



INDEPENDENT COMMUNITY  
BANKERS of AMERICA®



# FINANCIAL INCLUSION REPORT

SEPTEMBER 2021

[icba.org](http://icba.org)

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## Background

Approximately 6 percent of Americans are unbanked,<sup>1</sup> having no relationship with a bank, and an additional 16 percent are underbanked,<sup>2</sup> having used some form of alternative financial service (“AFS”), such as a money order, check cashing service, pawn shop loan, auto title loan, payday loan, paycheck advance, or tax refund advance.



Note: Fully banked individuals have a bank or credit union account and have not use an alternative financial service in the past year.

*Figure 1. Report on the Economic Well-Being of U.S. Households in 2018, Board of Governors of Federal Reserve System, May 2019, at 25.*

<sup>1</sup> Report on the Economic Well-Being of U.S. Households in 2018, Board of Governors of Federal Reserve System, May 2019, at 25. The Board of Governors of the Federal Reserve System define ‘unbanked’ as adults without a checking, savings, or money market account.

<sup>2</sup> Report on the Economic Well-Being of U.S. Households in 2018, Board of Governors of Federal Reserve System, May 2019, at 25. The Board of Governors of the Federal Reserve System defines “underbanked” as having a bank account but also using an alternative financial service product.

In explaining why they do not have a relationship with a bank, the top three primary reasons cited were:

1. Insufficient income to meet minimum balance requirements (29 percent)<sup>3</sup>
2. Distrust of banks (16 percent)<sup>4</sup>
3. Credit or former bank account problems (8 percent)<sup>5</sup>

Thirty-four percent of adults in 2018 reported “living comfortably” and 41 percent reported “doing okay” financially. In contrast, 18 percent reported they are “just getting by,” and 7 percent are “finding it difficult to get by.”

Of the more than one-third of adults who applied for credit in 2018, 23 percent were denied at least once in the prior year, and 31 percent were either denied or offered less credit than they requested.<sup>6</sup> Lower income individuals are more likely to experience adverse credit decisions, compared to higher income applicants.<sup>7</sup>

Additionally, nearly 20 percent of adults are considered to be “credit invisible”<sup>8</sup> or do not have sufficient history at a credit agency to generate a score. Low-income and rural areas are disproportionately represented. Almost 30 percent of Americans in low-income Census tracts, and approximately 15 percent of adults in rural areas are credit invisible.

The lack of a relationship with banks can cost consumers up to \$40,000 over their lifetime in check-cashing fees and thousands more on high-interest loans from alternative providers.<sup>9</sup> This means that the nearly 65 million unbanked and underbanked Americans stand to greatly benefit from a more formal relationship with a community bank.

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3 49 percent cited as a reason, though not necessarily primary.

4 36 percent cited as a reason, though not necessarily primary.

5 20 percent cited as a reason, though not necessarily primary.

6 Report on the Economic Well-Being of U.S. Households in 2018, May 2019 ([federalreserve.gov](https://www.federalreserve.gov)) at 26.

7 Report on the Economic Well-Being of U.S. Households in 2018, May 2019 ([federalreserve.gov](https://www.federalreserve.gov)) at 26.

8 Do not have a credit record with a nationwide credit reporting agency.

9 Matt Fellowes and Mia Mabanta, “Banking on Wealth: America’s New Retail Banking Infrastructure and Its Wealth-Building Potential, Brookings Institution, Jan. 2008, stating, “a full-time worker without a checking account could potentially save as much as \$40,000 during his career by relying on a lower-cost checking account instead of check-cashing services.”



## Community Bank Solutions

### **CREDIT BUILDING**

Given that so many Americans are credit invisible or have thin credit files, community banks are finding creative ways to build credit for their customers by using alternative ways to measure credit history and offering special savings and loan products. For example, Highpoint Community Bank in Hastings, MI offers a credit builder product, which it describes as “a combination loan and savings program designed to help you build or rebuild credit.”

The typical credit building product starts with the bank making a loan to the customer, but then placing the loan proceeds into a certified deposit (“CD”) account rather than disbursing them to the customer. The customer then repays the loan on a monthly basis, with the bank reporting the timely repayments to at least one of the three major credit reporting agencies. By the end of the term, the customer is able to access the original proceeds and has a positive credit history.



## **ALTERNATIVE DATA**

In addition to building credit through reporting traditional data points, community banks will sometimes rely on alternative data when establishing a relationship with a customer. While traditional credit reports might not contain enough history for a bank to feel comfortable with the credit risk, alternative data provides additional context that could present a fuller picture of consumers and their credit risk.

