLR), is the largest national Hispanic* civil rights and advocacy organization in the United States. For more than 50 years, we have worked to advance opportunities for low- and moderate-income (LMI) Latino families so that they can achieve economic stability and build wealth.

We appreciate the opportunity to submit this written statement for the record. This effort by the committee to understand barriers to an inclusive system of credit is critical.

UnidosUS, with our network of nearly 300 Affiliates—community-based organizations across the United States and Puerto Rico—provides education, health care, housing counseling, workforce development, and financial coaching programs to millions of citizens and immigrants in the United States annually. Furthermore, our network of community-based financial and housing counseling providers helps inform our understanding of Latinos' financial challenges and opportunities. The UnidosUS Wealth and Housing Alliance (UWHA) (formerly the National Homeownership Network, or NHN) is the nation's largest network of community-based organizations working to empower Latino wealth-building through homeownership.[1]

Moreover, for more than two decades, UnidosUS has published reports and testimony and engaged in advocacy on supporting strong fair housing and fair lending laws, increasing access to financial services for LMI individuals, and promoting homeownership in the Latino community. Additionally, UnidosUS conducts its own original community-based research on the experiences of LMI communities of color, including *Closing the Latina Wealth Gap: Building an Inclusive Economic Recovery after COVID* (2021); *The Future of Banking: Overcoming Barriers to Financial Inclusion for Communities of Color* (2019) (an update of *Banking in Color: New Findings on Financial Access for Low- and Moderate-Income Communities* (2014)); and *Small Dollars for Big Change: Immigrant Financial Inclusion and Access to Credit* (2017).

As we described in our landmark 2019 report, *The Future of Banking*, as it is currently structured the financial services industry makes financial inclusion—including access to credit and to useful and affordable financial products and services that meet people's needs—very difficult for LMI people of color. Financial exclusion, in turn, exacerbates other economic challenges such as low wages and unaffordable housing and creates additional barriers to economic inclusion and an equitable economic recovery.

Historically, these barriers compel LMI populations to rely on high-cost alternative financial services (AFS), which hold a virtual monopoly over the financial marketplace for people who are underbanked and unbanked. These services can leave households in self-perpetuating cycles of debt and financial ruin. Recently, such vulnerabilities—and the systemic inequities they reproduce—have only been worsened by the economic stresses of the pandemic, as described below.

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* The terms "Hispanic" and "Latino" are used interchangeably by the U.S. Census Bureau and throughout this document to refer to persons of Mexican, Puerto Rican, Cuban, Central and South American, Dominican, Spanish, and other Hispanic descent; they may be of any race.

In our previous expert testimony in 2019 before the Committee on Financial Services,[2] we focused on how the credit scoring system is systematically biased against low-income consumers, consumers of color, younger consumers, and immigrants. We also demonstrated how these structural barriers affect consumers and limit access to credit, in addition to affecting their ability to obtain employment, rent an apartment, turn on their utilities, or access health insurance. In short, the current credit scoring system affects almost every aspect of the personal financial life of everyday Americans, especially Latinos.

That testimony pointed out that, "Latinos have had longstanding challenges connecting to mainstream financial institutions and obtaining credit, similar to other communities of color. As the youngest and fastest-growing segment of the nation's population, Latinos' economic opportunities will have a significant role in shaping the nation's economic future. Increased credit scores and credit visibility are important components of ensuring that Latinos can unlock these opportunities."
Given these barriers, we concluded that the system needed reforms that would provide a truer picture of the ability of Latinos to use credit wisely: "For Latinos, who represent 18% of the population, it is important that our credit rating system serve them in a fair and inclusive manner. If we continue to rely on credit bureaus as gatekeepers who determine access to housing, employment, and health coverage, in addition to making lending decisions, the credit rating system will need to reflect a more accurate and transparent depiction of the credit-worthiness of these underserved populations."

Building on this work, our report, *The Future of Banking*,[3] found that both poor credit and credit invisibility are particular barriers among LMI consumers and communities of color: "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. In all, one in 10 U.S. adults (26 million people) are credit invisible, and an additional 19 million have unscorable credit files."

The report also described the possibilities and perils of the innovations in financial services (known as "fintech") and made several relevant recommendations regarding necessary reforms of the financial system, including:

- Development of a nationwide network of "navigators" to better help the underbankedand unbanked understand and use the options provided by the financial system
- A more inclusive credit rating system that includes additional metrics responsive to billsthat lower-income consumers pay
- Measures to make more credit available for low- and moderate-income consumers

The Need for an Inclusive Economic Recovery from the Pandemic

The pandemic exacerbated preexisting racial-ethnic income and wealth disparities. To better understand the depths of the impact, we conducted a poll in February 2021,[4] which showed the following:

- As a result of COVID-19, Latinas are far more likely than other groups to find it difficultto afford necessities, such as food (36%).
- Latinas are in a poor position to withstand the economic impact of the pandemic, with 49% spending "most or all" of their life savings during the pandemic. This was more thandouble the rate for White women (24%) or White men (19%).
- One-quarter of Latinas have, during the pandemic, "gone into debt or maxed out acredit card" or "missed a car, student loan, or credit card payment."

