

# Advancing Equity: The Power & Promise of Credit Building

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July 27, 2022



# SPEAKERS



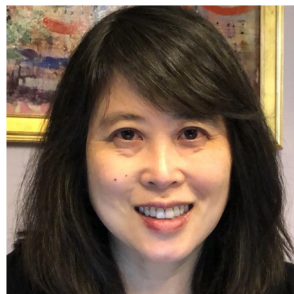
**Christi Baker**  
(moderator)

Asset Funders  
Network



**Steven Brown**

Center for  
Equitable Growth



**Chi Chi Wu**

National  
Consumer Law  
Center



**Dara Duguay**

Credit Builders  
Alliance



**Jon Vosper**

International  
Rescue  
Committee

# WEBINAR CONTROL PANEL

## PARTICIPATE

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discussion breaks or during  
Q/A

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Q&A



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- ✓ Broaden your Knowledge Base
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- ✓ Amplify your Impact
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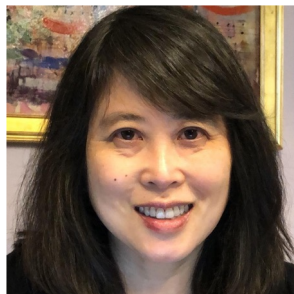
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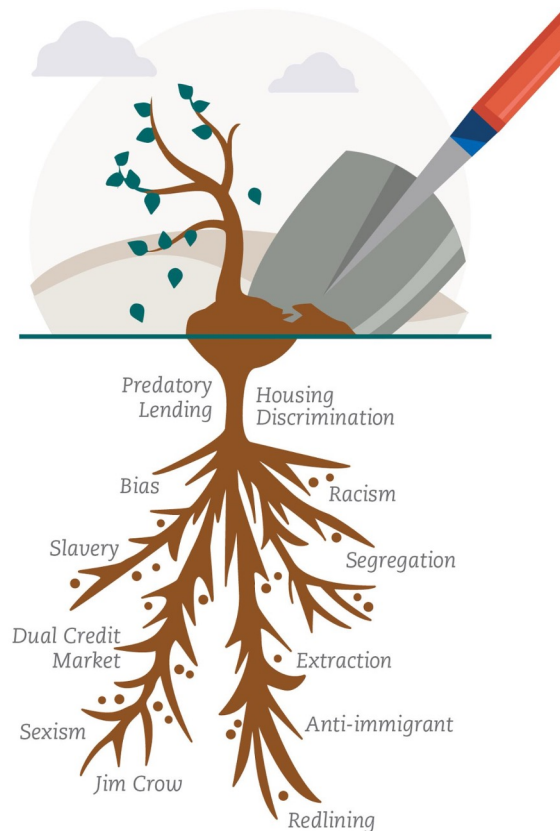
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# CONTEXT



## ACCESS TO CREDIT IS UNEVENLY DISTRIBUTED

- Those who live in predominantly nonwhite areas in more than 50 major cities are more likely to have low credit scores (below prime).<sup>2</sup>
- An estimated 45 million people are credit invisible or unscored, and Black and Hispanic individuals are twice as likely to be credit invisible.<sup>3</sup>
- Those in majority Native communities are more than three times as likely to use alternative financial services and twice as likely to have debt in collections.<sup>4</sup>



# OPPORTUNITY



Funders can collaborate and support innovation and systems change to ensure that families aren't held hostage by a system that was never designed with them in mind.

RAQUEL HATTER  
Kresge Foundation



# Washington Center *for* Equitable Growth

## Advancing Equity in Credit Building and Financial Well-Being

K. Steven Brown    July 27, 2022

# What is Credit?

An indicator of financial resiliency and a tool that is used to gain access to financial resources that allow individuals to:

- Cover expenses and emergencies
- Purchase and invest in costly good and assets

# Levels of Impact for Credit-Based Financial Access

- Individual Improvements
  - Financial coaching
- Reporting Improvements
  - Rent reporting and utility reporting
  - Fines and fees; medical debt reporting changes
  - Credit data disaggregation
- Lender-side Improvements
  - Interest rate caps/usury laws
  - Corporate resources and accountability (racial equity commitments, CDFI investing, and CRA reform)

# More Money and Reduced Risk

- Covering expenses and emergencies
  - Higher and more stable incomes (income volatility; financial improvements during pandemic shutdown)
  - Savings supports (IDAs, 401k, auto-saving and round-up tools)
  - Low-cost lending (employer based, fintech options)
  - Expanded insurance options (health, car, rental, etc)
- Costly purchases and investments in assets
  - Improving college affordability
  - Reducing homeownership gaps
  - Making small business start-up funding more accessible (e.g. grants, equity investing, alternative financing options)
  - Better understanding solutions to disparities in auto-lending

