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Presented at

"Politicized Financial Regulation and its Impact on Consumer Credit and Community Development"

Submitted to

Subcommittee on Financial Institutions and Monetary Policy

Submitted by

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March 7, 2024

Good morning and thank you for the invitation. My name is Santiago Sueiro, Senior Policy Analyst at UnidosUS, formerly the National Council of La Raza—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 and Puerto Rico, UnidosUS simultaneously challenges the social, economic, and political barriers at the national and local levels. For more than 50 years, UnidosUS has united communities and different groups seeking common ground through collaboration, and that share a desire to make our country stronger. From Colorado to Missouri, small towns in Texas and Florida to big cities along the coasts, our Affiliates—local community-based organizations that directly serve the Latino population—are as geographically diverse as the members of this Subcommittee.

UnidosUS publishes reports, provides testimony, and advocates on policies that protect consumers, make financial services more inclusive, and improve the financial well-being of working-class people and the Latino community. For example, we supported $500 million in funding for the Community Development Financial Institutions Fund (CDFI Fund) in the latest federal budget, as well as policies that protect consumers who receive services from the financial sector, improve pathways to becoming fully banked, and include low English proficient people and mixed-status families in the financial mainstream. In 2022, we also testified before the House's Subcommittee on Consumer Protection and Financial Institutions in a hearing focused on overdraft fees. Our research and analysis include publications such as *Banking in Color: New Findings on Financial Access for Low- and Moderate-Income Communities (2014)*; *The Future of Banking: Overcoming Barriers to Financial Inclusion for Communities of Color (2019)*; and *Latinos Banking and Credit Survey: Arizona, California, Texas (2022).*

We are grateful for the opportunity to testify before the Subcommittee on Financial Institutions and Monetary Policy on topics related to regulations, access to credit, and community development. Working-class people, people of color, and Latinos find themselves on a positive economic trajectory, but many metrics paint a mixed picture for households. It is critical that Congress understand the economic costs of maintaining an inequitable financial system in this uncertain moment. Congress and financial institutions alike can make progress towards an equitable and inclusive financial system by adopting three overarching principles:

- Policymakers should respect efforts by the financial regulators to incentivize financial inclusion and improve affordability with the legal tools they have and support

* The terms "Hispanic" and "Latino" are used interchangeably by the U.S. Census Bureau and throughout our materials 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. Our materials may also refer to this population as "Latinx" to represent the diversity of gender identities and expressions that are present in the community.

development of innovations in financial services to better meet the needs of working-class consumers.

- Financial institutions should reimagine the relationship between themselves and consumers to promote customer loyalty and reduce costs.
- Democratic structures, which provide a meaningful role for working-class communities in banking policy decisions, can improve outcomes for everyone.

Below, we first present an overall picture of the gaps and bright spots in consumers' financial lives including the gains and continued challenges that consumers experience with the financial system. Next, we explore the three overarching principles listed above, and how these can help to consolidate the positive gains of the last few years, and make further progress towards a fair and inclusive financial system.

Working-class people, people of color, and Latinos have experienced some economic gains over the past few years, but challenges and disparities persist.

Over the last few years we've observed economic gains in higher employment levels and wages, lower inflation, and increasing wealth. The overall unemployment rate is at a near historic low of 3.7%, with slightly higher rates for Black (5.3%) and Latino workers (5%).[1] Workers in the bottom wage quartile have seen their annual wages increase by more than 4% since 2020 and overall wages increased as much as 7.5% in 2022 alone.[2]

At the same time, inflation is decreasing to near pre-pandemic levels, allowing consumers, including Latinos, to improve their purchasing power. As of February 2024, inflation was at 3.1%, down from a high of 6.6% in 2022, and nearing the Federal Reserve's 2% target.[3] Real wages (wages after adjusting for inflation) have increased for over 12 consecutive months and lower-income segments are experiencing the fastest growth. Though many households are still struggling, real wages increased by 1.4%[4] since January 2023 and that increase was over 3% for low-income workers.[5]

