



Testimony of Deyanira Del Rio, Co-Executive Director of New Economy Project

Before the U.S. House Financial Services Committee
Subcommittee on Consumer Protection and Financial Institutions

“Banking the Unbanked: Exploring Private and Public Efforts
to Expand Access to the Financial System”

July 21, 2021

Chairman Perlmutter, Ranking Member Luetkemeyer, Vice Ranking Member Kustoff, and Members of the Subcommittee on Consumer Protection and Financial Institutions, thank you for the invitation to testify at today’s hearing on behalf of New Economy Project, a New York City-based economic justice organization. For 26 years, our organization has worked with community groups and low-income New Yorkers to combat persistent redlining, predatory lending, and other inequities in our financial system and economy that perpetuate segregation, inequality, and poverty. We also work with community groups to democratize control over finance, land, housing, jobs, renewable energy, and other sectors of our economy—through public banking, community development financial institutions (CDFIs), community land trusts, worker cooperatives, and other strategies.

My testimony today will address ways in which our current financial system serves to *extract* wealth, and the need to strengthen and enforce laws to hold banks and other financial institutions accountable to people and communities. At the same time, we must focus on creating public banks and other institutions that are designed to *build* community wealth and serve the public interest.

New Economy Project’s accomplishments over nearly three decades include keeping payday lending and other debt traps out of New York State; ending employment discrimination based on credit history, in New York City; securing state legislation to combat predatory lending and abusive debt collection, most recently by protecting COVID-19 stimulus payments from debt collection; and supporting the creation of NYC’s municipal ID program, among other strategies to expand fair banking access for undocumented, homeless, and other marginalized populations. We have provided direct legal assistance to thousands of low-income New Yorkers through our NYC Financial Justice Hotline, and brought impact litigation against Wall Street banks, debt buyers, and other actors, securing

hundreds of millions of dollars in monetary awards and other relief for low-income New Yorkers.

My comments today are additionally informed by my role as board chair of the Lower East Side People's (LES People's) Federal Credit Union, a nationally-recognized, U.S. Treasury-certified CDFI with 35 years of experience serving historically-redlined communities across New York City. LES People's is a staunch advocate for strong consumer protection and fair lending regulations, to protect our mission and the communities we serve.

I want to make three overarching points in my testimony:

- **Barriers to banking access addressed in today's hearing are longstanding and systemic in nature, and call for systemic solutions.** Congress and the federal banking regulators must take comprehensive action to address persistent redlining and barriers that block—or actively expel—the working poor and people of color from mainstream banking, including prohibitive minimum balance requirements, exorbitant overdraft fees, discriminatory identification policies, and consumer reporting databases that determine whether banks will open accounts for people. Policymaking must combat Wall Street's systemic wealth extraction from communities of color, on the one hand, and support affirmative and community-driven solutions on the other. Ultimately, an equitable financial system and economy require strong political will and action to curb Wall Street banks' dominance over our financialized economy.
- **There are no quick fixes to "banking the unbanked," nor do products and services on their own address deeper inequities.** The rhetoric of financial technology (or "fintech") firms, especially, has simply failed to match the reality for low-income communities, which too often are exposed to broad and invasive data collection, racially-biased underwriting algorithms, and other risks in exchange for limited and often inferior financial services. Financial inclusion efforts must prioritize equitable and full access, and not inadvertently promote "alternative" products that reinforce our two-tiered financial system. At the same time, we must combat the notion that financial products—and credit, in particular—are solutions to entrenched poverty and inequality. For example, the antidote to predatory 400% APR payday loans that extract wealth from the working poor is not a "less usurious" debt trap, but rather living wage jobs, housing affordability, strengthened safety nets, and other measures that address root causes of economic insecurity.
- **We need public banks, CDFIs, and other institutions to create a financial services system and economy that work for all.** Public banking is common

throughout the world and on the rise across the U.S. as a strategy to expand fair banking access and deepen public investment in affordable housing, living wage jobs and workplace democracy, infrastructure and other critical economic sectors. Public banks would achieve these aims by partnering with and scaling up CDFIs and other community development lenders that understand local economic conditions and needs. In the context of the growing and interrelated health, housing, racial inequality, and climate crises we face, public banks can help shift large-scale financing away from fossil fuel extraction and other harmful industries, toward sustainable and regenerative economic activity. We strongly support the federal Public Banking Act of 2021 (sponsored by Reps. Ocasio-Cortez/Tlaib) to facilitate the formation of state and local public banks.