# Wealth and Credit

- To improve wealth, build assets and reduce debt
- Relationship between wealth and credit most important on debt side
  - Large gains from reducing the need for and cost of debt (e.g. expenses and emergencies, racial disparities in student loan debt)
- Credit ties to asset side are important, but likely less impactful than debt
  - Other ways to build assets (e.g. 401ks) and other critical constraints to asset building (e.g. wage gaps, discrimination)
  - Bulk of increase in racial wealth gap in past 40 years due to racial differences in income inequality and asset mix (e.g. financial assets increasing in value more than homes)
- Wealth inequality is big enough that “all-of-the-above” approach needed
  - Asset building and debt reduction
  - Redistribution and stronger safety nets/insurance access

# Advancing Equity: Credit Building and State Law Changes



National  
Consumer Law  
Center

*Fighting Together  
for Economic Justice*

Asset Funders Network Briefing Series

July 27, 2022

Chi Chi Wu

©National Consumer Law Center

# National Consumer Law Center

- Legal resource center on consumer law issues focusing on low-income consumers
- Resource materials
  - Legal treatises, policy briefs, technical assistance
- Policy and advocacy
- Impact litigation



# Protections against inappropriate use of credit report & scores

Ban or restrict the use of credit information for

- Employment
- Tenant Screening
- Insurance

..... and more

Forthcoming report: [Mission Creep: A Primer on Use of Credit Reports & Scores for Non-Credit Purposes](#)

# New Opportunity: State Law Regulation of Credit and Consumer Reporting

- Fair Credit Reporting Act preemption had been complicated and messy
- Consumer Financial Protection Bureau issued [Interpretive Rule](#) on June 28 clarifying that scope of federal FCRA preemption is “narrow and targeted.”
- Opportunity for states to regulate reporting of
  - Medical debt
  - Eviction records in tenant screening reports
  - COVID-19 pandemic era negative information
  - Debt collection items for rental debt or more

# Consumer Protections

- Lending Protections
  - Capping APRs, including fees, at 36% for smaller loans (< \$1,000); lower rates for larger loans
  - Prohibiting loan fees or strictly limit them to prevent evasion
  - Preventing loopholes for open-end credit
  - Banning sale of credit insurance and other add-on products
  - Devil in the details - examine consumer lending bills carefully
- Debtor Protections
  - Protect a living wage from wage seizure or ban altogether
  - Allow debtors to keep a used car of at least average value
  - Protect the family's home—at least a median-value home
  - Preserve a basic amount in a bank account to pay essential costs
  - Preventing seizure and sale of the debtor's necessary household goods.

# Credit Building: Do No Harm

- Devil is in the details
  - Bad file/score can be worse than no file/score
- Do No Harm: only use positive information, with the consumer permission
- Avoid the credit bureau oligopoly

Resources: [No Silver Bullet: Using Alternative Data for Financial Inclusion and Racial Justice](#), Dec. 2021, updated Jun. 2022  
[Issue Brief: Credit Invisibility and Alternative Data: Promises and Perils](#), July 2019

# A Historical Context: Credit Reports & Race

One consequence of the present credit reporting system is to systematically exclude [minority neighborhood] residents from the mainstream of the American credit economy. There is a vicious cycle element to the problem. [Minority neighborhood] residents cannot get credit with the reputable downtown retailers because they have bad credit records. Therefore, they deal with the [minority neighborhood] merchants who charge exorbitant prices for inferior and often defective merchandise. An FTC survey of retailing in the District of Columbia showed prices in [minority neighborhood] stores averaged 60 percent more.

\* \* \* \*

As a result of being bilked, many of these [minority neighborhood] residents discontinue payments, thereby incurring an even worse credit record, thus making it even more difficult to obtain credit at the lower cost stores.

What we need is a credit reporting system that is more socially oriented – one that serves the needs of consumers and particularly low-income consumers as well as creditors. We need to develop more precise methods of credit evaluation in order to establish the credit worthiness of the many [minority neighborhood] residents capable of meeting their obligations.

Senator William Proxmire, “father” of the FCRA, Congressional Record

# Q & A

# Credit Building Strategies

Dara Duguay





# CREDIT SCORES

## THE CFPB REPORTS

approximately **1 out of 10**  
or **26 million adults**



**are considered to be “credit invisible,”**  
meaning they have no credit history because they do not have credit cards, loans, and other lines of credit.

