America's Credit Unions

February 20, 2024

U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

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

Dear Sir or Madam:

On behalf of America's Credit Unions, I am writing in response to the Department of the Treasury's Request for Information on Financial Inclusion (RFI)[1]. America's Credit Unions is the voice of consumers' best option for financial services: credit unions. We advocate for policies that allow the industry to effectively meet the needs of their nearly 140 million members nationwide. America's Credit Unions appreciates the opportunity to provide information regarding financial inclusion.

General Comments

Financial inclusion is the foundation of the credit union movement. Credit unions evolved in the early 20th century as an alternative to banks for people who were excluded from traditional financial institutions. The first American credit union, St. Mary's in Manchester, New Hampshire, was established by French-speaking Canadian-American immigrants who could not obtain loans from Anglo-American financial institutions. Thousands of credit unions have formed to represent other groups that were unable to obtain financial inclusion. Many are community-based and provide financial education and outreach to local members. Some credit unions formed to allow students an ability to safely handle assets while in school. Most supply small businesses with loans and other services. Military credit unions fulfill the unique needs of service members who may be deployed around the world. Credit unions were started by people who were overlooked, ignored, and rejected by existing financial service providers. Financial inclusion is the reason credit unions exist.

The credit union difference is significant. Credit union members are not just customers but are also owners of the institution. Credit union members share a common bond and membership in a credit union is limited to a defined field of membership (FOM), depending on the parameters of their federal or state charter. Members have a vote on issues brought before their boards, which are made up of volunteers. Credit union loans and services are uniquely tailored to meet the needs of the membership. Volunteer board members are motivated to support the financial wellness objectives of their member-owners. Credit unions are not-for-profit institutions, with their members being their primary concern, not profits.

[1] 88 F.R. 88702 (Dec. 22, 2023), https://www.federalregister.gov/documents/2023/12/22/2023-28263/request-for-information-on-financial-inclusion.

Defining Financial Inclusion

America's Credit Unions, along with the National Credit Union Foundation, define Financial Inclusion as "Financial Well-Being for All". Financial well-being for all is the subtle, but fundamental shift in the credit union promise to amplify what credit unions have always done better: ensuring everyone has complete, affordable access to financial services. Our unique charter makes it possible to ensure every member has the knowledge and tools they need to make confident and smart financial decisions.

When discussing financial well-being, credit unions acknowledge the Consumer Financial Protection Bureau's (CFPB's) definition as a clear and simple description. That definition is 1) Control: Control over your day-to-day, month-to-month finances; 2) Capacity: The capacity to absorb a financial shock; 3) Choice: The financial freedom to make choices to enjoy life; and 4) Goals: Being on track to meet your financial goals.[2]

"Financial well-being for all" means for all demographics, all income levels, all parts of the United States, and all people.[3] Credit unions do this by ensuring every American has complete, affordable access to the knowledge and tools they need to make confident and smart financial decisions.

We acknowledge that there is not currently a single definition of financial inclusion but emphasize that a common definition must be agreed upon if certain financial inclusion requirements are to be mandated for banks, credit-unions, and non-depository financial institutions, including fintechs. America's Credit Unions supports a uniform definition constructed in coordination with the banking regulators (including the National Credit Union Administration), the CFPB, and the Federal Housing Finance Agency (FHFA).

Barriers to Financial Inclusion

Barriers to financial inclusion for individuals range from race, geographical location, household composition, age, income, employment status, education, immigration status and incarceration status. The Financial Health Pulse 2023 U.S. Trends Report indicated that between the spring of 2022 and 2023, the percentage of financially vulnerable Americans increased to pre-Pandemic levels of 17 percent and that the share of Black and Latinx Americans who met this definition increased by 6 and 7 percentage points, respectively.[4] It also reported that Americans living in Southern states were more financially vulnerable than any other region, with one in five

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[2] Financial Well-Being: The goal of financial education.
https://files.consumerfinance.gov/f/201501_cfpb_report_financial-well-being.pdf
[3] The National Credit Union Foundation, "Financial Well-Being for All: An Overview"
[4] Financial Health Network, Financial Health Pulse 2023 U.S. Trends Report. https://finhealthnetwork.org/wp-content/uploads/2023/09/2023-Pulse-U.S.-Trends-Report-Final.pdf
September 13, 2023.

