U.S. DEPARTMENT OF THE TREASURY

+ + + + +

BUREAU OF CONSUMER FINANCIAL PROTECTION

+ + + + +

SYMPOSIUM: BUILDING A BRIDGE TO CREDIT VISIBILITY

+ + + + +

MONDAY
SEPTEMBER 17, 2018

+ + + + +

The Symposium was convened in the Bureau of Consumer Financial Protection Auditorium, 1700 G Street, NW, Washington, D.C., at 8:34 a.m.

BCFP STAFF PRESENT

MICK MULVANEY, Acting Director
ERIC BLANKENSTEIN, Policy Associate Director, Supervision, Enforcement and Fair Lending
KEN BREVOORT, Section Chief, Office of Research
DANIEL DODD-RAMIREZ, Director, Community Affairs
PATRICE FICKLIN, Fair Lending Director
GRADY HEDGESPETH, Director, Small Business Lending Markets
J. FRANK VESPA-PAPALEO, Fair Lending Principal Deputy Director
WILL WADE-GERY, Director, Card, Payment & Deposit Markets
PAUL WATKINS, Director, Office of Innovation

ALSO PRESENT

ANDREA V. ARIAS, U.S. Federal Trade Commission
MARLA BLOW, FS Card, Inc.
TIQ CHAPA, Latino Business Action Network
DARA DUGUAY, Credit Builders Alliance
JAMES GARVEY, Self Lender
GALEN GONDOLFI, Justine PETERSEN
JASON GROSS, Petal
MATT HULL, Texas Association of Community Development Associations
ERIC KAPLAN, Milken Institute
MELISSA KOIDE, FinRegLab
LARRY SANTUCCI, Philadelphia Federal Reserve Consumer Finance Institute
IDA RADEMACHER, Aspen Institute
JACQUELINE RESES, Square & Square Capital
AARON RIEKE, Upturn
RAJITHA SWAMINATHAN, Grameen America, Inc.
DANIEL UPHAM, U.S. Small Business Administration
SAMANTHA VARGAS POPPE, UnidosUS

C-O-N-T-E-N-T-S

P-R-O-C-E-E-D-I-N-G-S

(8:34 a.m.)

MR. VESPA-PAPALEO: Good morning, everyone. My name is Frank Vespa-Papaleo. I'm the Principle Deputy Director of the Fair Lending Office here at the Bureau of Consumer Financial Protection, and welcome. It's my privilege to welcome all of you today here in the room and those watching by live-stream.

We're very excited to be here for our Building a Bridge to Credit Visibility Symposium. First and foremost, though, I do want to thank everyone who made this day possible: our staff, our leadership team, all of you who are participating today, via Livestream and in person.

I'd like to specifically call out Anita Visser, from our Fair Lending Team, who's in the back of the room, our senior policy advisor in Fair Lending, who has so capably led this planning of the Symposium.

I do have a few logistics announcements before we begin the program, which apply mostly to those in the room. First, welcome to our new space. In order to ensure compliance with our security requirements, please refrain from visiting any space designated for Bureau-only staff.

Also, please be sure you have checked in at the front desk and received your name badge. We have symposium staff available throughout the day. If you have any questions or need any assistance, just look for the green staff label on their name tags.

There are restrooms and water fountains out in the hallway by the registration desk. For those wishing to access wireless, there's some sheets that will explain how you can access wireless down here as well for the day.

We have arranged for ASL interpretation and captioning services as well. Also, just want to note that the views expressed by our speakers today are theirs only and not necessarily the views of the Bureau of Consumer Financial Protection.

And finally, in order to stay on

schedule for the day, we have shared with everyone a booklet that has the agenda and the bios of all of our speakers, so the moderators will generally not be reading the bios as the speakers come up so that we have more time to actually engage them directly in their comments.

So I just want to share a little bit about why we're here today. The ability to access credit is a critical component for families and individuals nationwide to have the opportunity to climb the economic ladder, build wealth and achieve economic stability.

And increasing access to credit can be good for lenders, consumers, and in turn, for all of our communities. And here at the Office of Fair Lending, we saw a role we could play in addressing these issues in order to expand access to credit.

We came to think that there would be value in using our platform as a convener to hold a symposium to call attention to these issues. And our goal was to bring together many diverse stakeholders and perspectives on the challenges and innovations and solutions being put into action all across the country.

We're very proud to say that we have gathered together some of the most critical voices on these issues for our discussions today. So to that end, and for those on the room or on the webcast, please feel free to submit any comments or feedback you might have about this symposium, or ideas you have, to our email at BCFP_fairlending@BCFP.gov.

And then finally, I'd like to introduce Eric Blankenstein, who serves as the policy associate director of the Division of Supervision Enforcement in Fair Lending. Please join me in welcoming Eric Blankenstein.

(Applause.)

MR. BLANKENSTEIN: Thank you, Frank, and good morning, everybody. I'm thrilled to be here and see you all in the room and everyone joining online. This is actually a great turnout. As Frank mentioned, I am the policy associate director for the Bureau's Division of Supervision, Enforcement and Fair Lending.

And in that role, I'm responsible for implementing Acting Director Mulvaney's policy priorities in our supervisory and enforcement functions.

First and foremost, I want to echo Frank and thank everyone who made today possible, especially Fair Lending staff, leadership team and everyone participating here in person and on the Livestream.

I also want to especially thank Frank for his truly tireless work in making this happen and also, Patrice Ficklin, who, along with the Fair Lending team, worked really hard over the last 18 months to make this symposium happen.

As Acting Director Mick Mulvaney has said on numerous occasions, the Dodd-Frank Act mandates the Bureau's fair lending mission and we intend to fulfill that mandate.

The Bureau's fair lending work is alive and well. We continue to conduct fair lending supervisory examinations and enforcement investigations, while ensuring that we do so in a humble manner, consistent with our statutory authority.

And the Bureau is also increasing its efforts to promote innovation in a manner that enhances fair lending defined by law as fair, equitable and non-discriminatory access to credit.

To do this, the Bureau relies on a deep reserve of talent and knowledge of its employees. You'll get a little glimpse of that today from Will Wade-Gery, Ken Brevoort, Grady Hedgespeth, Daniel Dodd-Ramirez and Paul Watkins, who are taking time to participate in this event and share their knowledge with you.

I'm especially pleased that Ken will be presenting the results of some new groundbreaking research from the Bureau's Office of Research. I am sorry that my phone went off. I'm looking forward to hearing their thoughts throughout the day and I hope you are as well.

And now I'd you to join me in welcoming someone many of you know, whom I work with very closely: the Bureau's Fair Lending Director, Patrice Ficklin.

(Applause.)

MS. FICKLIN: Good morning, and thank you to those of you who got here bright and early and joined us for this important event. Thank you, Eric and Frank, for the gracious introductions. Again, my name is Patrice Alexander Ficklin and I have the honor of serving as the Bureau's Fair Lending Director here at the Bureau of Consumer Financial Protection.

I'll also point out our new flag, which is actually being unveiled today. So, yes, lots of oohs and ahs. Its first public appearance.

I want to thank the Bureau senior leadership team for its strong support in putting together this symposium today, and in particular, I want to thank Eric for his engagement in advocacy, because that truly made this symposium possible.

Before we jump into substance, I wanted to briefly share how, and more importantly why, this symposium came to be. The Bureau's Office of

Research authored two data point reports finding that one in ten adults in the United States, that's 26 million people, are what we call credit invisible.

Another 19 million adults in the United States have unscorable credit files. Together, this is almost 20 percent of the entire U.S. adult population.

The Bureau is also studying the importance of geography in accessing credit, including any effects of unlawful redlining. I think many of you are familiar with the concept of redlining, but I'll just remind folks who may not be, that redlining is an illegal practice where people living in a certain area or neighborhood are not given the same access to credit as people in other areas or neighborhoods on the basis of race, color or for some other prohibited reason.

The Bureau, through the Office of Fair Lending and Equal Opportunity, has a statutory mandate to ensure fair, equitable and non-discriminatory access to credit.