Lower-wealth groups also made gains in their net worth over the past few years. Latino wealth grew by 38% to $61,000 between 2019 and 2022 and Black wealth grew by 66% to $45,000 during that same period.[6] Despite this progress, the economic and racial wealth divide remains a concern with White families' median wealth at $287,000, and the top 10% of households owned $6.5 million while the bottom 50% of households averaged $50,000 in wealth.[7]

Despite these gains, working-class people, people of color, and Latinos are also experiencing significant economic difficulties. For example, the poverty rate remains higher than the pre-pandemic rate at 11.5%, representing 38 million people. The poverty rate for Black people reached a historic low of 17.1% but for Latinos it is higher than the pre-pandemic period at 16.9%.[8]

The high cost of housing is also cause for concern. Last year the overall cost of housing increased by 4.6%[9] and new findings show that 42 million households are cost-burdened (*i.e*., they spend more than 30% of their income on housing), the highest rate since 2015.[10] More than 70% of households earning less than $30,000 are cost burdened, and roughly 40% of Black and Latino households are cost burdened.[11] Comparatively, 10% of households making more than $75,000 are cost-burdened.[12] Skyrocketing housing costs have also pushed more people into homelessness, growing to a record high of 650,000 last year. Of this population 28% are Latino and 37% are Black.[13]

Total debt is also increasing to concerning levels, putting financial pressure on working-class households. Last year, total household debt reached a new high of $17.29 trillion, with credit card debt driving the increase. Working-class consumers and people of color have less access to credit, but those who do have a loan are more likely to carry debt than White and wealthier consumers, and their debt burdens are increasing at a faster rate.[14]

These financial challenges contribute to how families are feeling about their economic situation. Last fall we conducted a national poll of 3,000 Latino voters in which we asked them what they think are the most important issues that elected officials should address. Inflation and the rising cost of living was the top concern that respondents listed with the high cost of basic living expenses driving their concern. The second highest concern was related to jobs and the economy with low wages driving their concern.[15] Last year's Survey of Household Economics and Decision-making (SHED) from the Federal Reserve further illustrates how working-class people are feeling with the number of people who say they are doing well financially decreasing by 7% for Latinos.[16]

While there are a few bright areas in which economic progress is being made, low-income people and communities of color continue to struggle. Importantly, even these gains could be short lived if we do not take meaningful action gains. With the expiration of the pandemic-era supports for households (including the expanded Child Tax Credit), backsliding could mean that many will fall into economic distress or even deeper distress. That is why Congress should adopt common-sense consumer protections to ensure that financial institutions can provide everyone with the tools they need to thrive.

Economic gains paved the way for budding improvements in financial inclusion and equity in banking, but significant disparities persist.

Over the past few years, the financial system has made important advancements in reducing costs and improving financial inclusion. For example, a 2022 study by Bankrate found that overdraft fees fell to their lowest level in 13 years, and that the average amount charged fell 11%, to $29.80.[17] This drop comes after years of efforts by industry, consumer advocates, policymakers, federal agencies (including the Consumer Financial Protection Bureau and the Federal Trade Commission), and lawmakers to understand the adverse consequences of high overdraft fees and ways to reduce them.[18] The changes are paying dividends for customers: the CFPB recently reported that overall overdraft revenue decreased by nearly 50% in 2022 in comparison to 2019.[19]

Since 2021, several financial institutions have lowered or eliminated their overdraft fees:

- Financial technology companies such as Chime and Ally Bank eliminated overdraft fees in 2021.
- Large banks reduced their overdraft fees. Bank of America lowered fees to $10,[20] Huntington National Bank and Manufacturers and Traders Trust Company lowered fees to $15 per overdraft, and Citi Bank eliminated overdraft fees altogether.[21]

We've also made some progress in reducing the unbanked population over the last few years. The latest survey of underbanked and unbanked people by the Federal Deposit Insurance Corporation (FDIC) found that the unbanked rate had fallen to a near historic low of 4.5%. The FDIC attributes this progress to COVID-era government benefits and programs that provided essential funds for households and families. These programs included the expanded Child Tax Credit (CTC), COVID stimulus payments, and enhanced unemployment insurance, which appear to have helped unbanked consumers better afford costs associated with opening and maintaining an account.[22]