meeting the qualification.[5] Single women were more likely to be financially vulnerable than single men or those who were married or partnered.[6]

Additionally, research from United For ALICE shows that the number of households in financial hardship in the U.S. continues to be undercounted in official measures.[7] According to the Federal Poverty Level (FPL), 13 percent of U.S. households (16.2 million) were in poverty in 2021; however, United For ALICE data shows that another 29 percent (36.3 million households) — more than twice as many — were ALICE (Asset Limited, Income Constrained, Employed).[8] ALICE households earn above the FPL, but not enough to afford the basics in the communities where they live.[9] Of the 127 million households in the U.S., 41 percent (52.5 million) had income below the ALICE Threshold of Financial Survival in 2021.[10] Rates of financial hardship are higher for groups that have historically faced barriers: 51 percent of Hispanic households, 55 percent of American Indian/Alaska Native households, and 59 percent of Black households were below the ALICE Threshold.[11] In addition, 56 percent of single-male-headed households and 75 percent of single-female-headed households were below the ALICE Threshold, as were 69 percent of households headed by someone under age 25 and 51 percent households headed by someone age 65 or older.[12] America's Credit Unions encourages Treasury to evaluate many different data sources to fully understand current barriers to financial inclusion.

Measuring Financial Inclusion

Measuring financial inclusion is difficult and relies on a set of common definitions and metrics. One such metric could be the number of low- to moderate-income households served under various programs such as home ownership, retirement savings programs, coaching sessions, etc. Comparing the percentage of members in different socio-economic, ethnic, or other groups served with the overall percentage of these groups in the community at large would be another option. Other metrics might be the percentage of consumers with emergency savings, whether consumer loan needs are being met, the number and depth of services provided or the number of community partners and community members served through these partnerships.

While traditional credit scoring models have proven exclusionary, credit scoring remains a critical and industry standard tool for assessing creditworthiness. Studying and documenting the accuracy of alternative credit scoring models and the related performance of loans made using these metrics will improve its acceptance and widen its use. Measuring the usage of alternative credit scores over time and the inclusion in lending that it permits (relative to

[5] *Id.* at 29.
[6] *Id.* at 24.
[7] United For ALICE, "ALICE in the Crosscurrents: COVID and Financial Hardship in the United States" (2023), UnitedForALICE.org/National-Overview.
[8] *Id.*
[9] *Id.*
[10] *Id.*
[11] *Id.*
[12] *Id.*

qualification under traditional scores) would be extremely helpful. However, financial institutions should not be forced to bear the cost of the creation of this data through the purchasing of multiple scores. Instead, Treasury should work directly with the credit reporting agencies to ensure that this data can be collected and studied at no additional cost to lenders.

Gauging the improvement of overall financial wellness of impacted members would be a longer-term metric. It is important to consider the reasons some consumers remain unbanked. Such reasons range from accounts being closed for negative balances to even a distrust of financial institutions. For these reasons, qualitative data points may be instructive. For example, consumers' agreement with statements describing whether their financial institution cares about and/or improves their financial well-being, or whether consumers believe financial institutions can be trusted, provide necessary services, and are sufficiently focused on their communities could provide important qualitative metrics. Some qualitative measurements could include asking consumers the following:

- Does my financial institution improve my financial well-being?
- Does my financial institution make it easy to handle my finances?
- Does my financial institution make it easy to get loans?
- Does my financial institution provide low-cost loans for family needs?[13]

Actions to Promote Financial Inclusion

> *Examples of existing programs, initiatives, products, or services successful in promoting financial inclusion*

Credit unions have enacted numerous innovative programs in place to reach out to unbanked and underbanked populations.