So one of our primary focuses for the past few years has been illegal redlining. Through close collaboration between the Office of Fair Lending and the Office of Research, the Bureau began thinking about the intersection of credit assets and credit geography.

I'm delighted to announce that, today, in conjunction with this symposium, the Bureau will release a third data point report discussing credit invisible consumers, entitled, The Geography of Credit Invisibility.

The report provides a closer look at the relationship between geography and credit invisibility. Dr. Ken Brevoort, of the Bureau's Office of Research, will preview this report in his short talk this morning, and it will be available on our web site, consumerfinance.gov, later this afternoon.

To preview the rest of the day, we're honored to have Jackie Reses of Square and Square Capital here today for our lunchtime keynote. She will highlight the role of innovation in creating economic opportunity and building bridges to credit visibility, including in rural communities.

Our panelists today come from an exceptionally diverse set of perspectives. We have a number of mission-oriented lenders, including Grameen America and Texas Community Capital, and other industry innovators, like Petal and Self Lender.

Some of our panelists come from our interagency partners, like the Federal Trade Commission and Small Business Administration. Our friends at UnidosUS and Credit Builders Alliance have also come to share their knowledge with us, along with academics from the Aspen Institute, Stanford Latino Entrepreneurship Institute and Milken Institute, and obviously, many more stakeholders, whom we're excited to hear from.

The plan for today is to focus on a few areas that we thought would foster substantive discussion and lead to productive conversations, even after the panels end today.

We will have panels on entry products and microenterprise credit this morning, followed by an alternative data panel this afternoon, with our lunchtime keynote splitting the day.

We will round out the day with a second keynote by our new director of the Bureau's Office of Innovation, and a fireside chat with Bureau officials reflecting on the themes of the day, and I'll note, it's a fireside chat figuratively. We certainly don't want to alarm any fire code officials, and it is September.

And now, to dive right into substance, I'm going to ask our first group of panelists to join me up here on the dais, it's an august group, to deliver what we are calling Cred Talks. These are short talks on credit. All right. Samantha's bravely joined us first. Okay. Here we come with Marla, all right, and Ida, all right.

These Cred Talks are short talks on credit in a rapid-fire series by each individual speaker. They will shine a light on issues such as credit invisibles, lending deserts and innovation to expand access to credit.

Is there a doctor in the room, as in, Dr. Ken Brevoort? Okay. All right. Well, hopefully, he'll be in his seat by the time we get to him.

All right. I've been told that lawyers and economists don't really like very early starts, so this may be proof of that. All right. So they'll be shining a light on issues such as credit invisibles, lending deserts and innovation to expand access to credit.

Unfortunately, you may note that we don't have a placeholder or namecard for Dr. Michael Turner. He will be unable to join us today due to an unavoidable conflict.

All right. So our first Cred Talk will be delivered by Samantha Vargas Poppe, who is Director of the Policy Analysis Center at UnidosUS. I'm going to ask the Cred Talk speakers to use the podium, so if, Samantha, you'll join me up here.

Thank you, everyone, for joining us at our first fair lending symposium, and Samantha, take it away.

MS. POPPE: All right. Thank you.

MS. FICKLIN: Thank you.

MS. POPPE: Thank you, Patrice. Thank you to the Bureau staff for putting together this very exciting daylong of panels and for inviting UnidosUS to come share the advocates' perspective.

When you have good credit, they open the door. When you have no credit or bad credit, they take away the key. Those words came directly from a participant in a focus group that we recently held in Philadelphia. That was her response to our question on her experience with credit.

And I think her quote really complements my key point here today, is that, our credit system and our profile affects us daily in many different ways and it often means the difference between economic opportunity and fragility.

Think about it. Your credit profile touches so many different parts of your life. It affects where you live, whether or not you can get that rental apartment or qualify for your mortgage. It affects financing for a car to help you get to work, to get to doctor's appointments, to get your kids to school.

It can determine whether or not you have the luxury of credit to help you weather an unexpected financial bump. It also can help you finance opportunity and get funds for higher education, starting that new business or something as simple and important as applying for citizenship.

A person's ability to obtain credit doesn't stop with the credit holder. It affects the next generation as well. It affects the schools that your kids go to. It affects the quality of housing and the health and well-being of children, and the list goes on.

But we know that far too many people of color remain credit invisible and that the cost of no credit is entirely too high. That's why UnidosUS believe that equitable and inclusive financial systems are a critical part of civil rights and accessing credit is central to that effort.

Latinos, African-Americans, new immigrants and other underserved groups have long been shutout of access to safe and affordable credit. This affects their ability to weather financial setbacks, to secure assets and build wealth.

The combination of historical inequities in access to credit and the targeting of communities of color for high-cost credit have left these communities decades behind their white counterparts.

Even today, accessing affordable credit remains a disproportionate challenge for people of color. According to data and from what we've learned in the field, this is in large part due to three main factors: credit reporting systems, lack of physical branches in communities of color and barriers due to immigration status.

While we know that credit invisibility disproportionately affects many communities of color and underserved groups, my examples will focus on the Latino community because that's the main focus of our work.

So first, let's take a look at credit reporting systems. As you've heard, people of color continue to have rates of unscored records that cause them to become credit invisible. Historically, Latinos have had limited access to mainstream banking services and conventional tools used to predict a borrower's credit worthiness, and that works against them in a credit system that favors consumers who already have an established credit score.

Latinos, like other communities of color, have continuously been caught in a catch-22, where they can't obtain the credit that they need to help make ends meet, or to build a positive credit score.

We saw another example of this recently in a Philadelphia focus group. A woman told us about her attempt to access a small-dollar loan just to help ends meet, help her pay bills, until her next paycheck came in.

She went to her financial institution, but she told us she was denied the loan because her bank told us -- told her that she didn't have sufficient credit history.

She believed that her relationship with the bank should have been enough for her to be a creditworthy borrower. She had held an account for years, she had automatic deposits from her job into her account, and they knew that she was a regular customer. They were on a first-name basis, yet, that wasn't good enough.

This is a situation where institutions and system needs to do better. Another factor driving the disparity in credit access is that traditional mainstream lenders don't always have a physical presence in communities of color.

There's a direct correlation between the number of bank branches located in a neighborhood and the racial and ethnic makeup of that neighborhood.

A recent study from Magnify Money

conducted, found that the majority of white counties had about 41 bank and credit union branches for every 100,000 inhabitants. Meanwhile, majority of Latino areas only had about 23 branches available for the same number of people.

Some might be quick to point to financial technology firms as the answer, and there certainly is a lot of promise with these platforms, however, for the Latino community, significant segments struggle to use those online or mobile platforms, specifically, older Latinos and immigrants often have a hard time with these platforms and rely heavily on in-person experiences.

Without access to physical branches and financial institutions and services, these members of our community are forced to turn to alternative fringe lenders who saturate communities of color with harmful products.

They pay the steep price of not having safe and affordable accessible credit, of predatory yet accessible credit and financing, where we've seen the typical APR of these products reaching about 391 percent, potentially leading them to an insurmountable debt trap.

Another barrier affecting the Latino community disproportionately, is that of immigration status. Specifically, we know that most Latinos are U.S. citizens yet about 30 percent are immigrants.

A good number of immigrants are automatically credit invisible when they come to this country and put them at an even greater disadvantage in trying to find economic security.

Many Latino immigrants have alternative forms of I.D., legal status and possess an individual taxpayer identification number, or an ITIN, yet, it's still difficult for them to know which financial institutions will accept their alternative forms of I.D., and/or their immigration status for products.

There are very few institutions that provide safe and affordable lines of credits to

ITIN holders, and those that do, have limited lending footprints, causing a geographic divide or mismatch for immigrant borrowers.

Broader bank acceptance of alternative forms of identification and immigration status, particularly in rural areas or gateway cities, is needed to boost immigrants' financial access.

