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February 20, 2024

The Honorable Janet L. Yellen
U.S. Department of Treasury
1500 Pennsylvania Avenue NW
Washington, DC 20220

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

On behalf of UnidosUS, we submit these comments in response to the U.S. Treasury's request for information on financial inclusion. UnidosUS, previously known as NCLR (National Council of La Raza), is the nation's largest Hispanic civil rights and advocacy organization. Through its unique combination of expert research, advocacy, programs, and an Affiliate Network of nearly 300 community-based organizations across the United States, including Puerto Rico, UnidosUS simultaneously challenges the social, economic, and political barriers at the national and local levels.

We applaud the U.S. Treasury for its leadership in launching this Request for Information (RFI) as a critical step to advance financial inclusion in our country. Initiatives, such as the event "Investing in the Economic Future of the Latino Community," that the Treasury hosted with leading Latino organizations and economic leaders last summer was a positive step to continue dialogue, explore novel solutions, and develop policies to drive economic empowerment for Latino families.

To promote economic mobility, we recommend a national financial inclusion strategy that is informed by the needs of communities of color and can expand access to banking and credit sustainably. Below, we outline barriers related to the costs of banking, safe and affordable credit, and outdated Individual Taxpayer Identification Number (ITIN) applications. We recommend inclusive policies that will increase Latinos' access to affordable banking and credit like promising new models in underwriting and community-informed banking standards. We also make recommendations to modernize the ITIN process.

Section A. Defining Financial Inclusion

1a. Some definitions of financial inclusion include considerations of access, safety, usefulness, appropriateness, and affordability of financial products and services, among others. What are the key elements of your definition and why do you include them?

The failures of the current financial system reflect the systemic and historical exclusion of communities of color from wealth-building opportunities and the broader financial mainstream.

Financial services were not designed with communities of color in mind, cementing structural barriers that inhibit the economic mobility of the Latino community. From credit scoring systems, redlining, to existing disparities in banking and lending, restrictive policies continue to impact Latino individuals and communities.

Approximately 9% of Latinos are unbanked—about twice the rate of the general population (4.5%). Unbanked Latinos list high minimum balance requirements, bank account fees, and personal identification requirements as the top reasons they do not have access to a deposit account. Over 16% of Latinos are "credit invisible", meaning they lack a credit history with nationwide credit reporting agencies, while another 10% are unscoreable or "thin file" consumers who lack the length of credit history or types of loans needed to generate a credit score. Clearly, the financial needs of many Latinos are not being met with today's financial system.

Our definition of financial inclusion would focus on correcting the many systemic barriers that hinder Latinos' ability to fully participate in the economy:

1. Accessibility—Financial services must be convenient and accessible to Latino communities. Rigid identification requirements, banking deserts, and poor language access systems are major barriers to basic participation for millions of Latinos.
2. Affordability—Latinos can be shut out of the financial system because of high banking costs, like minimum balance requirements and banking fees. Reasonable and non-predatory costs and fee structures for banking would enable low-income Latinos to access basic banking services within the mainstream financial system.
3. Fairness and Security—Latinos have endured a long history of discrimination and predatory targeting. Unsurprisingly, many Latinos cite a lack of trust as a barrier to accessing bank accounts.

Securing access to foundational forms of banking and credit access remain paramount for improving financial inclusion, as they open gateways to broader participation and economic mobility for Latinos and lower-income communities. At a minimum, products and services that would meet goals related to financial inclusion include:

1. Banking Services—Access to affordable checking and savings accounts without burdensome fees or minimum balances. An analysis by the Financial Health Network found that low- to moderate-income (LMI) households are nearly twice as likely as higher income households to overdraft. Black and Latino households are also twice as likely as whites to be charged overdraft fees. The knock-on effects for consumers of

excessive overdraft fees can be serious. Individuals who overdraft frequently sometimes use high-cost loans from payday lenders and loan sharks to cure their overdraft fee, trapping them in a cycle of debt.