Some early examples of alternative data and techniques include analysis of a consumer's cash flow, utility and rent payment history, and even educational history. Banks use alternative data to augment their traditional underwriting models, typically using the technique to get to "yes" when an applicant has been denied using traditional data and techniques. Additionally, alternative data could be used to improve the speed and accuracy of credit decisions.

For example, Beneficial State Bank in Oakland, California amplifies their traditional underwriting (debt-to-income ratio and payment-to-income ratio) by leveraging VantageScore as an alternative to FICO to increase the credit data available for applicants.

## **IMMIGRANT POPULATIONS**

In addition to being credit invisible or lacking sufficient traditional data points to be considered "bankable," many new immigrants face additional burdens to become banked.

New immigrants to the U.S. might not have the conventional documentation to open an account at a bank, as is required by customer due diligence ("CDD") rules and other Bank Secrecy Act regulations.<sup>10</sup> Additionally, something as simple as a new language can be an impediment to an immigrant establishing a relationship at a bank.

Thankfully, community banks are finding ways to serve this growing population to ensure that they can find their way into the more mainstream financial services ecosystem. For example, Spring Bank finds ways to comply with 'Know Your Customer' and other regulations when opening accounts. Spring Bank is located in the Bronx Borough of New York City, where

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<sup>10</sup> 31 CFR 1020.210(b)(5) requires banks to develop and implement appropriate risk-based procedures for conducting ongoing customer due diligence

immigrants make up 37 percent of the total population.<sup>11</sup> Spring Bank uses alternative forms of identification, such as IDNYC (a free identification card for New York City residents 10 years and older). Many other community banks also accept alternative identification, including foreign passports, driver's licenses, national ID cards, birth certificates, and military photo IDs, as well as U.S. Individual Tax Identification Number ("ITIN") cards or letters.

Separate from challenges with banking regulations, new immigrants might have difficulty becoming banked, simply due to the language barrier. Here, too, community banks have found ways to help. Bankers Trust in Des Moines, Iowa has more than 25 employees who serve as interpreters, speaking 17 different languages besides English: Bosnian, Cantonese, Chinese (Mandarin), German, Gujarati, Hindi, Italian, Laotian, Malay, Nepali, Pashto, Portuguese, Spanish, Tai Dam, Urdu, Vietnamese, and American Sign Language ("ASL"). Other examples include Harbor One Bank in Brockton, MA, which launched an English to Speakers of Other Languages ("ESOL") class, which ultimately led to a citizenship preparation course. Also, in Mechanicsville, Iowa, the \$100 million-asset Bridge Community Bank is working to reach unbanked and underbanked immigrants through their employers. Though the town has just 1,100 residents, it's home to a significant number of immigrants, including a small population of seasonal agricultural workers from Central and South America and several religious leaders from Africa.

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11 An Economic Snapshot of the Bronx - July 2018 (state.ny.us)

## **MISSION-BASED COMMUNITY BANKS**

Depending on a bank's community and the population they serve, there are many types of specialized community banks that might have a mission focus.

### **B-Corp Banks »**

Certified B Corporations achieve a minimum verified score on the B Impact Assessment—an assessment of a company's impact on its workers, customers, community, and environment. Certified B Corporations amend their governing documents to require their boards of directors to balance profit and purpose.

### **CDFI Banks »**

Community Development Financial Institution banks have been certified by the CDFI Fund to have met several criteria, such as primarily serving low-to-moderate income markets and maintaining accountability to their target markets.

### **MDI Banks »**

Minority depository institutions are banks where 51 percent or more of the voting stock is owned by minority individuals or a majority of the board is minority.

### **Mutual Banks »**

Mutual institutions are maintained for the benefit of their communities, depositors and borrowers. Free from stockholder calls for larger returns, mutual institutions tend to be small, locally focused institutions.

## **FINANCIAL LITERACY**

Fundamental knowledge and understanding of financial services and products are often the most impactful way for consumers to feel empowered when making major decisions. Community banks recognize the transformative power of financial literacy and many community banks offer financial literacy training that is tailored to specific demographics and populations, depending on the customer's life stage. For example, CCB



Community Bank in Andalusia, Alabama sponsors financial literacy programs in public high schools. Curriculum can be downloaded and used in classroom sessions, or students can work through the lessons on a self-guided basis. Students take quizzes before and after each lesson to assess their learning. The interactive lessons work similarly to choose-your-own-adventure books. Students are given a virtual checking account and a credit card.

Some banks have developed financial literacy programs for marginalized or vulnerable populations. Industrial Bank of Washington, D.C. designed “Footprints to Your Financial Future Campaign.” The series of workshops for people housed in D.C. Department of Corrections facilities is designed to forge a human connection to the community bank and the wider financial system. Additionally, many banks use the FDIC’s MoneySmart financial education program – a copyright free, no-cost curriculum.