Given the importance that credit plays in determining access to opportunities and resources, Unidos focused on addressing these issues in three ways. We've targeted financial capability for Latino consumers, we're looking at tools for market expansion, and conducting research to help inform the industry on the unique challenges faced by our communities.

First, we've led in creating tailored financial coaching services to help Latino families navigate the financial system and to obtain assets and keep assets. We have a robust financial coaching program that brings together our affiliate network of nearly 300 community-based organizations and technology, to help reach underserved Latinos and connect them to critical financial services.

We've also partnered with larger traditional banks to provide housing counseling to borrowers and serve as a critical risk reduction strategy for banking partners.

The UnidosUS home ownership network delivers a range of counseling services from pre-purchase counseling to foreclosure prevention. To date, our network has provided counseling to over 90,000 families and has helped over 30,000 families purchase their first home.

Let's see, secondly, we've made direct investments to help innovate tools for product development and credit expansion. For example, we created an online referral platform, Fuente Credito, that enables our affiliate organizations to screen potential borrowers for small-dollar credit products, and to match them with affordable lending partners.

The system serves as a lead generator to reduce the originator's cost and streamline the customer experience, as well as helping overcome geographic barriers.

The pilot's in ten markets now across the country and we're looking to become national next year. In the year that our pilot's been up, we have made 150 loan referrals, 1/3 have successfully gained a loan, and none have defaulted.

One of the success stories we've seen from this pilot is the story of Mr. Reyes. He attended a citizenship workshop with one of our affiliates, CASA, in 2017. As a low-wage worker, he had a difficult time saving for the application fee for citizenship. We're talking about a $700 fee.

He couldn't find a loan, so our affiliate worked with him, through our platform, and was able to connect him with a nearby credit union. He was able to get the loan and on November 12, 2017, he gained his citizenship.

He told us later that without the platform, he would not have been able to find that loan, would have put off citizenship and wouldn't have had a chance to make it in this country.

We've also established and published a body of research studies on the financial behavior and needs of the Latino community. In partnership with PolicyLink, we're releasing a second banking and color report this fall.

This report continues a body of research on low- and moderate-income communities of color and their engagement with financial services. The findings will cover several things, including bank account ownership, use of alternative financial services, use of technology in banking and savings.

We also produced research on underserved but emerging markets such as the U.S. immigrant population. In our report out last year, Small Dollars for Big Change, we offered examples and case studies on how banks can reach underserved Latino immigrant market through affordable products, a broader definition of credit worthiness, technological innovation and community partnerships with immigrant serving populations and institutions.

The bottom line is that a more inclusive credit system is essential to helping Latinos and other communities of color enter the system, improve their credit standing and have a fair chance to engage in our financial system.

Our communities have been left out for too long. Thankfully, as you'll continue to hear today, there are a lot of promising developments and fierce advocates, innovators and other stakeholders in this field.

I'm excited. I, for one, am ready to see more people have access to that wonderful key that is credit and to see so many more doors open. Thank you.

MS. BLOW: Good morning. My name is Marla Blow. I was a former member of the Bureau of Consumer Financial Protection. It is a pleasure to be here and see so many familiar faces and talk about some of what's been happening since my time here at the bureau.

For those of you that have not spent much time in this building, it'd be safe to say that, coming to this basement of this building today is a very different experience than it was five or six years ago. I'll just leave it at that.

So excited to be here and excited to share some of what we're here to talk about. Obviously, a topic that is near and dear to my heart. Since leaving the CFPB, I left and started a credit card company. The company is called FS Card.

We issue traditional credit to underserved consumers, in this case, people who have used payday loans, people that are going to pawn shops, auto title, kind of thick-file subprime consumers, and then also, thin-file credit invisible consumers as well, so we'll talk a little bit about what that experience has been like, what it means to try to issue credit to this population, the challenges, the opportunities, and the ideas that we've come up with.

A lot of what was said earlier is also

very relevant, thinking about the fintech angle and how fintech players can play a role here. We'll touch on some of that also.

One of our key approach to this was really to think through creating parity, and the reason we wanted to come in with a traditional credit card, it's an unsecured, revolving credit card product. We've issued about 100,000 cards at this point. At peak, had about $45 million of credit outstanding to this population.

We do a lot of pre-screen work, we built our own underwriting engine, we use a lot of interesting data, and have built some tools that enable us to exercise this effort, so we'll talk about that in a little bit of detail.

But the key thing here is, one of the big challenges is just having that same product that we all in this room take for granted, and I hear people say all the time, well, I have credit cards, but I don't use them, or, I have credit cards and I pay them off every month, et cetera, but you still have them.

And the difference there is, if you don't have them, what does it mean for you, and how does it change what you're able to do?

And then it plays into this notion of becoming visible, so I love the work that Ken and his team have been doing about credit invisibility, because as I've gone through the exercise of raising capital for FS Card, one of the things I've learned is, if I have to start from -- if I have to start an education effort with the person I'm trying to raise capital from, meaning, they say, like, well, isn't the problem that we are awash in credit card debt, and everybody's got, you know, five figures of credit card debt that they can't figure out how to pay down, we're not going to get there, right?

Like, because I'm starting from the premise of, there are people that do not have this kind of access, and that is, sort of, like, you know, sort of, news to the person that I'm pitching to, and so that is an illustration of one of the challenges of building businesses in this space, is that, the people providing the capital really don't relate, are not particularly proximate to this population, and are not aware, in a lot of respects, that this is happening.

That is changing and it's changing, in part, because of the work that Ken's doing and I'm excited to see that some of the folks following behind us seem to have a little bit more of a platform to start from in pitching about these kinds of businesses, so I'm really excited about that.

But it is one of the things that has made this particularly challenging, is that, it's something that is not necessarily front of mind for the capital providers in this space. That's for sure.

Another one of the things that I'll share that we've learned in issuing credit to this population, is that, even with our sensitivity, with our awareness, with our commitment to serving this population, we also are still not quite as close to the experience of this customer as we need to be.

And one of the ways that manifests itself is, we obviously look at a lot of data, we do a lot of analysis, we run a lot of testing, and we get a lot of feedback from our customers by how they use the product, how they respond to the tests that we put in market.

But one of the things that we learned, we were offering settlements. Settlement's a pretty standard term in the credit card business. If you are in distress, you're unable to make your payments, let's talk about making a settlement.

And over and over again, we had customers decline. We started getting this idea that the data would suggest there's no interest in settlements. When we had a focus group, what we actually learned is, the customer kept talking about an arrangement. Right. Like, I'd love it if you would help me make an arrangement.

And I felt like we are offering you an opportunity to make an arrangement, right? But settlement, to the untrained ear, can sound like some kind of a legal term, right, and sounds like something much larger, and potentially much more complicated, and perhaps has downstream consequences, and those customers were not interested in anything that sounded legal, right, and sounded like some kind of potential long-lived, you know, obligation, or something.

And so when we went and started changing just that language, and saying, would you like to make an arrangement, would you like a payment arrangement? We found a dramatic uptick in uptake, right, in people actually expressing interest, signing on, participating in and following through on settlement opportunities.

And so that's another illustration and just sharing a little bit more about what it means to understand this population if we don't conduct our focus groups and actually sit down and talk with these customers, and instead, just look at the data, we would have assumed that there's no interests in arrangements.

And not assume, we would have -- the

data would have led us to believe that there was no interest in it, and it's also about making sure that you're speaking the right language, that you're communicating effectively and that you're getting in front of the customer to get the qualitative aspects of their experience, so just wanted to share that.

Another one of the things that we spent a lot of time on here is data, and I think there's a data panel later on in the day, so I won't steal Jason's thunder, and I'll talk a little bit more about some of the testing that we've done with data as well.

Ron is safely in the back of the room, so I'm going to talk about data with complete impunity and you can't actually reach me from there, so I'm feeling good. Feeling like I'm in a nice safe space.

