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Building a More Inclusive Financial System through Collaboration and Action

Pre-recorded remarks by

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I would like to thank the Aspen Institute for inviting me to join you at this event to discuss efforts to develop a more inclusive financial system.¹ It is really a pleasure to join so many stakeholders that are at the forefront of this important work. As I have often said, one of our important responsibilities is to foster an economy that works for everyone.² Consumers are better positioned to benefit from economic growth when they have access to financial products and services that responsibly meet their needs.

My perspective on financial inclusion is informed, in no small part, from my own experience as a banker. Small banks, especially community banks, have a deep understanding of the local economies they serve, and can respond quickly and effectively to local needs. Indeed, financial inclusion is a core mission of community banks; but no entity or group of financial institutions alone can solve the challenge of creating a more inclusive financial system. Today, I will discuss my views on why financial inclusion is important to all of us—from community banks to central banks. I will then highlight activities in which the Federal Reserve participates to promote financial inclusion and conclude with ideas for future work and collaboration.

Why Financial Inclusion Is Important

An inclusive financial system offers access and choices that enhance consumers' and businesses' financial well-being. From checking and savings accounts to credit and insurance, consumers benefit from having financial products and services that are affordable, safe, and responsive to their needs. Without them, consumers may turn to alternative financial services, which can often be more costly or may lead to consumer harm.

¹ Thank you to Jennifer Fernandez, Alejandra Lopez-Fernandini, Daniel Gorin, and Kirsten Noland of the Federal Reserve Board for their assistance in preparing this text. These views are my own and do not necessarily reflect those of the Federal Reserve Board.

² Michelle W. Bowman, panel remarks at the 2023 Symposium on Indigenous Inclusion, The Central Bank Network for Indigenous Inclusion and The Reserve Bank of New Zealand—Te Pūtea Matua, Auckland, New Zealand (September 27, 2023), <https://www.federalreserve.gov/newsevents/speech/bowman20230927a.htm>.

An inclusive financial system recognizes that consumers come from a wide range of economic circumstances; have varied perceptions of and experiences with the banking system; and most importantly, different needs for financial products and services. And despite the general availability of online financial services, geography, location, and accessibility matter. Financial inclusion may look very different, for instance, in rural communities, compared to the suburbs of Washington, D.C., or the islands of Hawaii. The entire economy gains when more households achieve financial stability. That said, the benefits of financial inclusion do not necessarily result in the same outcomes for everyone.

Federal Reserve Activities and Promising Developments

The road to fostering a more inclusive financial system is long and winding and may, at times, seem daunting. We have been on this road for some time, and the Federal Reserve and many others have already taken many promising steps. So, I'd like to share a few examples of the Fed's recent efforts to promote financial inclusion that will help to provide some context to our ongoing efforts.

Supporting access to responsive products: small-dollar lending

For many years, a variety of surveys have indicated that consumers use small-dollar credit to address temporary cash-flow imbalances, unexpected expenses, or income shortfalls during periods of economic stress or natural disasters. So, we began to consider the ways in which the Federal Reserve and other financial regulators could be helpful. Shortly after I joined the Federal Reserve, in 2019 and through 2020, we issued two interagency statements meant to provide clarity to banks on the use of alternative data for underwriting and on principles for offering responsible small-dollar loans.³ Our guidance clarified that with a consumer's

³ Board of Governors of the Federal Reserve System, Consumer Financial Protection Bureau,

permission, banks can use alternative data, like checking account balance activity, to qualify them for credit. Our guidance also underscored that small-dollar lending products that support successful repayment outcomes and that avoid continuous cycles of debt due to rollover and reborrowing can help facilitate financial inclusion. We have seen some evidence that suggests the release of these small-dollar Interagency Lending Principles correlated with a subsequent increase in bank consumer lending.⁴ Ensuring that small-dollar lending is available through depository institutions rather than through other non-depository lenders could increase the credit opportunities available to consumers at lower cost and with fewer fees.