## FICO SCORES REVEAL

**11.1%** of American  
consumers  
have **poor scores.**

### INDIVIDUALS WITH SUBPRIME FICO® SCORES (UNDER 620) BY RACE:



**Black**



**1 in 9 Latinx**



**1 in 2**

individuals  
in predominantly  
**Native American**  
communities.



only **1 in 19** White individuals.

# BIAS



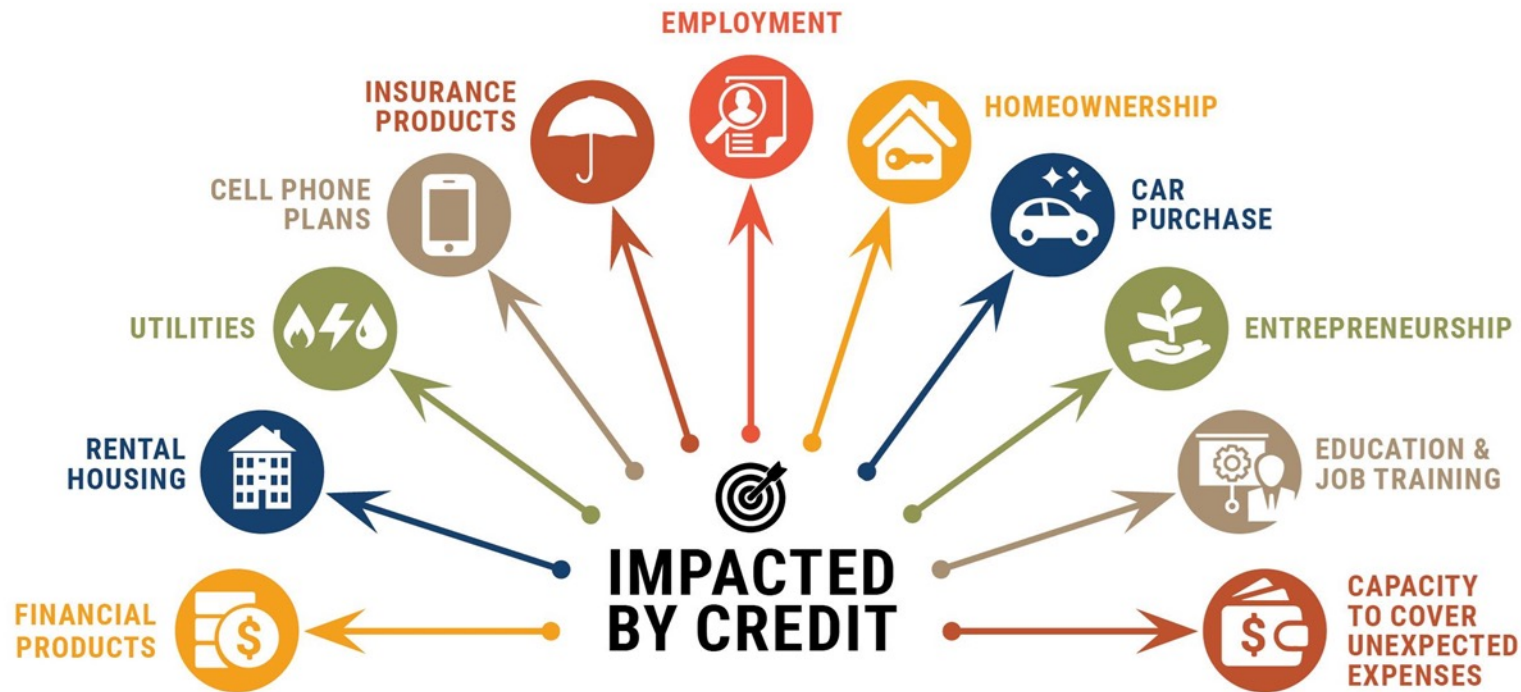
**ALMOST HALF** of credit applicants with incomes **below \$50,000** experienced denials.

At every income level, **BLACK AND LATINX** applicants were denied credit at approximately **TWICE THE RATE** of the White population.



**PEOPLE OF COLOR SHOPPING FOR CARS**

who are **more qualified** than their White counterparts are **62.5%** more likely to be offered costlier pricing options—**adding up to \$2,662 in extra fees and interest** over the life of the loan.