2. Credit and Lending—Equitable access to affordable lines of credit with reasonable and non-predatory interest rates. Latinos' barriers to safe and affordable credit often pushes them to alternatives outside the mainstream financial system, like high-cost loans or small-dollar fintech loans. In fact, Latinos often turn to non-traditional sources of loans for emergencies or necessities, even when banked. An analysis of Latinos' experiences with the credit system found that Latinos primarily rely on loans from family or close friends when they lack access to a bank account or credit card. Moreover, Latinos still disproportionately rely on payday loans regardless of access to banks.
3. Payments and Transfers—Low-cost options to securely direct finances for essentials like bill payments and access to international remittances without having to navigate misleading fee structures. Latinos are a sizeable portion of the remittance market, yet are burdened with issues around financial predation, including hidden fees through inflated exchange rates, undisclosed third-party fees, and inaccurate estimates on payments.

The products and services above must also adhere to minimum standards that are particularly important for Latino consumers. First, products and services under a truly financial inclusive system will provide language accessibility as part of its basic design and offerings, including for documentation, such as contracts, and customer service support. Secondly, transparent terms and pricing with appropriate consumer protections and affordable fees is critical to ensure Latinos are safely engaged in the banking system. Third, financial institutions should identify detailed commitments regarding steps that are being planned at taken to reflect the financial realities of Latinos and communities of color.

2. What do you consider to be in and out of scope for efforts to promote financial inclusion?

Treasury asks what would be in and out of scope for efforts to promote financial inclusion. Progress on financial inclusion must center on the key elements below. In sum, it must expand access and reduce barriers for Latinos and other communities of color.

Efforts that place a lopsided focus on financial literacy or individuals' capabilities would be entirely inappropriate in a national financial inclusion program. They would divert responsibility from the systems and policies that underlie an inequitable financial system, put the onus for financial performance unfairly on the individual, and would be out-of-step with the needs of

Latinos and other communities of color. A 2022 UnidosUS Banking and Credit survey of 1,200 respondents found that Latinos display a high understanding of credit. And research shows that financial literacy efforts are responsible for only tiny shifts in financial behaviors.

In contrast, programs offering supportive financial coaching that uses a consultative model and supports goal-setting over time intensively can be helpful to improve financial inclusion.

2b. Which consumer financial activities are relevant when considering how to advance financial inclusion? For example, do you consider accessing tax benefits you may be eligible for, sending peer-to-peer payments, or transacting in cash relevant? Do you consider activities like saving for retirement, investing, purchasing a home, or starting or growing a business relevant to financial inclusion? Are there consumer financial activities that are not relevant?

The ability to access adequate and supportive tax benefits, especially those that have a large role in the financial well-being of families, should be considered as a marker of an equitable and inclusive financial system. An expanded Child Tax Credit (CTC) has yielded dramatic results in reducing child poverty, helping households pay for groceries and food as the largest category.

It also helped pay for the childcare that people need to go to work. In 2021, the child poverty rate was significantly reduced from previous years due to the policies and funding provided by COVID-era programs, especially the CTC. After the expanded credit expired, the number of children in poverty increased from 3.8 million in 2021 to 9 million in 2022.

The most common reported uses of payments were to cover basic needs, like food, utilities and telecommunications, rent and mortgage, and clothing. The monthly child tax credit payments also made it easier for recipients to work. A national survey found that one-quarter of respondents reported that the monthly payments made it easier for them to engage in paid work or work more hours. And parents eligible for the CTC were much less likely to report being unemployed due to childcare responsibilities after monthly CTC payments began.

Likewise, the Treasury must consider key wealth-building activities as part of its financial inclusion strategy. Homeownership remains a vital pathway to wealth-building for Latino families. Latino homeowners have 28x the wealth of Latino renters. Yet, Latino households still have only one-fifth the wealth of white households. Latinos value homeownership because it provides stability for their families, improves access to opportunities, and builds intergenerational wealth.

Yet Latino homeowners must navigate a complex system that directly affects their financial behavior. For example, Latinos experience higher loan denial rates and higher interest rates when approved, than whites, even when controlling for credit score, loan-to-value, and debt-to-income ratios. And home purchases in majority-Latino neighborhoods are twice as likely to be undervalued, compared to appraisals in predominantly white neighborhoods.

