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February 20, 2024

Via Electronic Submission

Ms. Natalia Li
Director
Office of Consumer Policy
U.S. Department of the Treasury

RE: Docket No. TREAS-DO-2023-0014, Request for Information on Financial Inclusion

Dear Ms. Li:

Thank you for the opportunity to submit the enclosed comments in response to the Notice of Information Collection and Request for Public Comment published by the U.S. Department of the Treasury (Treasury) on December 22, 2023. As stated, Treasury has invited the public to comment "for the purpose of advancing financial inclusion through policy, government programs, financial products and services, technology, and other tools and market infrastructure."

The Community Development Bankers Association (CDBA) is the national trade association of banks and thrifts with a primary mission of promoting community development. The majority of our members are US Treasury-designated Community Development Financial Institutions (CDFIs). This means that they have a primary mission of promoting community development and target at least 60% of their total lending and activities to Low- and Moderate-Income (LMI) communities and customers that are underserved by traditional financial service providers. Many of our members are also Minority Depository Institutions (MDIs). As of the date of this letter, there are 197 banks with the Treasury's CDFI designation, and 147 MDIs. CDBA members provide financial products and services via 1,063 branches across 33 states, working in impoverished urban, rural, minority, and Native American communities to narrow the wealth gap and create real economic opportunity. Collectively we refer to these banks as "mission-focused banks."

Together, mission-focused banks represent one of the federal government's best market-based opportunities for leveraging federal investments and private dollars to promote financial inclusion *and* ensure community economic vitality.

Mission-focused bank banks strongly support Treasury's efforts to "develop a strategy to broaden access to financial services among underserved communities and improve the ability of such communities to use and benefit from financial tools and services." We appreciate the opportunity to provide feedback to maximize the effectiveness this effort for the benefit of the most underserved communities in the nation.

In order to establish a national strategy for the promotion of financial inclusion, we urge Treasury to keep the following priorities in mind. First, a national strategy to promote financial inclusion must clearly define why "financial inclusion" and related topics matter. It must identify and address biases in the financial system (broadly defined) *and* the system of laws and policies that have led to financial exclusion and perpetuated the racial wealth gap. Further, it must seek to establish a permanent structure, subject to regular review and oversight, with ultimate responsibility for coordination and execution seated at the Cabinet-level. Finally, in its execution, it must place the communities that have historically suffered from exclusion at the center of the strategy.

General Comments

A. Defining Financial Inclusion

Terms

In response to the question posed in the Request for Information, “How do you or your organization define financial inclusion,” we encourage Treasury to begin with the definition of financial inclusion advanced by the Aspen Institute in 2023. In this scenario, financial inclusion is defined as a household’s ability to “access, utilize, and reap the benefits of a full suite of financial products and services that facilitate stability, resilience, and long-term financial security.”[1] However, Treasury should expand its work beyond this definition and embrace a “broad scope.”

A Broad Scope

The reference in the definition above to “financial products and services” places depository institutions (especially mission-focused institutions, but including those of all types and sizes), at the center of any national strategy. Many essential financial products and services that serve both sides of the consumer and small business balance sheet are delivered through the branches and digital channels of CDFI and MDI banks. These include accessible checking, savings and transaction products, as well as responsibly priced consumer loans, mortgage loans, small business loans, and financial literacy and other development services such as technical assistance. Much of the “basic” needs of consumers and small business are served through these channels, and a national strategy should begin with consideration of what is already in place, and works well.[2]

However, as the RFI notes, there are many topics related to financial inclusion that overlap with or run parallel to “inclusion.” While “financial inclusion” is the headline for Treasury’s RFI, it will be important for Treasury to consider a broader scope. We encourage Treasury to incorporate subjects such as “financial well-being,” “financial stability,”[3] “financial resilience”[4] and “financial wealth”[5] into its work. Aspen defines these subjects as follows:

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[1] Elmi, Sheida Isabel, Sohrab Kohli, and Bianca Sofia Lopez. The Price of Entry: Banking in America. The Aspen Institute Financial Security Program,. February 9, 2023. https://www.aspeninstitute.org/publications/the-price-of-entry-banking-in-america/#:~:text=A%20structurally%20inclusive%20financial%20system,and%20long%2Dterm%20financial%20security.

[2] While more must be done to facilitate financial inclusion, CDFI and MDI banks are demonstrating how the right mix of capital, invested in the right institutions, leads to measurable progress. In just over six months, CDFI and MDI banks and credit unions participating in Treasury’s Emergency Capital Investment Program (ECIP), “originated a total of approximately $26 billion in loans of which approximately 75%, or $19.4 billion, went to LMI borrowers, borrowers in rural communities, and other categories of Qualified Lending. Approximately one third of ECIP participants’ total originations, or $8.6 billion, were Deep Impact Lending, loans made to the hardest-to-serve borrowers, including those that are low-income, residents on Tribal lands and in US Territories, and owners of very small businesses.”