One of the things that has enabled what we do, and I'll talk a little bit about some of the tools that we've built, is, we have developed our own chat bot. And the chat bot uses artificial intelligence to communicate with our customers, much more cheaply, much more effectively, and after two years of training it, it can field most requests, most information, most questions more or less on its own.

It is sometimes fun to look at the data of the kinds of things that people text into us on their cellphones, but we've learned how to make it even conversational in some respects, so that's been kind of fun.

It has a twofold impact, right, to have this chat bot in our domain. We call it TextMate. And TextMate allows to offset the cost of servicing this population. So another key dimension of being active in this arena is, this is a high-touch customer, and we, in this effort to create parity, are reachable, you can call us on the phone, you can find the phone number right on the back of the card, just like everyone else can. We have not created a byzantine approach to getting through our IVR, like, you can press 0 and get to an operator and actually talk to the person.

All of our servicing is onshore, so when you're talking to that person, we are paying for you to talk to that person, and that person is expensive. And so if we can keep you off the phone, without tricks, without making it really hard to get to a person, it helps us, right? It keeps our costs of servicing down.

And this chat bot has been a financial windfall from that respect because we're able to prompt the customer for their payment dates, we're sending them their balance information, we're letting them know the last five transactions on their account, it's fast, it's real time, it's the thing that we all walk around with every day.

I think I read a statistic somewhere that said, our personal devices are within 6 inches of us 96 percent of the time, and it's only 96 percent because they're not waterproof and you have to take a shower, and so if you could figure out how to have a waterproof one, it would be 100 percent of the time.

And so the ability to communicate in

real time, at moments that matter, information that's relevant to customers at the time that they are thinking about it, it really changes the amount of phone calls we've received, and that has been a very effective way for us to service these customers, because it's not just originating, it's not just getting the product into their hands, it's also managing their experience post-origination, and understanding what they need, what they need to know, and making that information available proactively.

Another thing that's been really fun and interesting about having this -- the chat bot, is that we've run some testing about creating opportunities for people to pay and prompting people to make their payments more frequently.

So we ran a test and it was run in connection with some academics, so I feel like I'm in the clear, and the control situation is our standard communication, which is, your payment is due in five days, your payment is due tomorrow, your payment is due today. Those are the three prompts that we send our customers relating to their payments.

And we selected a group and we ran a test where we sent that message in the middle of the month, so in the middle of their cycle month, offering them the -- requesting a payment at mid-cycle.

And what we discovered is, about 20 percent of the customers that we gave that test to, you know, sort of, participated in it, meaning, they clicked through and actually made a payment mid-month.

And then made a second payment at the end of their cycle, and their total payment dollars actually went up by about 12 percent. And so that was a fantastic learning for us just on making those kinds of requests of people are effective, and you can reach them in moments when they are thinking about their product.

We were timing in an effort to, sort of, based on our experience of these customers, understand when they were getting paid, so we were making this request at a time for when we think their paycheck arrived. We don't have bank account information, so we don't know for sure, but we have pretty good ideas; pretty good guesses.

The big question for us on this, beyond demonstrating that it actually works, and that it is a way of driving compliance, of driving lower-risk behavior, of driving credit-building behavior in this population, is also to figure out, is it sustainable, right?

So we did this test, we ran it again, we ran it three months in a row, and over the course of the three months, we did see some decay, right? So there's kind of the first-time effect, where we saw people, sort of, complying with it, and stepping up, and making greater payments, but we did see some decline in continued participation, and by month three, it started to -- it probably fell about, I think, in half.

And so what we were curious about is, are there ways to make that sustainable over longer periods of time? Is the effect, sort of, there's regression to the mean, because ultimately, people are paying what they can. They don't have the ability to -- if they had the ability to make larger payments, they would. It's not lack of prompting that's keeping them from doing it.

Or is it the actual message itself, right? Are there new messages, different messages, other kinds of rewards or other things we can offer that might drive continued compliance and make that a more sustainable trend?

So those are the kinds of things that we are really interested in and would like to add to this effort, but it's fantastic for us because low-risk behavior obviously means you're not delinquent, which means we don't have to call you.

It means we don't have to try to collect money from you at some point in the future, you're avoiding a derogatory on your credit report, that's a positive for the customer, it's kind of a win-win all the way around, and it's incredibly cheap through the chat bot that we've built ourselves.

So really excited about the prospects

for that and I see a lot of wide adoption of this kind of technology in this space and really hopeful that we'll find some ways to make that a sustainable and longer term opportunity.

And then the last test I want to talk about, let's see if I can figure out how to make this slide show up. I don't know what you guys can see, but I can see it here. Is it up? Okay.

And so this was our work on thinking about becoming credit visible. So when we started FS Card, we went into thick-file, deep subprime consumers, meaning, these are people that have had long credit histories, their lives have been volatile, they have had bumps and bruises in their credit, they've used alternative products, they may have had credit products in the past and have charged off on them.

And so we went into that population where there's a lot of data, we can do a lot of pre-screening, we can look for signs that that customer is on a trajectory that suggests they may be on their way back up.

And a second phase for us was to then issue credit into the population that did not have that kind of information, so the no FICO, the unscored, the no data, thin-file kinds of populations.

And one of the things that was the most interesting for us, the left side of the page here, shows that for an equivalent vantage score, so VantageScore purports to enable more scoring of the population, so you can have a VantageScore, but still not be FICO scorable, right?

It allows you to use fewer trade lines and create an understanding, rough understanding, of how this customer's going to perform.

What we learned, and this was unexpected for us, is that, these populations are actually dramatically different, and that equivalent VantageScore populations with and without a FICO score perform very differently from a risk perspective as you can see on the page here, right, to the tune of 15 points of difference in risk in this population at the lower end of the

VantageScore scale.

That closes as you get closer to, kind of, the, you know, sort of, core part of subprime, but in deep subprime, some kind of additional data is necessary, right? And that's -- and so that was the learning here, is that, these populations, you cannot treat them the same, despite the fact that their VantageScore might, in fact, be the same.

And so what is -- you know, what are the tools that are necessary to make this viable? And we think alternative data, other kinds of data sources, and, you know, again, I know there'll be a long discussion about data and alternative data later in the day, but figuring out ways to close this gap is an incredibly important piece of making credit available and making it possible for people to become visible.

So I wanted to, sort of, share that learning, which has been interesting for us, and expensive for us, right, to incur those kinds of losses.

And then the second piece, on the

right-hand side of the page, is just to show that what happens when those customers do become credit visible, and that closing of the gap immediately from -- so the x-axis here, is months post-application.

And they immediately close the gap with the valid FICO population, and so you pick up about 30 points, I think, in your score, just by getting the card. And that, then, persists over time, or at least for six months or so, of the life of the account.

So getting visible and becoming visible by form of having a credit card, which is, oftentimes, the tool that brings people into credit visibility and hopefully Ken will talk about a little bit more, what are the mechanisms that enable people to become visible.

But it can really dramatically change the customer's trajectory and put them in a position to gain access to a lot of what was discussed by our earlier panelist on access and being able to even have opportunity to get traditional credit.

So that's kind of what I wanted to share from the practitioner's perspective: the challenges of raising capital, the challenges of talking about this in the marketplace, and building businesses like this, the tools and the opportunities to serve this customer, and then the differences in these population, thick file and thin file, and invisible versus visible.

So thank you very much. It's a pleasure to be here.

(Applause.)

MR. BREVOORT: Good morning. I'm Ken Brevoort. I'll start out after Marla's comments, trying to camp down expectations about how exciting this is going to be. But as Marla mentioned, in the Office of Research, we've been engaged in a series of reports that we've been putting together, trying to better understand the population that is currently credit invisible and the challenges that they face in, sort of, making the transition out of credit invisibility.

To date, we've done two reports, one that looked at the population of individuals who were credit invisible or who had credit records that were either too thin or too stale to be scored, and another one that looked specifically at how people made the transition from being a credit invisible person to being somebody that had a credit report at one of the major credit reporting agencies.