Finally, many financial institutions are making progress in providing inclusive and low-cost small dollar loans to consumers. The table below lists examples of small dollar loan products that financial institutions currently offer. These products are low-cost and viable alternatives to overdraft or high-cost loans that are commonly available to working-class consumers:[23]

Table: Examples of Small Dollar Loan Offerings[24]

Product name	Issuing bank	Loan size range	Speed of access to funds	Term to repay	Payment structure	Pricing
Balance Assist	Bank of America	$100–$500	Within minutes	3 months	Equal monthly payments	$5
Standby Cash	Huntington Bank	$100–$500	Within minutes	3 months	Equal monthly payments	Free if autopay; 12% APR if not
Protection Line of Credit	Regions	$50–$500	Within minutes	No fixed term	Minimum 10% of balance (min. $5)	12% APR
Cash Reserve	Truist	$5–$750	Within minutes	4 months	Equal monthly payments	18% APR
Simple Loan	U.S. Bank	$100–$1,000	Within minutes	3 months	Equal monthly payments	$6 fee per $100 borrowed
Flex Loan	Wells Fargo	$250–$500	Within minutes	4 months	Equal monthly payments	$250 for $12 flat fee or
						$500 for $20 flat fee

Many financial institutions are moving to the market in recognition that some consumers who overdraft lack access to affordable credit and thus are relying on overdraft to help make ends meet or to smooth their income flows over time. These types of small dollar loans represent an encouraging shift in thinking by financial institutions who are increasingly seeing the business case for organizing around the economic circumstances of working-class consumers and are creating programs that provide lower costs and more flexible terms.

Despite such positive developments, working-class people, people of color, and Latinos continue to experience a lack of access of financial services, and pay higher costs and fees than other populations when they do use them. The two largest fees by volume are overdraft fees and credit card late fees.

The data are clear that working-class people and people of color are disproportionately impacted by overdraft fees. The Financial Health Network finds that low- to moderate-income households are nearly twice as likely to overdraft as higher income households.[25] The report finds that Black and Latino households are also about twice as likely to be charged overdraft fees than White households. For bank account product fees overall, Latinos pay, on average, $14 per month for ATM, overdraft, and routine service charges on their checking accounts, while Black account holders pay $12 a month. In contrast, whites pay an average of $5 per month.[26]

Working-class people and Latinos also are disproportionately impacted by credit card late fees. A study by the Boston Federal Reserve finds that those making $25,000 or less are 5% more likely to pay a late fee than those making more than $100,000.[27] Additionally, a CFPB report finds that consumers living in the poorest neighborhoods in the U.S. paid twice as many late fees as those living in the wealthiest areas.[28] An UnidosUS study from 2022 underscored this finding, as 19% of Latinos paid a late fee on a loan or credit card in the last year.[29]

Higher fees and costs also impact Latino consumers in the car buying process.[30] For example, Blacks and Latinos are sold multiple “add-ons” that generally do not increase the value of the vehicle almost twice as often as are white consumers.[31] Furthermore, a an FTC study found reports of auto dealers making enticing claims to Limited English Proficiency (LEP) consumers in Spanish who later concealed additional material terms, such as fees, presenting them only in English.[32]

The effects on consumers of excessive fees can be serious. Studies show that individuals who overdraft frequently use high-cost loans from payday lenders and loan sharks to pay overdraft fees, trapping them in cycles of debt.[33] Consumers who pay the most in bank fees also face high rates of involuntary account closures.[34] Such closures can push consumers out of the financial mainstream and reinforce banking inequities. The fees for deposit accounts are frequently cited in studies as one of the leading reasons for the unbanked to lack an account.

According to the FDIC, high costs and fees make up three of the top five reasons that unbanked people cannot access a bank account.[35] A 2022 survey we conducted of 1200 Latinos similarly found that such costs and fees are two of the three leading reasons that Latinos cannot access a bank account.[36] The unbanked are disproportionately lower-income and Latino: more than 9% of those making less than $30,000 are unbanked, compared to 0.6% of those making more than $75,000, and 9% of Latinos are unbanked, compared to 2% of Whites.[37]