Banks may also pursue expanding their lending opportunities through technology innovations that provide mechanisms for more effective risk modelling or enhancing their online access to financial services for consumers. These advancements can result in faster loan decisionmaking, more convenient customer access, and reduced costs and risks for both banks and borrowers. Over time, we are seeing more banks incorporating these approaches to better serve clients with credit, including the use of alternative data to support underwriting. We will continue to monitor these promising developments to better understand the impact on consumers.

Supporting mission-driven organizations

I will turn now to the Fed's efforts to build the institutional capacity of a set of key stakeholders: Minority Depository Institutions (MDIs), Women-Owned Depository Institutions

Federal Deposit Insurance Corporation, National Credit Union Administration, Office of the Comptroller of the Currency, "Interagency Statement on the Use of Alternative Data in Credit Underwriting," CA letter 19-11 (December 12, 2019), <https://www.federalreserve.gov/supervisionreg/caletters/caltr1911.htm>; Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, National Credit Union Administration, Office of the Comptroller of the Currency, "Interagency Lending Principles for Making Responsible Small-Dollar Loans," SR letter 20-14 / CA letter 20-8 (May 20, 2020), <https://www.federalreserve.gov/supervisionreg/srletters/SR2014.htm>.

⁴ Daniel Gorin, Sarah Gosky, and Michael Suher, "Empirical Assessment of SR/CA Small-Dollar Lending Letter Impact," FEDS Notes (Washington: Board of Governors of the Federal Reserve System, July 28, 2023), <https://doi.org/10.17016/2380-7172.3329>.

(WDIs), and Community Development Financial Institutions (CDFIs), whose missions are to reach historically underserved populations. Providing support for these institutions is an important part of the Federal Reserve’s mission to provide a safe, sound, and accessible banking system that protects consumers.⁵

Through the Fed’s Partnership for Progress (PFP) program, we provide technical assistance on regulatory matters, conduct research, host convenings, and provide examiner training to support and promote the stability of MDIs and WDIs.⁶ Research suggests that MDIs are more likely to focus their products and services to benefit diverse communities and to work with more consumers who experience credit constraints in comparison with non-MDIs.⁷ The extent of their reach was evident during the 2008 financial crisis and the COVID-19 pandemic, when they demonstrated effective contributions to the economic resiliency of their communities.⁸ During the pandemic, MDIs and CDFIs provided Paycheck Protection Program (PPP) loans to small businesses and financially underserved firms.⁹ The Fed supported these important financial service providers by providing liquidity through its emergency lending program, the Paycheck Protection Program Liquidity Facility.¹⁰

The Emergency Capital Investment Program (ECIP) provided additional support to MDIs and CDFIs. Through the ECIP, MDIs and CDFIs received over \$8.5 billion in low-cost capital

⁵ See the Federal Reserve’s Partnership for Progress website at <https://www.fedpartnership.gov>.

⁶ Section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 describes goals for the preservation of MDIs through the OCC, FDIC, and Federal Reserve.

⁷ Maude Toussaint-Comeau and Robin Newberger, “Minority-Owned Banks and Their Primary Local Market Areas,” *Economic Perspectives*, 41, 4 (Chicago: Federal Reserve Bank of Chicago, May 2017), <https://www.chicagofed.org/publications/economic-perspectives/2017/4>.

⁸ Allen N. Berger, Maryann P. Feldman, W. Scott Langford, and Raluca A. Roman, “‘Let Us Put Our Moneys Together’: Minority-Owned Banks and Resilience to Crises,” Working Paper 23-13 (Philadelphia: Federal Reserve Bank of Philadelphia, June 2023), <https://www.philadelphiafed.org/-/media/frbp/assets/working-papers/2023/wp23-13.pdf>.

⁹ Emily Ryder Perlmeter, “Mission-Oriented Banks in Texas and Underserved Businesses: Lessons from the Paycheck Protection Program” (Dallas: Federal Reserve Bank of Dallas, December 16, 2022), <https://www.dallasfed.org/cd/pubs/2022/mdi-cdfi-ppp>.

¹⁰ See the Federal Reserve Board’s website at <https://www.federalreserve.gov/monetarypolicy/ppplf.htm>.

to support the provision of loans and grants to small businesses and consumers in their communities. The Federal Reserve conducted collective webinars and individualized outreach to MDIs to encourage enrollment in the program. Our early internal analysis shows, on average, that eligible banks are using ECIP to strengthen balance sheets, build internal capacity, and enhance product offerings. As a result, we have seen ECIP recipients increase their lending about a year after receiving funds, relative to MDIs and CDFIs that did not receive ECIP funding.