And today we're going to be coming out with the third report in this series, which is focused on geographic patterns in credit invisibility. Now, looking at patterns across geography, it's really hard to make causal statements about how important different factors are or how important where you live is to whether or not you are credit invisible.

But the correlations can be informative about what exactly is going on, and so we wanted to look at that.

Now, the role of geography in credit access has been a longstanding concern for policymakers, going back at least as far as early efforts to combat redlining, or I suppose if you want to be cynical, early efforts of the government to engage in redlining.

But recently, there's been a lot more attention to issues of credit deserts. Now, credit deserts are a fairly new term. It's sort of based on the idea of a food desert, I think and it's a term that a lot of people have used, but very few people have defined in a way that you can actually realistically determine what is a credit desert and what is not.

In terms of the way people normally use the term, they generally refer to it as areas that do not have ready access to traditional financial service providers -- normal lenders -- or perhaps have a large concentration of non-traditional service providers, or alternative service providers, in the local area.

Now, in the studies that have actually tried to determine what areas are credit deserts and what are not, most of them have relied on some combination of how many people there are credit invisible or have relatively thin files, or some other measures like that, and what I want to do is, I want to start out by talking about why this is a problematic way of doing this sort of definition.

And to do a quick case study, I want to look at Washington, D.C. So this map shows the five census tracts in Washington, D.C. that have the largest concentration of credit invisibles in the City of Washington.

Now, for those of you who are familiar with Washington, this may look like a surprising map, but stay with me. We'll start with the one that is highest. It's the one that's kind of hard -- I have nothing ready to point to, so if you look at the census tract that is the lowest, this is the census tract that has the highest incidence of credit invisibility in Washington, D.C.

Now, what makes this census tract interesting, well, for starters, it is the census tract we all happen to be sitting in right now. Yes, the census tract where the Bureau of Consumer

Financial Protection is located, has the highest incidence of credit invisibility in the City of Washington.

Now, I'm pretty sure this is a coincidence. What I think is not a coincidence is that it also happens to be home of George Washington University. And when you look at where the major universities are in D.C., or where these different five tracts are located, they're all located around universities, right?

You got GW is the highest, the next highest happens to be the track where Catholic University is located, the next two are on both sides of Howard University, and then the fifth is just across the street from Georgetown University.

So if you were to try to define credit deserts by those areas that have a high incidence of credit invisibility, what you would find is that this is mainly a problem suffered by college students. Well that's generally not a population we're all that concerned about.

And the reason why we have this is

because if you go back to the first report that the Bureau created that looked at the composition of people who were credit invisible, one of the things that we did was, we created depictions of the likelihood of being credit invisible or the number of credit invisibles by age group.

And what you see when you look at these graphs is that, about 40 percent of people who are credit invisible are under the age of 25. Now, why is this? Well, partly it's because, basically, everyone, when they turn 18, with a few exceptions, is going to be credit invisible, right?

You've never had credit in your own name, you most likely won't have a credit record with one of the credit reporting agencies, so you're going to be credit invisible.

But if you look at the third bar, which is the number of people who are 25 to 29, within that group, only 9 percent of that population is credit invisible. Sorry, you have to look at the third bar on the right-most panel, which shows the incidence. Conditional on your age being in one of your buckets, that's your likelihood of being credit invisible.

So if you start out with the idea that everybody, when they turn 18, is credit invisible, this implies that by the time you're 25, by the time you're mid to late 20s, over 90 percent of people are able to make the transition out of credit invisibility, right?

So while credit invisibility is often portrayed as this catch-22 where you have people who can't get credit who are stuck outside the system because they don't have a credit record, the vast majority of people are able to make this transition.

And most of the people who are 18 to -- this 40 percent of the population that's under 25 who are credit invisible, most of those people are going to be able to make that transition just fine.

Now, there is another portion of the population for whom credit invisibility seems to be a much harder thing to get through. It's a harder barrier to break. And so what we want to do when looking at credit deserts and looking at how the geographic patterns of credit invisibility, we're going to, sort of, throw out the people who seem to be able to make this transition quite readily, and we're only going to look at the people who are over 25.

So the percentage of the population in each census tract that is older than 25. And unfortunately -- okay. I was going to say, it wouldn't let me go back for a sec, and so this shows the top five census tracts when you do that restriction. And this should look like a map that makes a little bit more sense to the people who are familiar with the geography with the Washington, D.C., and at least that it should be a bit more consistent with what you may have expected, in that, now you're starting to see census tracts that are much more located in the lower income areas of Washington, D.C.

A side note, if anyone is curious why Catholic University's ZIP code -- or census tract still makes this cut, I was sort of surprised that myself, turns out that census tract is also the home of the Armed Services Retirement Home, so there was a large concentration of people who were 75 or older, which also tends to be a population that is highly -- has a high incidence of credit invisibility, and that's what's causing them to be picked up as well.

But for the most part, I think this is a better definition for looking at geographic patterns in credit invisibility.

And so to start, we looked at, sort of, the issue of, to what extent is a credit invisibility a rural versus urban phenomenon? Even with credit deserts, when you talk to people, it's sort of hard to get them to wrestle with this idea of, is a credit desert something that is only limited to rural areas or is it something that you find in urban areas as well?

And in some cases, depending on how you try to define these things, you may, sort of, by your assumptions, create your own answer. For example, the New York Fed had a study that they did on banking deserts, where they define a banking desert as any census tract that did not have a bank branch within ten miles.

Well, if you use that sort of definition as your starting point, you basically rule out all urban areas, because it's very hard to find any portion of an urban area that doesn't have some bank branch within ten miles.

And what we see, somewhat surprisingly, is that the highest incidence of credit invisibility tended to be in rural areas. The incidence was also higher in urban areas as well.

And if you break this out by income, so what we have here is, we have different lines for each of the geographic areas. The red line at the top is rural areas and we break it out by tract income levels. And the tract income levels we're using here are the ones that they used for the Community Reinvestment Act, right?

So you take the median family income of the track, you compare it to the median family income of the surrounding area, and you define --

you designate each area as either low to moderate income, middle income, or upper income.

And what you can see if that, in rural areas, almost regardless of the income level, there is an elevated level of credit invisibility.

In the urban areas, it's a much different story. If you live in a low income, or low to moderate income urban area, you have a level of credit invisibility that's almost around the same level, but as you get to the higher income areas of urban areas, you tend to find a substantial decrease in the incidence of credit invisibility.

So the answer seems to be about whether credit deserts or credit invisibility is a rural or urban problem, it's both. It seems to be predominantly an issue in rural communities across the board and in low to moderate income areas of urban areas as well.

Now, the second study that we've done in this series looked at how people made the transition out of credit invisibility. And what we found was that, disproportionately, when people became credit visible for the first time, the product that they used to do this, their entry product that was originally reported to the credit bureaus and established their credit reports, was overwhelmingly credit cards.

This is also true of people who are under the age of 25. I think it was about 30 percent of people made the transition using a credit card, another 20 percent of the population made the transition using student loans.

When you get to ages above 25, the use of credit cards as a transition mechanism actually is a little bit higher than it was otherwise, which is somewhat surprising, because when you think about credit cards, how they're issues and how they're underwritten, you tend to think of a lot of the effort being done using almost entirely credit bureau data, at least that was my prior going in.

Yet, nevertheless, most of these people who made this transition, who were able to get their first credit card not having an existing credit record, did so by themselves. They didn't do so with a co-borrower, they didn't do so by becoming an authorized user on somebody else's account.

And I think this is one of the big mysteries about why it is that people are able to make this transition. Now, one of the things that we postulated at the end of that report was the fact that maybe there is other factors that are going into these underwriting models, or other factors that are going into these solicitation mechanisms that these institutions are using that are helping to pick up these populations.

In particular, what if credit card banks are more likely to give credit cards to customers who don't have a credit record, but who have an existing deposit relationship with the bank?

If that's the case, then there might be more of a tie between credit invisibility and the likelihood of being unbanked than I think people have been commonly discussing so far.