These fees also have implications for access to credit for unbanked and marginalized populations. The FDIC's survey finds that only 9% of the unbanked have a credit card or personal loan compared to 72% of the total population.[38] The study also finds that just 49% of Black households and 60% of Latino households have a credit card, compared to 78% of White households. Further, Morning Consult found in 2019 that 41% of people who do not have a credit card cited high fees as a reason for not obtaining credit.[39]

Finally, racial and ethnic minorities continue to face undue barriers accessing credit compared to whites with precisely the same financial data. In 2022, the FDIC found meaningful differences in loan denial rates between people of different races and ethnicities.[40] Even after controlling for credit scores, income, debt, and loan value, the study showed that Blacks and Latinos are considerably more likely than are Whites to be denied a loan and that the disparity grows for those with lower credit scores. Notably, immigrants and those who speak English as a second language face additional barriers, as many financial institutions fail to accept Individual Taxpayer Identification Numbers (ITINs), alternative forms of identification, or provide adequate or comprehensive language access services.

Policymakers should follow three key guideposts on the path towards a more equitable banking system.

Both new regulations and long-standing consumer protections are important to ensure that no one is taken advantage or is paying unnecessary costs. As we explain below, the high costs of deposit accounts and credit can be a major factor that limits participation in the financial system and financial services. But incentives for achieving financial inclusion are also important to spur innovation so that financial institutions seize opportunities to meet consumer needs.

Financial institutions have an opportunity to build trust with communities of color and lowerincome households by rethinking their relationship with consumers and prioritizing longer-term investments and steps that build customer loyalty. In this way they can find solutions that work both for their business model and consumers, including those who cycle unproductively in and out of the banking system due to affordability concerns. Finally, a meaningful role for communities both within financial institutions and as partners can build trusting relationships, improve products and services, and help to create a more equitable banking system.

First, policymakers should support both consumer protections and market-driven innovations and approaches.

Regulators such as the CFPB play a critical role in securing a fairer marketplace for all consumers. When the CFPB was established following the 2008 financial crisis, millions of people had lost their homes. People of color were disproportionately impacted: Latino households lost 66% and Black households lost 53% of their wealth between 2005 and 2009, compared to White households, which lost 16% of their wealth.[41] Congress established the CFPB as a reaction to the financial crisis, making it responsible for coordinating and creating consumer protections so that everyone, including working-class and people of color, can benefit from a fairly functioning marketplace for financial services.

The CFPB is charged with enforcing laws that address discrimination and unfair treatment related to financial products, including the Equal Credit Opportunity Act and Truth in Lending Act. Through its rulemaking, supervision, and enforcement authorities, the Bureau works to stop harmful financial practices that contribute to the economic and racial inequality, including bringing more than 300 enforcement actions resulting in $3.7 billion in penalties for fair lending law violations alone.

Recent examples of the CFPB's work demonstrate their importance to securing a fair marketplace. In 2023 the CFPB proposed a rule to lower credit card late fees to $8, which it just issued as a final rule this week. This year, the CFPB proposed a rule to lower overdraft fees between $3 and $14. These important proposals have the potential to save working-class consumers billions of dollars and spare them from unnecessary financial burdens. While these are steps towards creating a more inclusive and equitable banking system, financial institutions should continue to innovate to ensure that they are reaching marginalized populations and providing innovative products to meet their real-time needs.

One example of this kind of innovation is simple and often overlooked. Bank On certified accounts are an example of a viable market solution to address inclusion and equity while providing financial institutions with a tool to meet customer needs. The Cities for Financial Empowerment Fund (CFE) created and established Bank On account standards to encourage financial institutions to offer products with equitable account features such as a $25 or less opening deposit, no minimum balance requirement, no overdraft fees, and no or low fees of any kind.[42] These accounts are offered by hundreds of financial institutions and at more than 45,000 bank branches across the country.[43]

Despite the availability of Bank On products, evidence suggests that increases in income during the pandemic are the primary drivers for unbanked consumers to be able to acquire bank accounts. And there are signs that the unbanked rate is increasing as pandemic-era programs expire. While financial institutions have displayed a willingness to provide Bank On products to consumers, they are often insufficiently marketed, and more can be done to connect these products with under- and un-banked households.