Our 2021 report, *Closing the Latina Wealth Gap: Building an Inclusive Economic Recovery after COVID*,[5] described the financial challenges that Latinas face, noting that, "A major factor in driving the triple crisis is that most Latinas are 'low earners,' meaning in this report that they have a low income (making less than $25,000 annually) or a lower education level (completed a high school degree or less). Among Hispanic women, about four in 10 low earners (41%) report that the pandemic had a major effect on their personal finances, and they have not recovered financially. More than half of Latina low earners (54%) report that they spent most or all of their savings during the pandemic." The report also showed that, "During the pandemic, about four in 10 Hispanic women (42%) who are low earners report having received food donations and experienced difficulties affording basic necessities (40%). About one-quarter missed a car, student loan, or credit card payment (26%), while more than one in 10 (12%) had utilities shut down due to lack of payment."

Noting that "[m]ore than half of Hispanic renters are rent-burdened, paying more than 30% of their income to cover rent," the report also found that the pandemic particularly impacted Latinas and Hispanic men: "About one in five Latinas (19%) and Hispanic men (18%) missed at least one rent or mortgage payment during the pandemic. In comparison, 12% of White women and 10% of White men missed at least one payment. "

The study also found that medical debt among Latinos during the pandemic was a particular concern: "One year after the beginning of the pandemic, medical debt is one of the top financial concerns for Latinas, even more so than credit card debt, car loans, or home mortgages. More than half (54%) of Latinas—and six in 10 Hispanic men—are extremely or very concerned about medical debt."

At the same time, the report found that the opportunity for economic contribution and dynamism with Latinos is enormous: "Before the pandemic, most of the business growth in the United States was driven by the increase in Hispanic-owned businesses. Latina entrepreneurship was faster-growing than business ownership among Hispanic men…. Latinas are one of the fastest-growing segments of business owners in the United States, and about half believe that owning a business is a very important part of the American Dream."

Addressing barriers to credit is an essential part of our economic recovery as a nation and addressing the adverse racialized outcomes of our credit reporting system is a means to that end.

Specific Steps by Congress toward a More Inclusive Credit Economy Are Essential

The Congress should advance policies that increase the transparency of the credit rating process for consumers, improve consumers' equitable access to credit, and reduce financial exploitation of LMI consumers.

For example, in 2020 the House of Representatives passed the "Protecting Your Credit Score Act." To address errors on consumer reports, this bill would require credit reporting agencies and those institutions and businesses that provide them with consumer data to conduct basic identity verification. It also would create a secure online portal, empowering consumers to freeze their credit, file disputes, and check their credit reports for free.

The House also previously passed the "Comprehensive CREDIT Act," a measure that would give consumers a right of appeal in disputes and limit the use of credit reports for employment (other than in the context of national security or background checks, for example). It includes a number of additional consumer protections to address financial predation and unfair and inaccurate debt reporting, such as:

- Requiring removal of adverse information from fraudulent lending activity regarding private education loans and residential mortgage loans
- Expediting the removal of debt that is no longer owed
- Prohibiting the inclusion of an arrest that did not result in conviction
- Generally reducing the time period that adverse information stays on a credit reportfrom seven years to four years
- Limiting the inclusion of certain medical debt

The bill also called on the Consumer Financial Protection Bureau (CFPB) to develop rules for fair credit reporting algorithms and provides a host of additional consumer protection measures, including rules to provide for access to consumer reporting information for non-native English speakers and those with disabilities and the registration of credit reporting agencies.
Both of these important bills have been reintroduced this session and deserve a fair hearing and full consideration in the Congress. It is clear that the credit system, meant to be an engine of economic recovery and empowerment for consumers, instead is too often an instrument of systemic exclusion, leaving those who might power our recovery at the mercy of high costs and fees and financial predation. Such proposals represent an important opportunity to power the

American Dream with an inclusive recovery, and to empower those who have been the most essential—and have borne the greatest impact—during the pandemic with real economic possibility in the form of improved access to credit.

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[1] UWHA develops effective programs that blend research, advocacy, and direct housing and financial counseling. UWHA is a HUD-approved housing counseling intermediary and trains hundreds of housing counselors emphasizing individual, culturally competent counseling. Established in 1997, UWHA includes 50 independent community-based organizations that support more than 60,000 families a year.

[2] Jennifer Brown, Esq., for UnidosUS, *Unscoreable: How the Credit Reporting Agencies Exclude Latinos, Younger Consumers, Low-Income Consumers, and Immigrants, Committee on Financial Services*, 116th Cong., 1st sess., February 26, 2019, https://unidosus.org/publications/1927-unscoreable-how-the-credit-reporting-agencies-exclude-latinos-younger-consumers-low-income-consumers-and-immigrants/.

[3] UnidosUS and PolicyLink. *The Future of Banking: Overcoming Barriers to Financial Inclusion for Communities of Color* (Washington, DC: UnidosUS, 2019), https://unidosus.org/publications/1955-the-future-of-banking/

[4] Cited in UnidosUS. *Closing the Latina Wealth Gap: Building an Inclusive Economic Recovery after COVID* (Washington, DC: UnidosUS, 2021), https://unidosus.org/publications/2150-closing-the-latina-wealth-gap-building-an-inclusive-economic-recovery-after-covid/.

[5] UnidosUS. *Closing the Latina Wealth Gap: Building an Inclusive Economic Recovery after COVID* (Washington, DC: UnidosUS, 2021), https://unidosus.org/publications/2150-closing-the-latina-wealth-gap-building-an-inclusive-economic-recovery-after-covid/.