And if you look at the FDIC's survey on

the unbanked population, it tends to support this a bit, right? About 9 percent of people who don't have a checking account or a savings, have a credit card.

If you have a checking account or a savings account, your likelihood of having a credit card is about 58 percent, I think. So there does seem to be some -- now, there are lots of other factors that could be driving this, but there does seem to be a real high correlation between having a checking and saving account, and having a credit card, so perhaps that's what's driving this difference.

And so what this graph does, we decided to look at, what was the likelihood, given that you made this transition out of credit invisibility before you were 25, of making the transition via a credit card, and what you see is that for rural areas, it's lower, right, so the people who become credit visible in rural areas are less likely to use a credit card to do so than in other areas of the country.

All right. In urban areas, it's generally higher, but there's also a much more stark increase, right? So upper income areas, you're much more likely to use a credit card as an entry product than if you were in a low-income area of the -- low census tract; low-income census tract in an urban area.

And these patterns are sort of consistent with the general patterns we've observed and the differences, right? We see less credit invisibility in upper-income census tracts of urban areas, we also see more people making the transition using credit cards.

In rural areas, we don't see much differentiation across the income levels, we don't see much differentiation in terms of their use of credit cards either.

And so what we wanted to do now, you know, credit cards, on some level, are an odd product to, sort of, look for this sort of tie, right? Because when you think about, again, how they're marketed and how they're solicited, you don't need to go into a bank to apply for a credit card.

You generally apply for one online, you can apply for one on the phone, but if there is this tie between depository relationships and having a credit card, perhaps it's the case that being near a banking institution has some impact on your likelihood of being credit invisible or on your likelihood of using a credit card.

And so what we did for each of the three -- or each of the four geographic areas in each of the three income levels, we looked at the likelihood of people using a credit card as an entry product to make this transition out of credit invisibility before they were 25.

And what you find is that there's not a lot of pattern. And to the extent there is a pattern, it's somewhat unexpected, right? If you look at the urban areas, it tends to be the case that people who live the farthest away from a banking institution, which is the 4th quartile that we're showing here on the back, they tended to have less use -- is that right? Less use, yes, less use of credit card -- this is sort of what you would expect.

So in urban areas, you do tend to get the pattern you would expect, where, if you lived farther away from a banking institution, you're less likely to use a credit card as an entry product. Yes.

(Off-microphone comment.)

MR. BREVOORT: I mean exclusively store cards. Yes, so retail cards, we had -- they were, sort of, separate category in what we did. This is general purpose credit cards. Yes. But generally, you don't see the sort of -- you don't see a lot of evidence, particularly in rural areas, that this is really -- that distance itself is really keeping people from using credit cards, right?

Because there seem to be very little relationship between distance to the nearest banking institution and your likelihood of using a credit card.

Now, one of the other things we wanted to look at was the role of the internet. And what you see here, again, we took data from the FCC in this case, who publishes information for each census tract on the percentage of households that have high-speed internet access.

And we broke down each census tract into those categories and looked at your likelihood of credit -- the percentage of people who were credit invisible in these census tracts as a percentage of the number of households who have credit -- who have access to high-speed Internet.

And what we find here is that there is a fairly stark relationship. It's particularly strong and it's strong in all three different areas, right? In those areas where you have more high-speed Internet access availability, or more households with high-speed Internet access, you tend to get a lower incidence of credit invisibility.

And so to conclude, you know, what we found here is, largely, that, when you think about credit deserts, or when you think about, sort of, geographic patterns and the incidence of credit invisibility, it may not necessarily be the areas that we normally look at, it may not necessarily be as important that you have a bank that is within a mile or two from where you're located.

The obstacles to having a banking relationship, if that is what is important for credit invisibility as well, may not be convenience of locations.

And if you look at the FDIC's survey again, what they come up with, or the results that they show, are largely consistent with that. Only 9 percent of the unbanked population, which are again, not right, yes, only 9 percent of the people who are unbanked reported an inconvenient location as being the reason they didn't have a checking or savings account.

Much more commonly, people cited not having enough money to have an account or a general distrust of banking institutions, right? So it may not be proximity, it may be more about whether the institutions in these neighborhoods are actually serving these communities and allowing these people to have products that might allow them to establish existing relationships with traditional financial service providers that may help them bridge this gap between being credit invisible and not being credit invisible.

And it may also be other factors that we're not necessarily talking about quite as often, such as whether you have access to high-speed Internet and what that does with your ability to, sort of, participate in these markets. Thank you.

MS. RADEMACHER: Just leave Ken's slides up because they're so great and they're fun to look at. Thank you. Hi, everybody. Good morning. I'm Ida Rademacher. I lead the financial security program at the Aspen Institute. And it's a pleasure to be here.

I want to thank the Bureau for not only the leadership to put on a meeting like this, but as we just saw with Ken's work, and so many of the people that, I think, have really started to ask the right questions about credit access in this country, the Bureau's leadership and focus on this issue has been critical to that.

So I want to thank you for both today and for the ongoing work in this space. And then as I look around the room, I see so many people that I both know, and then even more that I want to see, and I'm taking specific note of people you've talked about, like, you need to stay arm's length from? Is that right, Marla?

I really need to know the stories behind that, but I look at this group that's assembled here and I think if anybody is going to be able to move the needle on improving the availability and quality of credit in this country, a critical mass of those folks are in this room this morning, so I look forward to the way that the conversation unfolds, the kinds of questions that are asked, the kind of networks that get made, and conversations that get started today.

So also, just apologies for me. I've been on the road for a while. I got back from

Scotland about midnight last night. I've been in the U.K. for the last week and I've been watching some of what's been happening in the U.S. from afar.

And of course, what has dominated the media, in many ways, has been the formation of some of the storms that are taking place in the Carolinas, and of course, being in the U.K., it's not just the storms that are happening here, it's also the storms that are happening in Hong Kong and the Philippines, and running into China.

And I think all of us, our hearts go out to the families that are devastated by those storms, and the communities.

It's interesting when you start -- when communication starts to the public about storms, most of that communication is really about securing the basics for protecting yourself and staying safe in those storms.

And one of the first things that really gets conveyed over and over again, and one of the things that inevitably sells out in stores, becomes a scarce commodity, water. Clean, safe, affordable, potable, water.

And I just find it a little bit ironic that when the problem is that we're getting inundated by flooding, when there's water, water, literally, everywhere, that one of the most critical things everyone needs to acquire to be able to weather the storm is water.

So as I was thinking about this talk and I was thinking about how to create some context for this conversation, and to try to tee-up the rest of the day, it struck me that the need to prioritize securing a source of potable water in times of storms and flooding is a lot like the situation we're talking about today.

We are here to move the needle on how to secure sources of safe, affordable, good quality credit. What I've now started thinking about as potable credit. And that acquisition is critical because the vast majority of working families in our country are living through the equivalent of a major financial storm.

They are literally drowning in debt,

oftentimes before they ever have access to credit, quality, potable credit, and indeed, the kind of debt that many are experiencing has qualities more akin to storm water, right, with God knows what underneath, and live wires, and things that are dangerous, lots of risk.

They're exposed to that and the debt that they're experiencing has qualities like that, much more than it has qualities of potable water. Things that we often take for granted when we're not in crisis.

So the main contribution I want to make to our conversation today, what I hope maybe is an additional frame or anchor for you all, is to help amplify and emphasize that the ideas you are hearing here today will, basically, help transform that access issue.

And I want to put some urgency into our collective efforts to go beyond talking this morning about this, to really figuring out what the next steps are.

We must make it a priority in this

country to increase the supply of good, safe, affordable, potable credit, and we cannot truly have a productive and robust conversation about that without grappling with this broader context of debt and the consequences of debt in peoples' lives.

So I'll try to wrap this together, but over the past year or so, my organization's program, inside of the financial security program, we have something called EPIC, Expanding Prosperity Impact Collaborative, and we take 18 months to 2 years to do a deep dive on specific issues of major financial consequence to households in the U.S.