Access to the full benefits of working is another critical element for financial inclusion. Although employer-sponsored retirement plans are the most important vehicles for providing retirement income for older Americans after Social Security, just 15% of Latinos in retirement age report having retirement account savings. Latinos that do have retirement savings report having less than $42,000 saved up. Lack of access to any type of retirement savings is especially common among low-wage workers, women, younger workers, single workers, part-time workers, and workers of color. Out of all these groups, Latinas are the least likely to have an employer-sponsored retirement account: only 18% of Hispanic women report having an employer-sponsored retirement account, compared to 45% of white women, 32% of Hispanic men, and 71% of white men. Securing more equitable access to the full benefits of working for all workers is a cornerstone for any vision of financial inclusion.

Section B: Barriers to Financial Inclusion

Question 1. Are there features of the existing financial system (for example, pricing strategies, fees, penalties, underwriting methods and standards, uses of consumer data, technological systems or constraints, institutional protocols related to fraud or risk management, or other features) that limit or create inequalities in the ability of consumers and communities to access, use, and benefit from financial products and services? Which features are the most limiting, and for whom? Please provide specific examples.

The current financial system holds significant limiting features for Latinos looking to enter the financial mainstream and build wealth.

First, the cost of banking products and services remains prohibitively high for too many Latinos. As we have outlined, Latinos find banking costs to be unsustainable at times. We have found that Latinos tend to pay higher costs per month than their non-Hispanic counterparts. These costs are driven up by maintenance fees, minimum balance fees, insufficient funds (NSF) and overdraft fees, and ATM fees. Latinos also experience high credit card fees and fines with consumers with subprime credit scores experiencing higher costs associated with credit. High costs also characterize many financial products and services looking to fill in existing gaps in the banking system. For example, Buy Now Pay Later (BNPL) products allowing consumers to stretch payments into four installments can carry interest rates of 36.99% and include late fees, missed payment fees, account reactivation fees, returned payment fees, and rescheduling fees.

Traditional scoring and underwriting models miss a large portion of Latinos and cannot do enough to accurately reflect Latinos' true ability and willingness to repay loans. Latinos face persistent gaps accessing affordable credit as they experience higher rates of credit invisibility, thin credit files, and income volatility. Latinos with Individual Taxpayer Identification Numbers (ITINs) are also shut out of the credit system. Traditional credit scoring models that rely heavily on credit bureau data are insufficient to capture the nuances of Latinos' complex financial lives. Indeed, almost 30% of Latinos are either credit invisible or do not have enough of a credit history or type of loans to generate a credit score. Moreover, consumers are penalized for accessing credit such as BNPL or payday loans even when they repaid on time, meaning that poor access to credit can be a way to reduce the credit box on an ongoing basis.

Question 2. What is the role of other factors such as broadband access, mobile or digital proficiency, language access, individuals' broader economic circumstances, or availability of unbiased information about products and services in financial inclusion? Please provide specific examples, including which community or communities might face resulting impacts.

Language barriers limit the ability of approximately 26 million consumers with limited-English proficiency (LEP) to obtain responsible financial products and their ability to understand the terms of contracts they enter. Limited-English proficiency makes it undeniably harder for borrowers to enter financial contracts on equal terms as their English-proficient counterparts. For example, language barriers may impede LEP Latinos throughout the homeownership process.

Yet the availability of language access services can vary significantly depending on the lender, with inconsistent practices even within the same institution. Some institutions may offer language access through bilingual staff, while others may use third-party translators. Some institutions may offer in-language servicing for specific product lines, while others have reservations about offering expanded services in the consumer's preferred language. There is a lack of a national standard that can be devastating for consumers with LEP trying to navigate the complex U.S. financial system.

Importantly, more than 20 million Latinos lack adequate internet at home. And even more lack the skills necessary to fully participate online. Failing to prioritize the digital equity needs of Latinos now will have stark consequences—not only for communities, but for our increasingly digital workforce and economy. With Latinos accounting for 78% of all new U.S workers between 2020 and 2030, the stakes for closing the digital divide are steep for all of us.

Without an inclusive approach to digital connectivity, Latinos are—and will continue to be—excluded from opportunities to generate and advance wealth, health, and power. Lacking access to the internet closes pathways that lead to better social services, financial tools, education, and job training.