# FUNDER RECOMMENDATIONS

1. Fund programs in the community
2. Scale a successful program to other communities
3. Advance systemic change that benefits consumers in the short term
4. Advance systemic change that fundamentally rethinks the use of the credit score
5. Support or develop programs and advocates and use your influence to expand affordable lending
6. Create broad empathy and understanding and reduce individual feelings of low self-worth through narrative change efforts

When scores increase and people are able to take steps towards their goal—whether getting a car loan at a low interest rate, renting an apartment, getting a mortgage, etc.—it starts to open up the social imagination that other things are possible—starting a small business, helping friends and family do the same thing, . . . and just having the confidence it can happen is really important.

KRISTIN SCHELL  
Chief Program Officer, Working Credit NFP

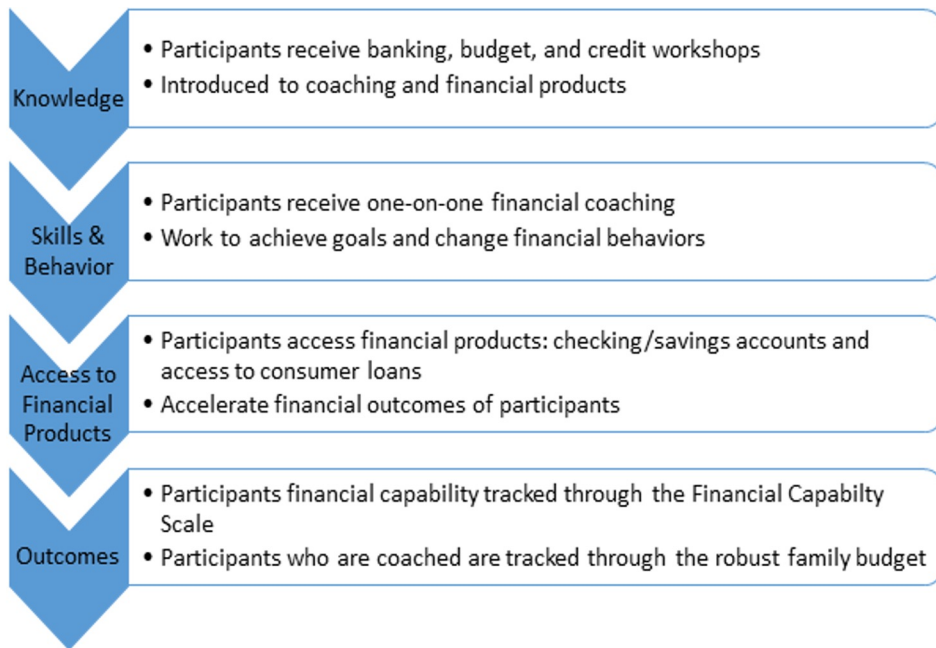
# Culturally Appropriate is Client-Centered Credit Building

International Rescue Committee and IRC's  
Center for Economic Opportunity



# IRC's Approach to Financial Capability

Lending is a tool of programming. Not the end product.





# IRC's Client Profile

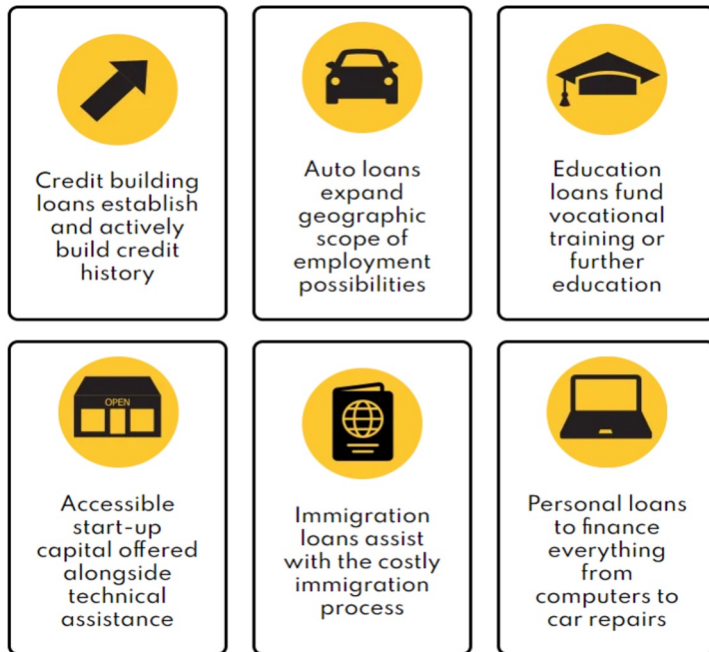


- Serves 100,000 clients annually from 70+ countries who speak 100+ languages with varying immigration status
- English language learners
- Digital literacy barriers
- 10% and growing are US born
- All low-income with average income of \$24,000
- Median borrower receives first loan at 1.7 years