[3] Wallace, Mack and Kate Griffin. The State of Inclusion in the US Financial System: Benchmarking Progress, Gaps, and Disparities. The Aspen Institute Financial Security Program, October 30, 2023. https://www.aspeninstitute.org/publications/the-state-of-the-u-s-inclusive-financial-system-benchmarking-progress-gaps-and-disparities/

[4] Ibid

[5] Ibid

- Financial Well-being: The ability to meet current, ongoing, and future financial obligations while having the opportunity to enjoy life
- Financial Stability: "Ability for households to meet day-to-day financial needs and build savings"[6]
- Financial Resilience: "Ability for households to manage a sudden drop in income or an unavoidable expense"[7]
- Financial Wealth: "Ability for households to invest and plan for the future"[8]

We urge Treasury to incorporate these terms because policymakers will need to *focus on a broad range of financial inputs to address the numerous, various and complex problems arising from financial exclusion.* These include problems that plague low-income, minority and rural communities, such as housing insecurity and disparate health outcomes, all of which have roots in communities' broader struggles to access capital. Addressing this range of problems will require consideration of a comparably wide range of *products and services, credit and service providers and system participants such as third party technology vendors, government agencies, and more.* The role of all these are essential to a full understanding of the task.

To begin, products and services considered for the national strategy should include those offered by <u>all</u> providers of financial services, whether consumer or commercial, regulated or unregulated, large, regional or small, online or in-person. This will require policymakers to consider when and how to consider topics that extend past "inclusion" into the financial fabric of our everyday lives. In short - the strategy should consider not only how *people* "access" or "use" financial products and services, but how they do, or do not, "benefit" from them, independent of whether they are actively engaged with the products or service.

For example, a lack of affordable rental housing has a direct bearing on whether families spending upwards of 50% of their income on rent can afford to contribute to emergency savings. While the families have no engagement with the policies that determine how multi-family rental housing is financed, the lack of investment in housing has a direct bearing on those families' ability to build assets in a savings account. No related topic, policy or product should be excluded from consideration.

Therefore, while the Aspen definition of financial inclusion certainly includes consumer- and small-business products offered by depositories, the strategy must also include commercial financial products and services that underpin economic opportunity, housing affordability, community services, and access to healthcare; retirement and investment products; national policies around tax filing/collection/and delivery of refunds; policies addressing equitable access to insurance; alternative consumer and small-business products offered by non-bank lenders; and the services (such as bank "core" systems) offered by third parties.

Entities offering financial products (commercial or otherwise) that should be accounted for in this strategy include mission-focused entities such as non-bank CDFIs (loan funds and venture capital funds) as well as residential (1-4 and multifamily, affordable and market rate) and commercial real estate investors. Alternative consumer and small-business lenders include nonbank mortgage lenders, online "fintechs," auto lenders, and entities such as business factors, cash advance firms, payday lenders, check cashers, and tax filing centers. Service providers include companies operating bank "core" systems, loan

[6] Ibid
[7] Ibid
[8] Ibid

processing and servicing solutions, “reg tech” companies, and services focused on underwriting solutions such as bias mitigation and automated cash flow analysis.

The role of the Federal government itself must also be considered expansively. The national strategy should include an examination of the role of prudential regulators (FDIC, OCC, Federal Reserve, NCUA and CFPB) in setting policies that range from capital requirements to Anti-Money Laundering (AML) examination practices, as well as the review process for large bank mergers and acquisitions, and the appropriate levels of deposit insurance. Housing agencies (Federal Housing Agency, Housing and Urban Development) and the GSEs (Fannie Mae, Freddie Mac) must be considered for their role in the development and maintenance of both naturally occurring and subsidized affordable housing. The Small Business Administration, Department of Agriculture and the Bureau of Indian Affairs must be consulted on programs that guarantee loans or lend directly to small businesses, small farms and underserved communities.

Together, a full picture must capture the widest possible range of entities. The nature of a national strategy, and everything that implies, demands that policymakers consider the specific outcomes that the strategy should facilitate. If the outcomes are too narrowly defined, (e.g. setting a number for un-banked Americans to open savings accounts over a certain period), this effort will not succeed.

B. Barriers to Financial Inclusion

There are numerous features of the existing financial system that “limit or create inequalities in the ability of consumers and communities to access, use, and benefit from financial products and services.”

Historical barriers are numerous, complex, and often self-reinforcing; however, we do know some steps we can take to avoid compounding them.

For example, the combined trends of consolidation and branch closure have a vicious effect on communities. The concentration of assets within a handful of mega- and regional-banks has a destabilizing effect on communities when credit decisions are increasingly made far away from those communities, if credit is available at all. This destabilization is particularly acute in the precise communities that CDBA members serve. Bank closures in LMI and minority communities “exacerbate inequities for residents and workers of that community, leaving them without sufficient access to . . . affordable, accessible products, especially when they so often lacked this access before the closures.”[9]

In this light, the growing network of mission-focused banks, centered around the CDFI and MDI banking sectors, must be nurtured and encouraged. In the last five years alone (year-end 2018 to year-end 2023) the number of CDFI certified banks has grown 20%. Further, recent results from Treasury’s ECIP program demonstrate that investments in these institutions support strongly beneficial outcomes. Clearly, there is demand for mission-focused lenders, and evidence these lenders have the capacity to meet that demand, given the right tools.