Our member credit unions have reported that financial inclusion means providing products and services that are accessible for all, with pricing that provides value and improves financial wellness. This can be achieved through a variety of means, including the following:

1) Placing branches in areas that are diverse, represent the whole community, and are accessible;
2) Providing education and coaching, both formal and informal to members and others in the community to improve financial wellness;
3) Providing clear, understandable and relevant advertising, disclosures, and other information to members and prospective members; and

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[13] Credit Union National Association, "Credit Unions Lead in Advancing Financial Well-Being for All" (May 2022), https://www.cuna.org/content/dam/cuna/advocacy/fwbfa/documents/CUNA_WP_CUs_Lead_Improving_FWBFA_May_2022.pdf.

4) Partnering with other non-profit organizations to extend their reach in the community, create synergies through complementary programs, and support their community.

One innovative credit union has partnered with its' state Department of Corrections to validate addresses and open accounts for hundreds of incarcerated individuals. Access to a safe, insured, local community credit union gives members an alternative to predatory commissary finance systems and discriminatory banking practices. Incarcerated individuals often lose access to their pre-existing bank accounts upon their conviction. Financial services are vital to those re-entering society so they can build credit, obtain a job, and find housing.

The Juntas Avanzamos (Together We Advance) initiative is a collaboration between credit union leagues, advocacy organizations, consultants, CDFI intermediaries, and a growing number of state leads and associations across the country. Juntas Avanzamos designates credit unions committed to serving and empowering Hispanic and immigrant consumers – helping them navigate the U.S. financial system and providing safe, affordable and relevant financial services. Juntos Avanzamos credit unions employ bilingual, culturally-competent staff and leadership, accept alternative forms of ID and treat all of their members with respect, regardless of immigration status.

Many credit unions offer services in alternative languages in order to meet the needs of and build trust with their community. These credit unions report that offering services in another language is not as simple as providing translation services and offering forms in another language, and caution that programs that are not sufficiently holistic can actually do more harm than good. Successful programs involve wide-spread training, the provision of educational services in the alternative language, in-person counseling with fluent speakers, and culturally aware product development and marketing. These initiatives are expensive, time-consuming, and can pose a number of compliance, litigation, and examination risks. Whether to launch such an initiative is a strategic business decision for credit unions to make based on the unique nature and needs of their field of membership. However, credit unions that have the available capital and a membership base that justifies such an initiative often report that the investment was well worth it.

Policy Priorities to Promote Financial Inclusion

America's Credit Unions discourages regulatory oversight of and mandatory requirements related to inclusion efforts, but our members have offered a list of policy priorities that would advance financial inclusion. Interagency coordination among the banking regulators, CFPB, and FHRA can be helpful. We encourage building and leveraging partnerships between key government agencies, non-profits, and credit unions.

1) The pool of potential credit union members is limited by a credit union's FOM. Policies that offer greater flexibility regarding FOM allows credit unions to serve a broader range of members, including those that are underserved. Introduced in the 117th Congress, H.R. 7003 Expanding Financial Access for Underserved Communities Act would ease FOM

requirements for persons in underserved areas and exclude loans made to members in underserved areas from credit union limits. Credit unions have been a critical provider of financial services to rural and underserved areas and this legislation would strengthen their ability to continue that work.

There is also an opportunity to reevaluate FOM limitations in the Federal Credit Union Act in light of the increased reliance on mobile and online facilities. America's Credit Unions supports redefining "service facilities" to include digital channels in order to expand access to affordable, high-quality financial services to more Americans.

2) Credit unions need flexibility to offer small dollar loans to small community businesses. Business loans under $50,000 are exempt from the definition of a "Commercial Loan" and the strict underwriting requirements such a loan demands. Given inflation and consumers' decreased economic buying power, this amount should be raised to give more members lending options that allow credit unions to evaluate a member's ability to repay without the stringent underwriting requirements of commercial loans.

   America's Credit Unions supports a net aggregate of $250,000 for the Member Business Loan exemption. The Member Business Loan Expansion Act, H.R. 4868, was introduced by Reps. Vicente Gonzalez (D-TX) and Brian Fitzpatrick (R-PA) to lift the definition of the lower end of the amount of a loan that would count toward the MBL cap from $50,000 to $100,000. Additionally, the bill would allow the NCUA Board to set a loan maturity limit greater than 15 years and it would expand the definition of "community financial institution" under the Federal Home Loan Bank Act to include credit unions. Senators Dan Sullivan (R-AK) and Mazie Hirono (D-HI) introduced the Veterans Member Business Loan Act, S. 539, which would exempt loans made to veteran-owned small businesses from the member business lending cap, on February 28, 2023 (Reps. Gonzalez and Fitzpatrick introduced the House version of this bill).