Policymakers should support financial institutions to be creative about how to reach the unbanked. Agencies can incentivize these efforts through capital investments, such as the Community Development Financial Institution Fund (CDFI fund), or as an evaluation during mergers and recertifications as occurs under the Community Reinvestment Act (CRA).

As this suggest, policymakers should explore new and creative ways to incentivize financial institutions to reach marginalized populations and develop solutions, including financial products that working-class and Latino communities need.

Second, financial institutions should reimagine the relationship between banks and consumers to promote customer loyalty and reduce costs.

Rather than increasing fees, some financial institutions are instead offering tools that provide consumers with affordable and flexible credit terms in conjunction with lower fees. Safe and affordable small dollar loans, such as those described in the chart above, can help protect working-class consumers and Latinos from all manner of unforeseen expenses and fluctuations in income. Such offerings also produce long-term benefits for both financial institutions and consumers by building better relationships over time.

Lowering fees and offering products that meet the financial needs of lower-income people and marginalized consumers can build trust and loyalty among those consumers. If consumers see that their financial institution is willing to be flexible and meet them where they are, they will in turn be more likely to remain loyal to the financial institution and will likely use more financial products as they improve stability and grow economically.

Recent research by Pew Trusts shows that consumers look at financial institutions more favorably if they reduce or eliminate overdraft fees. They also find that consumers would look at financial institutions more positively if they offered affordable small-dollar loans to people with low credit scores.[44] Lower-income people, immigrants with ITINs, and LEP consumers also need access to lower-cost and high-quality financial products to help build their financial wellbeing, and are a largely untapped market with tremendous promise.

Further, smaller financial institutions and those with greater difficulty accessing capital, such as Community Development Financial Institutions (CDFIs), low-income credit unions, and Minority Depository Institutions (MDI), should receive additional supports to be able to adopt these best practices. While these institutions already subscribe to this approach, they could reach more consumers through programs like the CDFI Fund, which provides capital to mission driven financial institutions, or deeper public or private investments. From a consumer perspective, it would be ideal to ensure that there are meaningful opportunities across a range of financial institutions, including banks and credit unions that are already connected with and support lower-income and marginalized consumers.

Third, democratic structures can make our banking system more equitable.
Public policy can also help to make the financial system more equitable by ensuring that lowerincome people have a meaningful voice in institutional decision making. This goal can be advanced both by growing community-owned institutions and by expanding democratic structures to elevate communities in financial decisions that affect them.

Credit unions are the most prevalent community-owned financial institution. They are structured as member-governed nonprofit cooperatives that enable community members to vote for and sit on the institution's board of directors. They also generally offer reasonably priced financial products and provide inclusive products and services. Some credit unions, especially those that are also CDFIs and/or MDIs, serve the needs of undocumented immigrants by accepting ITINs, offer services in different languages, and install branches in communities with few banking services.

These institutions, however, have far fewer resources than traditional banks. There are currently 4,645 credit unions in the United States with combined total assets of $2.23 trillion,[45] 1,480 CDFIs have over $452 billion dollars in assets.[46] And MDIs, which are owned by people of color, total just under 150 with $320 billion in assets.[47] Comparatively, the banking sector has combined assets of nearly $23 trillion.[48]

Regulations that give community members more influence in banks' decision-making processes can also improve the banking system. For example, federal regulators could require that banks meet with community advisory committees to allow lower-income communities to voice their needs directly to decision-makers within financial institutions. A community advisory committee could be empowered to negotiate institutional commitments to improve banking practices if a community is overburdened with overdraft fees or is failing to receive a fair share of lending and investment.

Furthermore, regulators and Congress can also give community-based groups the ability to grade a financial institution's performance in a Community Reinvestment Act (CRA) examination. Bank regulators recently updated the CRA making significant changes to certain aspects of the program but disappointingly did little to improve the ability for communities to provide feedback during evaluations.

Some financial institutions have called for a "race to the top" business strategy as the path forward for the banking sector. Investing in low-income people by providing affordable and high-quality products will allow banks and communities to grow together. If we create a banking system built on trust and loyalty, and one that invests in the longer-term potential of working-class people, people of color, and Latinos, we will be one step closer to creating a fair, inclusive, and thriving economy.

We are grateful that the subcommittee is taking up this issue, and look forward to your questions.

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