Another example of a barrier is that traditional, narrow and inflexible underwriting methods can limit credit access and create inequalities. Even newer underwriting methods that emphasize machine learning and “alternative” data can suffer from the same problems because they are trained on biased

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[9] How Branch Closures Impact Hard Hit Communities, Association for Neighborhood Housing and Development (ANHD), May 6, 2021, www.anhd.org/blog/how-branch-closures-impact-hard-hit-communities

historical data. Progress in this area should not disregard advances in modeling and decisioning technology, but instead ensure that machine learning also provides the necessary visibility into how predictions/decisions are made, and include the ability to override signals derived from biased data along with dedicated, ongoing bias analysis.

C. Actions To Promote Financial Inclusion

Mission-focused lenders are uniquely positioned to improve financial inclusion and promote well-being for underserved communities. Here are some examples of how CDFI banks and other mission-focused lenders already take steps to build relationships and establish partnerships in their communities that demonstrate the importance of a defining this effort with a broad scope. Many of these examples are foundational to promote financial inclusion and well-being, and should serve as guideposts for a national strategy.

Banking and payments: Basic transaction accounts, digital payments, money transfers, digital payments, and related services like checks and bill pay

CDFI and other mission-focused banks are front-line providers of basic banking and payments services in their communities. These services often include bank accounts that meet well-known national standards for access, function and affordability. They also extend to non-traditional offerings such as discounted check cashing for non-depositors, in-branch bill pay, and partnerships with carefully vetted remittance providers. Further, CDFI and mission-focused banks are often the only option for in-person banking in their communities. These banks ensure that branch banking, an essential community resource, remains available even in the face of national trends towards community disinvestment and branch closure.

Short-term savings: Emergency savings for managing immediate liquidity needs

CDFI and mission-focused banks meet this fundamental need everyday. Low- or no-minimum balance savings accounts are staple offerings, often with online and mobile access included. One innovative approach that some CDFI banks offer to promote financial inclusion is by offering free account opening to clients of Volunteer Income Tax Assistance (VITA) tax preparation centers. This service allows individuals receiving tax refunds to receive their refunds quickly and at no additional cost, avoiding check cashers and refund advance lenders, at the same time establishing emergency savings with "found" money.

Long-term savings and investing: Long-term savings tools, investment products, retirement, and brokerage accounts

Just as with short-term savings, mission-focused banks excel at offering services that promote long term savings, including into retirement. For example, core products include high yield savings and term deposits with competitive interest rates. At multiple banks, these accounts are compatible with tax-advantaged accounts, such as conventional and ROTH Individual Retirement Accounts that help individuals with taxable compensation save for retirement without concern for loss of principle.

Credit: Mortgage, small-business and commercial, student loans, credit card, small-dollar lending, credit reporting, and credit scoring

Mission-focused banks seek to be lenders of "first resort" in their communities, both at individual and commercial levels. For example, CDFI and mission-focused banks are active participants in national efforts to mitigate the national housing affordability crisis. The lack of affordable housing drains financial resources from renters and owners alike, with the lowest income renter households increasingly cost-burdened. CDBA members consistently demonstrate their commitment to meet financing demand through programs such as the Low Income Housing Tax Credit, the Capital Magnet Fund (CMF), and flexible approaches to 1-4 family mortgage lending. The qualified mortgage (QM) exemption for CDFIs is especially useful for borrowers in rural areas and other small, otherwise underserved markets.

CDFI banks are also leaders in small business and small-dollar lending, and are accustomed to creating products that meet communities needs. For example LMI small business owners, small farmers and individuals without W2 regular income often have a difficult time documenting their income. While this makes it difficult to "verify" income and ability to repay, CDFI and mission-focused banks establish relationships with their customers that reflect an understanding of their individual situations. In the case of individuals, this often includes valuable products such as credit builder loans, and responsibly priced payday loan alternatives. In at least one case, a CDBA member bank establishes special relationships with the HR departments of local employers to ensure small dollar lending is conducted in an affordable, responsible way.

Conclusion

CDBA member banks fully appreciate the efforts of Treasury to craft a strategy to identify clear and actionable opportunities for the public, private, and nonprofit sectors to advance financial inclusion. We sincerely appreciate the opportunity to comment and offer feedback, and look forward to future discussion on these important issues.

If you have any questions, please contact Jeannine Jacokes, Chief Executive Officer, at (202) 689-8935 ext. 222 or jacokesj@pcgloanfund.org, or Brian Blake, Chief Public Policy Officer at (202) 689-8935 ext. 225 or blakeb@pcgloanfund.org.

Thank you for considering our comments.

Sincerely,

Brian Blake
Chief Public Policy Officer