Yet 35% of Latinos in America lack access to affordable, reliable high-speed internet at home. Because the Latino community is nearly 1 in 5 people in the U.S., this has serious implications for our digitally driven economy and workforce overall. Digital inclusion also has the power to improve health outcomes through increased access to public health and telehealth services. And universal adoption can enable engagement with quality information and news access, elevating civic participation and empowering Latino voices and representation.

But connectivity infrastructure alone is not enough. In practice, digital equity also means improving access to internet-enabled devices and the digital skills to fully make use of online resources. Any one of these factors can trap Latinos on the wrong side of the digital divide and isolate them from opportunity and important supports for living. To effectively address the barriers Latinos face to internet access and adoption, public policies and programs must reflect the ways Latinos and others engage online.

Question 3. What barriers do underserved communities in particular experience in accessing, using, and benefiting from financial products and services?

Discrimination and disparate outcomes remain all too common in the U.S. financial system. Latino small business owners who apply for loans are more likely to be denied or given worse terms than their non-Hispanic counterparts, even when they have similar credit profiles.

Latinos face similar hurdles in mortgage lending. A 2022 Federal Deposit Insurance Corporation (FDIC) estimate of government-collected mortgage lending data finds that disparities persist in lending and pricing outcomes between Hispanics and white applicants across the same score bands (the ranges of credit scores used to group consumers by their general level of credit risk).

This is further complicated by the rise of Artificial Intelligence (AI) tools—including algorithmic models—based on an already inequitable system. Though inclusive, ethical AI systems could address many of the issues listed here, use of algorithmic models are more likely to replicate and entrench biases that appear in the current systems.

Question 3a. If relevant, what are the community-specific barriers faced by members of your community or the communities you serve or represent in relation to accessing or building credit, accessing or using savings and investment tools (including those that facilitate retirement security), managing financial risk, acquiring assets, or other financial activities? Please provide specific examples.

There is little flexibility for Latinos that hold Individual Taxpayer Identification Numbers (ITINs). ITINs serve a vital economic purpose for immigrant families as an on-ramp to financial inclusion and self-sufficiency. Access to an ITIN is a key step to unlocking doors to community contributions, can enable homeownership, education investments, and small business entrepreneurship. Yet, the process to obtain an ITIN is outdated and complicated and existing ITIN holders face barriers in accessing the financial system. To obtain an ITIN, taxpayers must navigate a complicated application process requiring extensive paperwork, months-long wait times for the return of essential identification documents, and scant support.

Once taxpayers obtain an ITIN, they face similar challenges in unlocking essential tools for financial well-being. For example, ITIN holders cannot obtain an electronic copy of their credit report at most credit reporting agencies and must use snail mail to request and receive one. The mortgage market also does not fully embrace ITIN holders looking to obtain mortgages and other lending products for wealth-building opportunities, despite the promising returns it may hold.

Section C: Measuring Financial Inclusion

Question 1a. What are appropriate quantitative and qualitative measures of financial inclusion? For example, this could include the share of consumers' total payments made electronically, or consumers' average savings balances. More broadly, this could include metrics related to availability, affordability, utilization or benefit of financial products and services, such as the number of bank branches available in a certain area, average transaction costs, rates of utilization for a given product or service, or consumer outcomes related to product or service use.

The success of the strategy can be partially measured with a community-driven set of metrics design that incorporates qualitative assessments and the lived experiences of community members alongside quantitative metrics. Inclusive metrics that holistically measure wealth and assets to develop a picture of family's financial health are a better measurement than quantitative metrics alone (*e.g*., the number of accounts opened).

Section D: Actions to Promote Financial Inclusion

Question 1-2. Please describe examples of existing programs, initiatives, products, or services successful in promoting financial inclusion. Why were these effective and what are promising practices or other lessons learned? What should be done to improve financial inclusion for underserved communities?

A national financial inclusion strategy can refer to existing, successful standards and programs with a proven track record of reaching communities of color. The BankOn National Account Standards establishes critical guidelines spanning minimum opening deposits, monthly fees, overdraft policies, and more to transform essential bank services into accessible offerings for unbanked and underbanked populations.