## **TECHNOLOGY**

Like many other areas of banking, technology is greatly transforming the ways that customers can become banked, can gain literacy, and hopefully, become financial healthy. Some of the technology solutions incorporate mobile banking and other novel channels, while other solutions augment and enhance existing bank products and services.

For example, the \$375 million-asset Lead Bank in Kansas City, Missouri, is seeking to help people with limited or nonexistent credit by partnering with Self, a fintech innovator in Austin, Texas, to provide online Credit Builder accounts. Lead Bank’s Credit Builder account and savings program helps consumers build a credit history by combining an installment loan with a certificate of deposit, or CD.

Launched in 2018, the program is popular; the bank opens approximately 600 accounts a day. Self reaches out to consumers without a credit score and markets the product via Facebook and Google, helping Lead Bank reach customers nationwide. Lead Bank is expanding the Credit Builder Program. In late 2019, the community bank launched a secure credit card that allows borrowers who have built up some equity to take out a portion of it as credit on a credit card.

Another good example is Bridge Community Bank, which is making remittances more affordable and efficient with Sendmi, an app created by

ParityPay in Lehi, Utah. Sendmi is a supplemental payroll model the bank can offer employers, who can then make it available to employees. Employees can designate paycheck funds to be deposited into Sendmi's digital wallet in the form of an FDIC-insured passthrough account at Bridge Community Bank. Using their smartphones, employees have the option to send funds to a foreign bank account or ATM in Mexico or a real-time bill pay in multiple countries, with the funds immediately made available to the receiver. The cost is intended to be nominal.

## **PREPAID CARDS**

For the credit invisible, prepaid cards have emerged as an alternative to traditional banking services. Many prepaid card users may have no credit or, in some cases, poor credit. Prepaid cards can offer an alternative payment instrument for those consumers who do not have or qualify for a traditional checking account. Prepaid cards can serve as a substitute for primary transaction accounts or checking for the unbanked. Unbanked consumers also use their general-purpose reloadable ("GPR") prepaid card as a money management tool to control their spending and avoid overdraft fees and other debts. Additionally, prepaid cards are popular with immigrants who, in many cases, do not trust the banking system and are accustomed to using prepaid cards in their home country.

GPR prepaid cards have evolved to the point where some can be considered a checking-lite tool. These types of cards are FDIC-insured and have some of the protections as traditional financial institution accounts. Like having a bank account, they include the ability to write or deposit checks, make ATM withdrawals, and prefund with a direct deposit. Further, these types of cards are a versatile financial tool enabling users to build credit. Some allow cash transfers, which are helpful for immigrants or foreign workers that want to transfer money to their home country. However, prepaid cards vary significantly in the services they offer and the fees attached to them.

Notably, not all cards offer the same features. But there have been significant advancements in the last decade. For example, some in the industry have provided savings features that allow cardholders to set aside and store money in a separate "pocket." So far, these features have had limited adoption and have been underutilized.

## **SMALL DOLLAR LOANS**

Having strong ties to the customers and communities they serve positions community banks to provide small-dollar loan services to customers with the greatest need. By their nature, community banks are in the business of creating customized solutions for their customers.

Community banks work with customers to structure loans that ensure the customer is able to access safe and sustainable financing. Small dollar loan products offered by community banks help consumers avoid the negative consequences associated with payday loans and non-traditional loan products offered by non-banks.

Each community bank that makes small-dollar loans underwrites these loans in a way that works for them and their customers. Generally, community banks offer personal loans as a service to customers who have a financial history upon which to base a credit decision. These products are offered as a customer accommodation and are not typically advertised. The nature of these loans renders standardized underwriting and credit decision models ineffective or counterproductive to meeting the short-term financial needs of customers. Additionally, these loans are rarely profitable for community banks due to the small dollar amounts and the associated overhead and servicing costs.



## Policy Recommendations

While community banks strive to increase access to credit, encourage savings and help reduce the number of un- and under-banked Americans, ICBA continues to encourage lawmakers and regulators to focus on creating policies that will help these banks further their efforts.

### **ENCOURAGING AND SUPPORTING MISSION-ORIENTED BANKS**

B-Corp banks, CDFI banks, MDI banks, mutual banks, and other mission-oriented banks in low-to-moderate income areas play very important roles in reducing the number of un- and under-banked Americans and increasing those communities' financial health. Policymakers should do all that they can to helping these banks flourish, including:

- Creating a new “Impact Bank” designation for banks with a specified percentage of loans extended to LMI borrowers.
- Promoting de novo mission-bank formation.
- Increasing funds for the CDFI Fund.
- Streamlining the CDFI certification process for Impact Banks.
- Supporting FDIC’s mission-driven fund and creating others like it.