Barriers to Banking Access

According to FDIC data, one in five Americans either does not have a bank account, or uses high-cost financial services despite having accounts. In New York City, the numbers are even starker, with one in three New Yorkers—and more than half of Bronx residents—among the so-called “unbanked” or “underbanked.” Households without a bank account are concentrated in neighborhoods with high poverty and unemployment rates; that are majority Black and/or Latinx; and that have the least access to brick-and-mortar bank branches.¹ (See attached map, *Absence of Bank Branches in NYC Communities of Color.*)

The consequences of banking inequality are manifold. As in other parts of our economy, poor people pay more—up to hundreds of dollars each year—for typically inferior and under-regulated financial services, from check cashing and pawn shops to prepaid debit cards and rent-to-own schemes that fill the void left by banks. Lack of a banking or credit history can, in turn, block fair access to housing, jobs, insurance, and other opportunities.² Bank redlining has long fueled residential segregation, racial disparities in home- and small business-ownership, the subprime lending and foreclosure crises, and widening racial wealth inequality.

During the COVID-19 pandemic, we saw how people without bank accounts faced longer wait times to receive stimulus payments and other emergency relief. Nonprofit organizations that raised funds for excluded workers faced formidable challenges, at the height of the pandemic, delivering those funds to community members who did not have

¹ *Where are the Unbanked in NYC?*, at on.nyc.gov/3hMU7VY

² *Data Point: Credit Invisibles*, at files.consumerfinance.gov/f/201505_cfpb_data-point-credit-invisibles.pdf; *Background On: Credit Scoring*, at www.iii.org/article/background-on-credit-scoring

accounts or other means of accessing electronic payments. Small businesses and those without banking relationships were largely excluded from the first round of the Paycheck Protection Program (PPP), as Wall Street banks prioritized larger and more lucrative clients. By contrast, CDFIs played an outsized role during the pandemic channeling PPP and other relief funds to their communities. LES People's, for example, made more than \$18 million in PPP loans, averaging \$32,000, despite the credit union's relatively small size, at just \$87 million in assets.

At the same time, Wall Street banks charged New Yorkers nearly \$1 billion in overdraft fees during the pandemic, according to our analysis—disproportionately extracting wealth from low-income, Black, brown, and immigrant New Yorkers.³ Through New Economy Project's legal advocacy and community education, we have worked with countless New Yorkers whose accounts were closed by banks when they were unable to repay exorbitant overdraft fees, which can quickly add up to hundreds of dollars or more.⁴ Banks not only expel these low-income customers from their institutions, but also report them to consumer reporting databases such as ChexSystems—effectively blacklisting people from opening accounts elsewhere.⁵

We need fundamental change to build a financial system that serves the real economy and the public good. In the immediate term, Congress and federal banking regulators must take strong action to address entrenched barriers to fair banking access. These steps include:

Strengthening consumer protection, fair lending and community reinvestment regulations and enforcement. For starters, Congress, the Consumer Financial Protection Bureau, and federal banking regulators must crack down on predatory overdraft and finally correct the regulatory framework applied to this predatory loan product. Regulators have effectively let banks off the hook when it comes to predatory overdraft, by inappropriately categorizing this clearly usurious form of lending as a savings product.

Regulators also should crack down on banks that have implemented discriminatory identification and other account-opening policies. For example, New York City's population is 40% foreign-born, yet banks routinely deny accounts to people on the basis of presumed immigration status, and none of the big banks accepts the IDNYC municipal identification

³ *New Analysis Shows Banks Drained \$1.7 Billion in Fees From New Yorkers' Accounts During Pandemic*, at bit.ly/3roPLYy

⁴ Just nine percent of all account holders pay 84 percent of the billions banks charge in overdraft fees, according to the Center for Responsible Lending. These account holders typically carry low balances—averaging less than \$350—and effectively subsidize “free” checking for banks' more affluent customers. See *Overdraft Fees: Banks Must Stop Gouging Consumers During the COVID-19 Crisis*, at responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-overdraft-covid19-jun2019.pdf

⁵ *Banks Must Stop Gouging Consumers During the COVID-19 Crisis*, at bit.ly/3kBrT2u; *Bank Clients Might Be Unfairly Denied Accounts*, at nyti.ms/2U3lNdT

card as a primary form of ID—despite strong security measures and clear guidance from federal regulators confirming that the card meets federal Know Your Customer requirements. Banks' rejection of IDNYC, held by an estimated 1.4 million New Yorkers, serves to exclude a huge swath of NYC residents, and constitutes a blatant form of discrimination that regulators have yet to address.

Reining in fintechs that claim to “serve the unbanked” as a smokescreen to evade regulation. Many fintech companies target low-income people and communities for inferior, high-cost, or outright predatory products—from payday loans to high-fee prepaid debit accounts. In New York, our organization has joined with others to oppose ongoing efforts by fintech companies to circumvent our state's usury law—including by entering into sham partnerships with national and out-of-state banks. We were pleased by Congress's recent action to repeal the OCC's True Lender rule, which had given cover to such schemes, and we urge strengthened oversight of the fintech sector, as a whole.