Supporting Central Bank Network for Indigenous Inclusion

This brings me to another aspect of the Federal Reserve's efforts to support financial inclusion. The Fed recently became a member of the Central Bank Network for Indigenous Inclusion (CBNII). This group brings together the central banks of the United States, Canada, New Zealand, and Australia with the purpose of understanding and researching related economic and financial issues, knowledge sharing, and financial education targeted to these communities.¹¹ As the Federal Reserve's network representative, I recently participated in the CBNII's biennial symposium focused on the importance of Indigenous financial inclusion.¹² My remarks there reiterated the view that a financial system must be inclusive for the economy to work for everyone and must include access for Indigenous communities.

Our work with Indigenous groups includes all U.S. native populations, Native Hawaiian, Native Alaskan, and Native American Indians. The Fed's CBNII work is supported by many of our Reserve Bank teams, including the San Francisco Reserve Bank, the Minneapolis Center for Indian Country Development (CICD), and the St. Louis Native Economic and Financial

¹¹ The Federal Reserve Banks of Atlanta, Minneapolis, San Francisco, and St. Louis support our participation in the CBNII based on their work with Native communities in their Districts and throughout the country.

¹² Michelle W. Bowman, 2023 Symposium on Indigenous Inclusion, panel remarks, <https://www.federalreserve.gov/newsevents/speech/bowman20230927a.htm>.

Education Empowerment (NEFEE) program. Together, these teams and programs work with Indigenous organizations and tribal nations to provide access to economic and personal finance education incorporating Indigenous language and culture.

Supporting research informing financial inclusion

As a final example, I'll highlight some of the Fed's financial inclusion data and research. Two of our most important contributions to the study of financial well-being and consumer wealth are the annual Survey of Household Economics and Decisionmaking (SHED) and the triennial Survey of Consumer Finances (SCF).¹³ Responses to these surveys are publicly available and are extensively cited by other practitioners and researchers.

Researchers and practitioners also rely upon the St. Louis Reserve Bank's Bank On National Data (BOND) Hub, which was created in partnership with Cities for Financial Empowerment's Bank On program.¹⁴ Through voluntary and aggregated data reporting, this resource enables the public to track the growth and usage of Bank On accounts in communities across the country. We encourage the public's continued engagement with and analysis of these important data.

Looking Ahead

Today, I've spoken about the Fed's work in the areas of small-dollar credit, mission-driven organizations and networks, and data. Before I close, I would like to raise several issues on my mind that might prompt discussion in your event today.

¹³ See the Federal Reserve Board's website at <https://www.federalreserve.gov/consumerscommunities/shed.htm> and <https://www.federalreserve.gov/econres/scfindex.htm>.

¹⁴ The Bank On program promotes a national standard for bank accounts that are both low cost and low risk for customers. See <https://www.stlouisfed.org/community-development/bank-on-national-data-hub> and <https://cfefund.org/project/bank-on/>.

First, building on some progress in small-dollar credit, how can we encourage the development of lower-cost products and refine our understanding of the degree to which these products may foster consumers' financial well-being?

Second, given the value of mission-driven organizations in expanding access to financial products and services in underserved communities, how can we best provide support to the activities of MDIs, WDIs, and CDFIs?

Third, the CBNII relies on the participation and wisdom of Indigenous leaders and community members to advance financial inclusion. How can we leverage this model of engagement and shared learning?

Financial inclusion is not a one-size-fits-all issue. Involving consumers and communities in identifying issues and crafting approaches for solutions is critical to success. Advancing financial inclusion will clearly take many hands and a diverse set of stakeholders, including everyone participating here today.

Closing

In closing, greater inclusiveness in the financial system is an ongoing priority for the Federal Reserve, and we will continue to engage on these important issues in the years to come. Progress requires collaboration, and I look forward to engaging with all of you as we continue on the journey to make our financial system more inclusive.