3) Revising CDFI criteria to expand access and provide additional funding would allow more credit unions to qualify for the certification. The revised application released in December 2023 may ease the burden of credit unions wishing to apply for the certification and is appreciated. However, more work can be done to streamline the application process and enhance transparency with stakeholders. Further, Treasury must provide clarity and support for CDFI credit unions that serve African American, Hispanic, or Native American Other Targeted Populations and are required to collect actual race and ethnicity data to support their certification. These should include government-issued signage, standardized forms, and clear interagency guidance regarding the legality and examiner expectations regarding this data collection.

4) The government-sponsored enterprises (GSEs), Federal Home Loan Banks (FHLBs), and other similar organizations have inclusive programs and activities that could be expanded to provide additional housing support, such as down payment assistance. Redefining the term "Community Financial Institution" to include credit unions would allow more

institutions to become members of the FHLBs and better serve their communities. America's Credit Unions appreciates the FHFA for supporting that change and including that recommendation in its report FHL Bank System at 100: Focusing on the Future.[14]

5) The NCUA has several avenues to improve the Payday Alternative Loans (PALs) Program. The maximum principal amount is currently $1,000, which may not be sufficient for some members. There is currently a prohibition against having more than one PALs I or PALS II loan to a member at a time and no more than three PALs I or PALs II loans to a member within any six-month rolling period. These limitations, along with the lack of streamlined underwriting process, prevent consumers from obtaining safe and affordable short-term, small-dollar loans from a credit union in a reasonable amount of time, leaving many with no other option but to turn to payday lenders who may not have the consumers' best interest in mind. America's Credit Unions also supports the CDFI Fund Small Dollar Loan program and recommends a wider grant program accessible to all, or to at least low-income designated credit unions.

6) FedNow and the wide availability of real-time payments nationwide promises to enhance access to the financial system, including for low-income individuals who need quick access to funds.

7) Investment in the NCUA's Minority Depository Institution (MDI) Preservation Program and its related grants to empower NCUA to provide deeper operational support to MDI credit unions and additional technical support grants to ensure MDIs strength and longevity. Further, dedicated examiners with a thorough understanding of the unique nature of MDI credit unions would also support the preservation of these institutions.

8) The provision of easy to detail guidance, examination expectations, and other resources for lending to those without an Individual Taxpayer Identification Number (ITIN) and offering depository accounts for those with neither a social security number or an ITIN.

9) Exceptions and exclusions for burdensome regulatory schemes for small, community-development and MDI credit unions, particularly around technology. For example, the CFPB's open banking rule threatens to make the use of online and mobile technology less accessible and far more expensive for smaller institutions. However, online and mobile access is critical for underserved populations which often feel far more comfortable using these tools and interacting with branch staff.

10) Policies across all government agencies and GSEs involved in the secondary housing market that would establish a secondary market for loans made under credit unions' special purpose credit programs as permitted by the *Equal Credit Opportunity Act* and

[14] Federal Housing Finance Agency, "FHL Bank System at 100: Focusing on the Future" at 70. https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/FHLBank-System-at-100-Report.pdf.

other types of non-conforming loans. Financial inclusion requires meeting creditworthy members where they are at, which often means making nonconforming loans that nonetheless have an excellent track record of payment. These nonconforming loans must be held on a credit union's books, limiting the amount of such loans that can be made. The ability to sell these high-quality loans on the secondary market would open up lending capital for credit unions to increase their lending to those who are creditworthy but cannot meet credit requirements based on traditional metrics.

Conclusion

America's Credit Unions appreciates the opportunity to comment on this matter and Treasury's focus on understanding and promoting financial inclusion. If you have any questions or concerns, please do not hesitate to contact me at asmith@americascreditunions.org or (703) 842-2803.

Sincerely,

Amanda L Smith

Amanda L. Smith
Senior Regulatory Affairs Counsel