The program's national reach supports more than 650 Bank On coalitions, including a partnership with UnidosUS and Wells Fargo. Importantly, the standards are inclusive of the unique needs of the Latino community as they include guidelines on alternative identification requirements, remittances, and credit-building product offerings.

Given the outsized role that bank fees play in exacerbating inequity in the banking system for Latinos, a national financial strategy must have guidelines around bank fees. UnidosUS's Overdraft Best Practices for Financial Institutions sets guidelines around overdraft practices including no non-sufficient fund fees, overdraft fees on debit purchases, ATM withdrawals, or automated recurring payments. It further establishes an overdraft fee cap of $35 or less per item and a yearly cap of $210 maximum overdraft costs. Additionally, it calls for a $50 buffer before fees are incurred and suggests financial institutions provide a three-day grace period to cure overdrafts without charge. These provisions aim to inform financial institutions on the most effective ways to eliminate excessive elements of overdraft programs that often disproportionately impact low-income families, including Latinos.

Question 3. What can be done to enable responsible, equitable innovation in financial products and services that enhances financial inclusion while ensuring robust consumer protections, including privacy and data security? For example, could novel data sources, data analytic techniques or algorithms be leveraged to promote access to financial products while ensuring privacy protections and safeguarding consumer data?

Promising innovations in emerging areas like cash flow lending assessments and expanded underwriting criteria to responsibly increase access for Latinos would be a positive step towards reframing the financial system to reflect the realities of Latino consumers. We encourage the Treasury to look at existing programs and efforts that have established thoughtful guidelines to leverage consumers' existing financial behaviors and shape a more inclusive credit system.

For example, Fannie Mae updated its automated underwriting system to incorporate a consistent rent payment history with the explicit purpose of increasing access to mortgage credit for consumers. It allows applicants to connect their bank account to allow Fannie Mae's Desktop Underwriter to identify recurring rent payments made by the applicant. In a sample of this feature, Fannie Mae identified that 17% of applicants who did not receive a favorable recommendation in its underwriting system could have received an "Approve/Eligible" recommendation with the new update.

Question 4. What should be prioritized (in policy, regulation, practice or otherwise) in the efforts to promote financial inclusion?

A national financial inclusion strategy must ensure that a key step for financial inclusion for millions of Latinos is included. Steps to modernize the ITIN application process include, but are not limited to, allowing rolling acceptance and processing of ITINs, improving the clarity of W-7 instructions and required documentation, and allowing electronic filing of W-7 applications, including ITIN filers in the vision for Direct File and other planned IRS customer service upgrades, and developing standardized forms for common supporting documents.

Question 5. What roles should the public, private, and nonprofit sectors play in promoting financial inclusion?

Any real progress towards financial inclusion must include thoughtful multi-sectoral collaboration, including meaningful community dialogue and participation. In the past, we have recommended established and consistent pathways for community committees to provide regular input to financial institutions. As a national financial inclusion strategy is developed, there should be engagement with key constituencies. For example, community advisory boards can be assembled with stakeholders from target communities, including unbanked and underbanked populations, civil rights organizations, and community-based organizations.

The Treasury should more fully invest in its existing tools to ensure an inclusive financial system is available for Latino consumers. The Community Development Financial Institutions (CDFI) Fund promises access to capital and local economic growth in urban and rural low-income communities across the nation. CDFIs play a critical role in reaching marginalized groups and ensuring access to financial resources. This role is especially important for Latinos, who—despite being the fastest-growing segment of business owners—continue to face obstacles to accessing capital. To advance financial inclusion, it is critically important to invest in institutions with local reach and community involvement.

Conclusion: Action Is Needed on a Strategy for Financial Inclusion

A national financial inclusion strategy must fully confront systemic inequities embedded in the banking and credit markets that deny Latinos a pathway to economic security. Key financial inclusion building blocks include bank accounts without burdensome fees, equitable lending driven by innovative and accurate models, and modernizing the ITIN application system. It must also leverage both innovations and existing standards and programs proven to increase access to banking and credit. We welcome efforts by the U.S. Department of Treasury to make progress towards financial inclusion and invite additional dialogue on this critical issue.

For any questions or additional information, please contact Laura MacCleery, Senior Director of Public Policy, at lmaccleery@unidosus.org.