[Check out IRC's Financial Capabilities for New Americans Report](#)



# IRC's Center For Economic Opportunity (CEO)



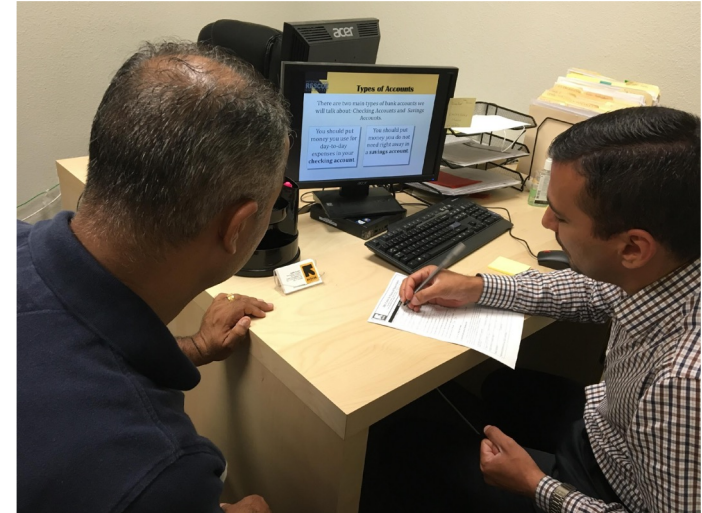
- Since inception (2/2015-3/2022)
  - \$8.7 million
  - 3972 loans
  - Average size \$2,196
- Credit Building Loans make up
  - \$413,000
  - 2,440 loans
  - Average size \$184

# CEO's Lending Approach

- Lending nestled within programs – every loan requires credit education
- Mission-based means:
  - Products created for people
  - 0% - 9.99% interest rates
  - Underwriting based on financial health
    - Credit history. No minimum credit score
    - Bank statements
    - Engagement with a financial coach on derogatory matters can mean approval
  - We never kick you when you are down
    - No late fees, overdraft fees ever
    - Extensive and robust modifications.
    - No hits on credit while engaged with us.
    - Financial coach will intervene to assist with hardships

Listen to [our podcast](#) on underwriting

Financial coaches are the gateway to consumer loan products



# Responses to Our Clients

- Resilience Loans
- Automatic deferrals
- Fee-based loans
- [Supporting Afghan Financial Empowerment \(SAFE\)](#)
- Deep interest rate cuts for first year arrivals
- Financial coaches from communities



**SAFE** | Support for Afghan  
Financial Empowerment

- Website in English, Dari and Pashto
- Recorded videos
- Live workshops
- Access to local and national financial coaches
- 0% Loan Pool (over \$4mm) ended in July

## Since March 2022

### Nationally Served

- 1,665 Afghans

### Virtual Program

- 8,000+ web visitors
- 4,000+ YouTube
- 400+ workshop attendees

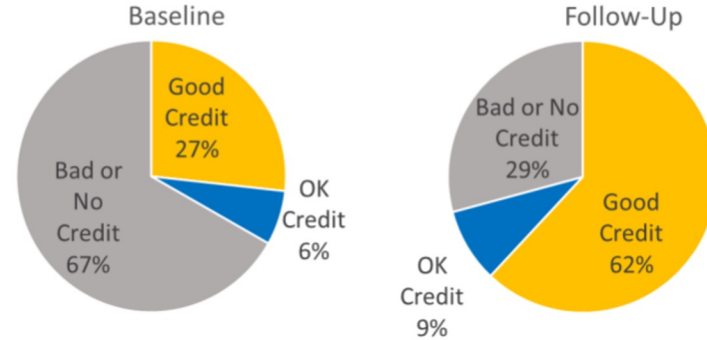
# Impact

- Average initial FICO Scores 684
- Average increase in FICO 50 points
- Clients with loans have higher income and net income



The figure below represents comparison of aggregate client FICO® Scores at baseline vs follow-up.

*N=1,234 Clients. 668 days average time between baseline and follow-up*



Check out CEO and IRC's  
[Credit Outcomes Study](#)

# Wells Fargo Investment

- Allowed us to professionalize our staff
- Standardized national outcomes
  - Pushed us to report better and only those with outcomes
- Grew our network
- Responded to COVID with grants and Resilience Loans
- Sustained funding over years to grow the capacity of our program



# Q & A



Grantmakers Advancing  
Economic Equity