So for about a year and a half, we really focused on income volatility, sizing that issue, looking at the dimensions and drivers of it, and the implications of it, and then, really, trying to activate people around solving the problems in terms of how they manifest in people's lives.

And about for the last year we've really been focusing on issues of consumer debt.

Specifically, not taking the sense that credit is bad. In fact, we know, credit is water. Credit is critical. But really understanding, where debt has become -- where it is productive in people's lives and where it has become harmful to their financial security.

And my EPIC team, which I was just about to say, you know, shout-out to folks who aren't here today, but I know they're all watching on the live-stream, but Genevieve Melford, who used to be here at the Bureau, leads EPIC, and Katherine Lucas McKay, Devon Brody, Emy Urban, and also, Joanna Smith-Ramani, and Kiese Hansen are all part of this amazing team.

So after a year of research, and synthesis, and expert surveys, and convenings, and consumer focus groups, I want to just make three main assertions about consumer debt in America today.

And I think this will relate back to the issues and the thing that we're really here to talk about, which is access to more affordable credit and to address credit invisibility.

What I want to say about consumer debt is that it is systemic, it is consequential, and it is solvable. And so let's just take each of those in turn for a moment.

My first point is that the crisis of consumer debt today in America is systemic. That definition, for those of us who are thinking about systematic versus systemic, is really, that it's affecting of relating to a whole group, or a system, it's not about individual members or parts.

And I think it's important to say that here and I think it's important in the context of Ken's research, and the work that Marla is doing, and any time you can use big data to look at the kind of trends we are looking at, we are talking about systemic issues, not issues of individual choice and moral and ethical behavior.

And I do think that the issues of consumer debt in this country get conflated with individual choice and moral and ethical behavior in ways that are unproductive to those households and unproductive to our work in this country.

Saying it is systemic means that it directly contradicts the mainstream narrative we use often around debt, that it's accumulated by individual acts in a way that -- and I think we've seen this play out a couple of times recently, for example, with Stacey Abrams, who's running for governor in Georgia, and so much of the firestorm of conversation around her student loan debt, and the choices she made around that debt, and is she, therefore, qualified to run for office because of her debt.

Mind you, similar conversations are not going on with other people in other parts of -- you know, we know talk about debt equity, sometimes, as something that's great for people to have in the context of business and in the context of all of things like that, so I think that it's important to look at this thing as a systemic issue.

The numbers are too large, the problems are too ubiquitous to allow that narrative to dominate anymore.

I mean, the reality is, the vast majority of households have debt, 77 percent of Americans have some form of debt, which includes mortgages. The problem has been brewing for a long time.

Debt-to-income ratios in this country have been going up for generations. They are now well over 100 percent in terms of household debt-to-income ratio. That has increased markedly over the last 30 years, and each generation since World War II has carried more debt and been more highly leveraged than their parents.

But back to the conversation about debt being like storm water and what we need is this, the form of debt that families carry matters. It matters a great deal. And those debt portfolios have also been changing for households over these last couple of generations.

Nearly all the growth since the financial crisis in debt has been in auto and student loans, and consumers have more unsecured debt and less wealth-generating debt now than they did 20 years ago.

And the debt profiles of White households look quite different from those of Black and Latino households, the latter having far more unsecured debt in their debt portfolios.

The other thing to keep in mind is that access to credit becomes path dependent over time, and that exacerbates life circumstances and helps to cause these disparate impacts.

So many households and families are exposed to debt long before they ever have access to positive credit experiences. When exposed to debt first, a household's access to quality credit is diminished and often leads to more debt, which becomes cyclical and creates disparate impacts between families and communities, especially families and communities of color.

So I think the main thing about the systemic issue is that we do really, as a set of organizations and individuals committed to these issue, need to see issues of consumer debt and access to credit as public policy issues, not issues of individual choice and failing.

And the second reason for that is because of how consequential these issues are in our society today. Even if debt, consumer debt, non-secured, non-mortgage debt, does not pose yet, the same kind of systemic risks to the macro economy that mortgage debt did during the financial crisis, it's certainly creating negative impact in households and communities in terms of both financial and mental health, and strain.

The types of consumers -- the types of debt consumers first take on and have access to at the beginning of their credit life has immense impacts on the future access to credit. And again, to your charts, Ken, I think that there's a lot to be looking at, what are those first points of access, and how do we change those into productive opportunities?

The Bureau's own research on credit visibility shows some of what we're talking about. 22 percent of individuals from low-income households enter credit visibility via debt and collections.

And that's compared to 6 percent of incomes from high-income households, so that's 3-1/2 times more likely if you're a low-income household, per Ken and the research here, you're 3-1/2 times more likely to enter credit visibility through debt if you're a low-income household, and those debts come unpaid bills, medical bills, and government fines and fees, predominantly.

All of the things that we're not talking about when we're talking about access to the kinds of credit that actually could be productive in somebody's life.

One third of all delinquent debt is from unpaid bills and the statistics were based on neighborhoods. There's a community level impact in this as well.

There's a lot of, I mean, both -- I mean, the Bureau's research is absolutely something that should be on everybody's desk as we try to get our handle on these issues. We tried, in EPIC, to -- we put out a research primer that tried to synthesize what we know about the drivers and dimensions of consumer debt across the debt stack in the primer, and that's available on our Web site.

But the reason we did that is because of not just stopping and putting out additional research, I think our goal is to shine a light on the research that's there, and really try to excite people around taking action, very informed, evidence-based action to address these issues.

But we're also moving forward, and so in November, we will be -- I want to move us into the solvable dimension of consumer debt, and I'll end there. I feel like in the work that we do, while there's so many pieces of why people need to take on debt in the first place right now, that had to do with broader issues of labor market and income insufficiency.

Those are important conversations. Rest assured that they are happening with incredibly smart and committed people in other conversations that are taking place at exactly the same time as this. I couldn't speak at one of them because I'm here at this one, but there are conversations around both what are the income dimensions of why debt is rising in people's lives, but there is eminently solvable pieces of the puzzle about how the kind of debt that people get don't get them into a place of precarity early in their credit life.

So in November, we'll be putting out a solutions framework that really does try to put a frame around all of the different ways that the dimensions and drivers of consumer debt can be addressed, and of course, it'll come as no surprise that a lot of them are around access to affordable, safe credit in timely ways, between both products and policy changes, and a lot of other ideas that we will be putting forth.

And hopefully in a way that helps people understand together what they can do about it.

I think the main thing that's been a construct that's come up for us is that, we are trying to look at the solutions framework as a set of frontend decisions and frontend conditions before somebody ever gets into a situation where they're dealing with either credit or debt, and what is the whole backend of the system?

And access to credit is actually one of those really interesting nexus points, because even as we're seeing that there are a lot of ways that you can improve the quality of the credit that you're getting, the backend terms and conditions, how long somebody has to pay that off, what are the escalating rates, there's a lot of the backend terms and conditions of credit that do matter to determining if that's going to be a productive tool in somebody's life or not.

And so this kind of frontend/backend framework could be very helpful. The front end solution that we've just talked about, really, just needs really better backend terms, and I know you're going to hear a lot more about that over the next set of conversations as well.

There's really, the reality is, plenty of highly-affordable, high-quality products that still have excessive penalty interest rates, making it hard for people who have had one bad month to stay on track. And there's ways that data and technology can really help to change the way that we work on that.

I want to just focus on that piece of it and really just closeout and let us get on with our day, but I want to say thank you again. I mean, thank you to the Bureau and thank you to all of you for being here to have this critical conversation today.

I think solving the issue of consumer debt, which has been my focus recently, goes way beyond the discussions of credit visibility and credit access. It's going to require a whole set of solutions across many sectors, but even as we work on that broader level to address all of the ways that we help consumers stay safe during the major financial weather events that are happening in our society today.

The job of those of us in this room is to ensure that potable credit, that safe credit, access to safe, affordable, reliable, critical credit is on the best terms possible on the frontend and the backend for the families and the communities that we care about, to make sure that's abundant, and available, and people know how to get it and use it when they need it. Thank you.

