NATIONAL ASSOCIATION FOR LATINO COMMUNITY ASSET BUILDERS

February 15, 2024

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

Re: Docket No. TREAS-DO-2023-0014

To Whom It May Concern:

I write in response to the December 22, 2023, U.S. Department of Treasury (Treasury) Request for Information (RFI) on the development of a national strategy for financial inclusion. NALCAB appreciates the opportunity to share insights on how to advance financial inclusion for Latinos and other underserved communities. By establishing a comprehensive and aggressive strategy, we can harness the full economic potential of the Latino community and boost economic growth.

NALCAB, the National Association for Latino Community Asset Builders, is a U.S. Treasury-certified Community Development Financial Institution (CDFI) that represents and serves over 200 diverse nonprofit community development and asset-building organizations across the country. Approximately one third of our members are certified CDFIs. Our members uplift Latino communities by strengthening access to quality affordable housing, safe financial products, and successful entrepreneurship. Many of the people served by the NALCAB Network are low- to moderate-income individuals who are first- or second-generation immigrants.

To promote financial inclusion for underserved communities NALCAB provides grants, and technical assistance to help nonprofit organizations implement or expand the integration of financial capability services into asset building programs. We also create peer to peer connections within our network to share knowledge, best practices and lessons learned. Additionally, with the start of each Congress NALCAB releases a Latino Economic Policy Agenda which includes comprehensive proposals to boost the economic mobility of Latinos of which financial inclusion is key.

We offer the following responses to Treasury's RFI -

Financial inclusion is a cornerstone to economic opportunity. Culturally relevant financial capability programs are crucial for unlocking economic potential for Latinos and other diverse communities of color. Those who are new to the U.S. financial system and Limited English Proficiency (LEP) individuals face barriers to conducting basic financial transactions, building a credit history, accumulating savings, and accessing credit on fair and affordable terms. NALCAB defines financial inclusion as not only equitable access to the financial marketplace but also utilizing products and services that perform the function a household needs, while enabling the consumer to build their wealth- leaving them better off in the long-term and reaping the benefits of the U.S. Economy.

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Barriers to Financial Inclusion: For many in the Latino community accessing the tools needed to climb the economic ladder means responding to the needs of LEP individuals, and ultimately creating a cultural component as part of the strategy for financial inclusion. In comparison to the White population, Latinos' unique occupations, businesses, status issues and more means we have specific needs and face distinct challenges within the financial marketplace.

The barriers faced in accessing the financial system impacts the economic security and wealth-building capacity of Latinos[1]. We know the loan approval rate from traditional banks for Latino owned businesses (LOBs) is 60%[2] lower than that of White owned businesses (WOBs), further when LOBs do attain a loan it is nearly $30,000 less than WOBs with interest rates 1.4% higher.[3] Latinos are unbanked, or underbanked, 22% more often than the White population and are denied mortgage loans at double the rate. Whether Latinos are seeking access to credit, loans for their business, or to finance their homes, we face barriers to inclusion in and in turn are prevented from being able to build wealth.

Specific barriers we would like to highlight include; broadband access, digital proficiency, language access, and targeted biased information promoting predatory loan products. In the last decade the internet has become even more crucial to full inclusion in the economy. That said, just 65% of Latinos have a broadband connection in comparison to 80% of the White population. Additionally, 25% of Latinos are "smartphone dependent" for a broadband connection in comparison to 10% of Whites.[4] As these gaps persist, digital banking and other fintech services continue to expand, keeping the Latino community from benefitting from advances in financial technological. Finally, there must be greater access to resources in multiple languages. In accordance with President Biden's Executive Orders 13985 and 14091, we encourage the Treasury to evaluate if its Language Access Plan meets the needs of LEP consumers and to make the necessary changes. Broadband access, digital proficiency, and language access must be key components for any national strategy.

Immigrants face unique barriers to accessibility in the financial services marketplace. Individual Taxpayer Identification Numbers (ITIN) are tax processing numbers issued by the Internal Revenue Service (IRS) to foreign nationals, undocumented immigrants, nonresident individuals, their spouses and other dependents who do not have Social Security Numbers (SSN). While there is no law requiring a SSN, many financial institutions require them in order to issue loans. This discriminatory practice does not align with the financial behaviors of ITIN holders. Mission Asset Fund in San Francisco surveyed their ITIN holder clients and found that they had a 99% successful loan repayment rate and 90% of them had a prime or near prime credit score[5]. Expanding access to safe

[1] "Request for Information on Financial Inclusion, TREAS-DO-2023-0014." n.d. Federal Register. Accessed February 15, 2024. https://www.federalregister.gov/documents/2023/12/22/2023-28263/request-for-information-on-financial-inclusion.
[2] Orozco, Marlene, and Inara Sunan Tareque. "The State of Latino Entrepreneurship:" *Stanford Graduate School of Business Latino Entrepreneurship Initiative,* Jan. 2021, pp. 10., doi:10.2307/j.ctvs1g9d5.9.
[3] Goldstein, Eric. "Racial Funding Gap Shows Black Business Owners Are Shut From Accessing Capital," Fundera, Jan. 08, 2021, https://www.fundera.com/blog/racial-funding-gap
[4] Pew Research Center. "Black, Hispanic Adults Less Likely to Have Broadband or Traditional PC than White Adults | Pew Research Center," August 25, 2022. https://www.pewresearch.org/short-reads/2021/07/16/home-broadband-adoption-computer-ownership-vary-by-race-ethnicity-in-the-u-s/
[5] "Impact," Mission Asset Fund, April 20, 2021, https://www.missionassetfund.org/impact/.