## **MODERNIZING THE COMMUNITY REINVESTMENT ACT (“CRA”)**

Given the pending and contemplated changes to the Community Reinvestment Act (“CRA”), policymakers have a great opportunity to work toward getting more Americans banked by establishing a relationship with a community bank. Among all the changes that ICBA advocates, policymakers should:

- Provide a non-exhaustive, illustrative list of activities that are presumed eligible for CRA credit, including similar activities to those discussed above, which could enhance access to credit and savings products.
- Count bank activities that reduce the number of un- and under-banked Americans, even if those activities occur outside the bank’s assessment area.

## **PROMOTING RESPONSIBLE SMALL DOLLAR LOANS**

ICBA strongly urges regulators to enhance the ability of banks of all charter types and sizes to offer responsible small-dollar loans by:

- Promoting community banks as model small-dollar lenders.
- Providing a presumption of CRA credit for originating small-dollar loans.
- Easing fair lending examination scrutiny and establishing consistent and transparent fair lending examination standards for small-dollar lending.
- Providing banks the flexibility to offer small-dollar credit products that exceed 36 APR.

ICBA strongly supports the exemption contained in the Consumer Financial Protection Bureau’s (“CFPB” or “Bureau”) original final rule on payday, vehicle title, and certain high-cost installment loans, commonly known as small-dollar loans. Any lender that makes 2,500 or fewer covered short-term or balloon-payment small-dollar loans per year and derives no more than 10 percent of its revenue from such loans is excluded from the rule’s full-payment test or the principal-payoff option.

## **PROVIDING BRIGHT LINE USES OF ALTERNATIVE DATA**

ICBA applauds agency efforts to adopt and support the use of alternative data. For example, the first no-action letter (“NAL”) issued by the CFPB hinged on the use of alternative data, permitting the NAL recipient to use education and employment history to underwrite consumer loans. The federal banking agencies, along with the Bureau, also adopted an interagency statement on how banks can utilize alternative data.

While these efforts are certainly welcome, they fall short of creating an environment where community banks can use alternative data that will not incur undue legal liability. The resources published so far only provide broad allusions to the potential benefits of alternative data.

In contrast, ICBA encourages policymakers to provide community banks with avenues toward safe harbor from enforcement actions for general use of pre-approved forms of alternative data. A presumptive safe harbor could be conditioned on the bank’s implementation of certain parameters and guardrails against consumer harm. This would provide a degree of certainty for financial institutions as they discover and utilize new ways of underwriting consumers with little or no credit history.



## **PROVIDING BASIC BANK ACCOUNTS TO UN- AND UNDER-BANKED AMERICANS**

ICBA is supportive of the FDIC's efforts to promote affordable insured transaction and savings accounts.

Bank accounts are critical to providing safer and quicker access to tax refunds, stimulus payments, unemployment benefits, and other government programs for low to moderate-income households. FDIC's #GetBanked<sup>12</sup> initiative consists of three elements:

1. More banks offering accounts that work for consumers;
2. Increased consumer awareness about the benefits of a banking relationship; and
3. Strong local networks where community based organizations, nonprofits, and local government agencies act as a bridge between consumers and communities that need access to financial services.

At the onset of the COVID-19 pandemic, ICBA created an online list of banks offering remote account opening for affordable accounts.<sup>13</sup> This ICBA page is currently experiencing significant traffic derived from the IRS.gov and fdic.gov (FDIC reports over one million visitors to their GetBanked pages since last year). ICBA encourages member banks offering affordable accounts to join this list and continue ongoing efforts to promote affordable accounts.

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<sup>12</sup> [www.fdic.gov/GetBanked](http://www.fdic.gov/GetBanked) or [/AbreUnaCuenta](#) (in Spanish)

<sup>13</sup> [Open a Bank Account Remotely \(icba.org\)](http://Open a Bank Account Remotely (icba.org))

# About ICBA

The Independent Community Bankers of America® creates and promotes an environment where community banks flourish. With more than 52,000 locations nationwide, community banks constitute 99 percent of all banks, employ more than 760,000 Americans and are the only physical banking presence in one in five U.S. counties. Holding more than \$4.9 trillion in assets, \$3.9 trillion in deposits, and \$3.4 trillion in loans to consumers, small businesses and the agricultural community, community banks channel local deposits into the Main Streets and neighborhoods they serve, spurring job creation, fostering innovation and fueling their customers' dreams in communities throughout America. For more information, visit ICBA's website at [icba.org](https://www.icba.org).

## CONTINUE THE CONVERSATION

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