Increasing support for CDFIs that responsibly meet community banking and credit needs. As banks continue to consolidate and become further removed from communities and local economies, CDFIs play an increasingly important role financing small businesses, affordable housing, and other development in economically-distressed neighborhoods. CDFI-certified credit unions like LES People's, for example, serve more than 15 million people and manage \$180 billion in assets. Despite serving low-income communities, CDFIs consistently exceed the financial growth and performance of their mainstream peers. At the height of the pandemic in spring 2020, CDFIs approved more than \$7 billion in loans, outperforming other PPP lenders.⁶

Since its first funding round in 1996 through last year, the U.S. Treasury's CDFI Fund has provided more than \$3.9 billion to CDFIs to create jobs and grow businesses, build and preserve affordable housing, expand affordable healthcare and childcare, and more. CDFI Fund investments have helped LES People's, for example, to make more than \$120 million in small business, affordable housing, and consumer loans since our inception, and to expand our service area citywide. The CDFI Fund's Rapid Response Program and Treasury's Emergency Capital Investment Program have proven especially timely during the pandemic.

CDFIs typically leverage \$12 in private capital for every dollar in public investment. Given the massive benefits that CDFIs provide to communities and our economy, Congress should continue to expand funding and other support for CDFIs as a matter of sound public policy. Our organization has worked with others to win crucial funding for New York State's CDFI

⁶ *CDFI Credit Unions Build Inclusive Economies*, at inclusiv.org/2021-cdfi-credit-unions-build-%ef%bb%bfinclusive-economies

Fund—the only state fund of its kind in the country—to further strengthen these vital institutions and expand fair banking access throughout our state.

Public Banking and CDFIs

We are especially pleased to share our perspective on public banking, which we see as critical to fostering strong local economies and a just recovery. Public banks are financial institutions owned by public entities—such as a city, county, or state—that hold public deposits and are chartered to serve the public good. Public banks serve as a powerful tool for local governments to address local needs.

Through public banking, local governments can partner with CDFIs and others to expand fair banking access and deepen investment in affordable housing, small and worker-owned businesses, renewable energy, and other local needs. Significantly, public banks promote transparency and accountability with respect to public finance. They allow local governments to move their public funds out of banks that engage in redlining and predatory financial practices, and that finance fossil fuel extraction, real estate speculation and evictions, and other activities that harm communities and run counter to a locality's public policy goals.

New Economy Project coordinates two broad-based coalitions that are laying critical groundwork for local public banking in New York City and across our state.⁷ These coalitions are advocating for passage of the “NY Public Banking Act,” which would create “special purpose” public bank charters, paving the way for cities and counties to establish public banks.⁸ The bill includes strong safeguards to ensure public banks' safety, soundness, adherence to mission, transparency and accountability. The bill has gained major traction, with 65 co-sponsors in the NYS Legislature and broad-based support from more than 100 community and labor organizations, and New York-based CDFIs.

The federal Public Banking Act would be a game-changer in our local endeavors, by providing technical assistance and grants to support formation of mission-driven public banks. The proposal also would give local public banks access to the Federal Reserve's payment systems and other assistance. We support the federal bill as an important complement to our state-level public banking legislation.

Specifically, New York's local public banks will:

⁷ See publicbanknyc.org and equityagendany.org

⁸ See, www.neweconomynyc.org/resource/legislative-memo-new-york-public-banking-act

- Partner with, and support the expansion of, CDFIs, to bring these critical institutions to greater scale, through participation lending, secondary purchases of loans, credit enhancements and other services.⁹ Thanks to the century-old Bank of North Dakota, for example, North Dakota has more local banks and credit unions per capita than any other state in the U.S.¹⁰
- Support cooperative and community-owned renewable energy initiatives and other green infrastructure. In Germany, the Sparkassen, a network of more than 400 local public banks, have reportedly been a contributor to community renewable energy infrastructure. In Costa Rica, the Banco Popular, a hybrid public/cooperative bank, has played a similar role.¹¹
- Expand financing available to small and worker-owner businesses that provide living-wage jobs, and improve working conditions for immigrants, women, and other populations that consistently face obstacles accessing financing from commercial banks.
- Invest in community land trusts, mutual housing associations, limited equity cooperatives, and other social housing models. Public banks could finance community-controlled housing through direct investments, or in collaboration with CDFIs, including through partnership lending and by establishing a secondary market.

Public banking would serve as an especially powerful tool as cities and states throughout the country work to advance a just recovery and withstand future crises. Countries with public banks are significantly more resilient in the face of crises, than those without them. That's because local public banks specifically invest in sectors that provide direct economic, social, and environmental benefits.¹² To support a just recovery, local public banks in New York, for example, could make emergency funds available to small and minority- and women-owned businesses, enabling them to remain in business and preserve jobs.

Thank you again for the opportunity to testify today. I would be pleased to answer any questions you might have and to provide additional information and examples about our work.

⁹ Letter in Support of S.5565-D/A.9665-E, at bit.ly/3rmcFQ5

¹⁰ *AB 310: A Just Recovery from COVID-19*, at bit.ly/3ezSN6K

¹¹ *Costa Rica's Banco Popular shows how banks can be democratic, green—and financially sustainable*, at bit.ly/3xM67g5

¹² *Public Banks and COVID-19*, at bit.ly/3eCuaGH