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and affordable capital to these borrowers helps them build assets, invest in their businesses and create jobs that will boost the U.S. economy.

Given what is at stake for the U.S. economy in harnessing the full economic potential of the Latino population, who are poised to provide an additional $90 billion to the financial services industry alone by 2030, it is critical that Treasury implements strong actions to alleviate these barriers and allow Latinos to reach their full economic potential.[6]

Actions To Promote Financial Inclusion: *Invest in Community Development Financial Institutions (CDFIs) and minority-led CDFIs.* CDFIs are community-based financial institutions that provide financial products and services to people who are traditionally underserved by mainstream financial institutions. CDFIs led by, accountable to and anchored in communities of color play an outsized role in closing opportunity gaps and should be recognized for their service and accountability to minority populations.

Support Minority-Owned Depository Institutions (MDIs). MDIs promote a more equitable economy because they are more likely to serve underbanked and LMI communities than their traditional bank counterparts. MDIs also serve a higher share of minority home mortgage borrowers and make a greater share of their loans to small business borrowers located in LMI census tracts compared to non-MDI banks. Prudential regulators should more actively strengthen MDIs consistent with Section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

Ensure strong consumer protections in the fast-developing Financial Technology (Fintech) sector and in the Artificial Intelligence (AI) systems. As financial services technology continues to advance in areas like marketplace lending for consumers and small businesses and tech firms continue to enter the banking and currency markets, financial regulations must adapt to ensure innovators and their products are held to high consumer protection standards, especially as they relate to emerging financial products, systems and services.

Promote Special Purpose Credit Programs. The Equal Credit Opportunity Act (ECOA) allows institutions to create Special Purpose Credit Programs (SPCPS) to benefit people left out of the financial mainstream. SPCPs can play a critical role in promoting credit equity, building wealth and removing barriers to credit. These financial products provide a targeted means for creditors to meet the unique needs of the community, including groups that share a common characteristic such as race, national origin, or sex. Additionally, SPCPS can help fill gaps left by other affordable credit programs that leave racial and national origin disparities unaddressed. Mission-based lenders such as CDFIs have used SPCPs to create highly effective products and services targeted at disadvantaged populations. CDFIs are now leading the field by demonstrating the ability to develop, implement, and manage

[6] Pérez, Lucy, Bernardo Sichel, Michael Chui, and Ana Paula Calvo. 2021. "The Economic State of Latinos in America: The American Dream Deferred | McKinsey." McKinsey & Company. McKinsey & Company. December 9, 2021. https://www.mckinsey.com/featured-insights/sustainable-inclusive-growth/the-economic-state-of-latinos-in-america-the-american-dream-deferred.

such programs successfully. It is important to increase awareness about this underused tool to advance racial equity and provide tangible strategies for CDFIs interested in creating a SPCP.

Protocols Related to Fraud or Risk Management - Reexamine the Corporate Transparency Act (CTA). The CTA, which was signed into law on January 1, 2021, became effective on January 1 of this year. The law works to combat illicit financial activities via shell companies with less than 20 employees and making less than $5 million in sales. It obligates small and micro businesses to report information on ownership, including information like home address and provide photo identification via driver's license or passport. In implementation of this rule, potential consequences fall on immigrant micro business owners that do not have the necessary documentation to meet requirements and could face severe penalties, including steep fines and jail time. We urge Treasury to meet with stakeholders in our community to understand the impact these requirements will have on their businesses and the local economy.

Stakeholder Collaboration - For a national strategy on financial inclusion to be most successful it must have ongoing input from stakeholders in the field doing financial capability work. We encourage Treasury to partner with trusted grassroot organizations in traditionally underserved communities in developing, implementing, and assessing its strategy for financial inclusion.

Measuring Financial Inclusion: Achieving progress lies not only in increasing access and usage of responsible and affordable financial services, but in the better financial outcomes for marginalized consumers. A holistic assessment is vital, assessing progress, gaps, and disparities within financial services, building from access and usage to tangible benefits. A framework must measure access, use, and benefit across financial products. To track these outcomes, the Federal Deposit Insurance Corporation's (FDIC) annual report on Household Use of Banking and Financial Services and the U.S. Census Bureau's Wealth of Households report are key resources to track financial inclusion. In addition to government resources, practitioners such as NALCAB and our members also track financial capability via the collection of indicators from the consumers they are providing direct services to, such as:

- Number of individuals receiving financial coaching.
- Number of individuals who established credit for the first time after receiving services.
- Number of individuals who accessed financial assets (home loan, credit card, retirement savings, small business loan).

An important blind spot in our data that prevents full financial inclusion is related to ITIN holders. Currently there is little to no data on ITIN lending shared by federal agencies, thus measuring and tracking lending amongst ITIN holders is necessary to highlight the population's banking worthiness. We know nearly all ITIN consumers repay their loans yet face barriers to financial products and services. Using the data sources and indicators referenced here among others, measuring the impact and success of this strategy for financial inclusion will be central to ensuring future initiatives make further strides on inclusion and increase access for marginalized populations.

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Closing

Financial inclusion can bridge the divide between economic opportunity and economic achievement. The work of the administration and Treasury in developing a national strategy for inclusivity presents a meaningful opportunity to counteract centuries of marginalization and promote increased opportunities for economic growth. We look forward to continuing to work with Treasury on ways to foster equity in our financial services marketplace and boost the economic mobility of this nation's 63 million Latinos.

Sincerely,

Clarinda Landeros

Clarinda Landeros
Director of Public Policy