MS. BLOW: Thank you to our distinguished panel of Cred Talk speakers. We're going to break now and reconvene at 10:15 for our entry products panel, talking about the types of products that consumers frequently use to bridge from invisibility to credit visibility. Thank you all.

(Whereupon, the above-entitled matter went off the record at 9:51 a.m. and resumed at 10:16 a.m.)

MR. DODD-RAMIREZ: Okay. Good morning. We're going to get started again. Hopefully everyone had a good break. By the way, there's a sign right by the restrooms that says that you have to be escorted everywhere. That doesn't mean the restroom. You don't need to wait for a restroom to go in. Feel free to go right into the restroom.

I saw a line of people waiting there, but no, I'm just kidding. So my name is Daniel Dodd-Ramirez. I'm fortunate to be moderating this wonderful panel. We've got a very great group of Cred Talks that we're following.

And I'm just going to say a few things and then we're going to go ahead and get started. This is going to be a bit more of a traditional panel. We're not going to be going up to the podium to speak.

We're going to have more back and forth, and hopefully it'll be -- well, I'm expecting it's going to be a great conversation, because on the prep calls, we just kind of went on and on, and there's a lot that this group has here in common and a lot of deep understanding of this issue.

So the ability to access credit is a critical component for families and individuals in the United States to have the opportunity to climb the economic ladder, build wealth, and achieve economic stability.

The opening Cred Talks spoke very

eloquently about this. People who are lower income and minorities are more likely to lack access to credit or to be turned down for credit, and less likely to try to access credit for fear of being turned down.

I think that's really important to remember, that again, you know, less likely to try to access credit for the fear of being turned down.

These experiences correlate with lower financial well-being. As has been said, we know from our data points here at the Bureau that about 45 million consumers, or about 20 percent of the U.S. population, may be unable to access credit because they do not have a credit record or one that can be scored.

Consumers who are Black, Hispanic, and living in lower-income neighborhoods are more likely to be impacted by this, and how people enter the credit system, positive versus negative trade lines, depends on their income as well.

There are many reasons consumers may lack access to credit. For some, it's because they don't have credit available to them in a way that's affordable or accessible. For example, if they live in a community with little or no bank branches, or credit products are not offered through the financial institutions that they utilize for their financial services.

You know, Ken spoke about some interesting new findings regarding geography and credit invisibility.

Moreover, consumers with limited credit may not have access to quality credit products with the right terms, features, or supports that sets them all up for success.

For many consumers, credit invisibility becomes a catch-22, where, without a credit history, they're denied credit, which in turn prevents them from acquiring a credit history.

This is something that we've all heard before and something that we've probably experienced, especially when we were first coming into the credit market, you know, as young adults, and something that stays with families, and something that they don't necessarily -- individuals don't grow out of.

There are, however, products and strategies that allow consumers to safely gain access to the credit system and are designed to set them up for success. This includes products that are considered more traditional, secure credit cards, and we heard about one earlier with -- from Marla, credit builder loans, and also, more innovative entry products, such as lending circles, or those that are using alternative data.

We'll be talking more about that a little bit later on another panel. This session, this panel, really seeks to better understand how industry can increase access to credit in a way that's good for lenders, consumers, and in turn, good for the community.

So just a few things, we're going to be taking questions on note cards, so there's going to be, note cards are going to be passed around, and you can write down any questions you have, and about 15 minutes before we end, we'll be collecting those note cards and we'll try to get to a few of those, but we're going to be taking those through the note card process.

Let's see here, I had a couple of other things. I'll ask the speakers to make sure that you hit the button on your mic, and that you speak directly right into the mic, for the livestream, because that's really important.

We're going to have a countdown clock. It's a lot smaller than I thought, so I've asked for a more traditional card to be flashed whenever we're getting down on time.

So those are, basically, the only things I need to do as far as housekeeping. We're going to go ahead and get started. As was mentioned earlier, the bios for all the speakers are in your folders, and so you should have those, and we're not going to get into, you know, introducing all the speakers, but I am going to ask them to quickly introduce themselves, their name, their organization, and, you know, how they address credit visibility.

And I've asked them to do that in about two or three sentences each, and so we're going to go ahead and start here at the left with the James.

MR. GARVEY: Hi. I'm James Garvey, co-founder and CEO of Self Lender. Self Lender is a savings app that builds credit. We have about 150,000 customers that have used Self Lender to build credit and save about $120 million.

MS. DUGUAY: Hello. Am I on? My name is Dara Duguay. I'm executive director of Credit Builders Alliance. In fact, our name is synonymous with the mission about today's symposium. We do have a new logo, which is a bridge symbol, which we feel illustrates, really, what we do, which is, a connection between the non-profit community, we have 507 members right now that are located all around the country, so we connect them to the credit bureaus in two ways.

We connect the lenders, many of them are micro lenders with CDFI, Community Development Financial Institution, designation, but they're all non-profit lenders. We connect them to the credit bureaus as data furnishers to be able to report the data.

Their borrowers tend to be credit invisible and really need to help build a positive credit history, but the other segment of our members are those that are non-profits who are not lenders, and we connect them to the credit bureaus so that they can pull credit reports to be used in financial coaching and counseling.

And I just wanted to add one thing, which is a shout-out to the Bureau. I can't believe four years has passed since that last symposium on the, what was the title of it? Unbanked or --

MR. DODD-RAMIREZ: Yes, checking account access.

MS. DUGUAY: Checking account access, and I spoke at that symposium also, and I was able to meet the chief operating officer of ChexSystems and I then recruited him to our board, and they took two years, but pro bono, they created an electronic interface, so non-profit organizations now that are helping people to become banked, as of today, this is live today, so I'm super excited, they can become credentialed through us to be able to, at their desk, push a button, just like a credit report, and be able to download a ChexSystems' report.

So this is super thrilling. It'll really help people to be able to see what the bank is going to see. 50 percent of people that are unbanked used to be banked and many of them have negatives. So I just wanted to sort of call that out as a very positive thing that came out of one of your symposiums, so that's one of the newest additions to what we call our access service.

MR. HULL: Hi. Good morning. My name is Matt Hull. I'm the executive director with the Texas Association of CDCs. I'm also the administrator of Texas Community Capital. That's a non-profit loan fund working in Texas.

We also do business as the Community Loan Center of America, where we take an online, employer-based, small-dollar loan program and make it available to employees, right now, in about 10 states through 20 franchised, mission-driven local lenders.

Since the inception of the program, we've made 40,000 loans, we've loaned out, somewhere in the neighborhood of $30 million, we're saving borrowers about $700 per loan compared to a payday loan in Texas.

So right now, we save borrowers somewhere in the neighborhood of $18 million in interest and fees compared to what they would be able to get through short-term higher interest rate loans in Texas. Thank you.

MR. SANTUCCI: Hello, everyone. Good morning. My name is Larry Santucci. I am with the Federal Reserve Bank of Philadelphia's Consumer Finance Institute. We do not have a new logo. I've been there for about five years, and prior to that, I have experience as a subprime product manager in the credit card space, as well as a head of global analytics for a small-dollar credit company, for about another five years.

And I am just happy to be here, finally making it to the BCFP. Thank you.

MR. DODD-RAMIREZ: Great. Thank you, Larry. I will point out that it's actually a seal, Larry. We still have a logo, so we have a seal and a logo.

MR. SANTUCCI: Now you're just rubbing it in.

MR. DODD-RAMIREZ: And a new flag. Okay. So we're going to go ahead. Thank you for those intros and thank you for that reminder, Dara, of something that came out of one of these convenings. You know, we all attend these convenings regularly and so it's great to hear about something, you know, that was really, you know, tangible that comes out of something, like that example.

So the first question is for both Dara and Larry. So it's more of a, kind of, you know, state of the field question, so which entry products are currently available to consumers who are credit invisible or otherwise have difficulty accessing products?

And, Dara, do you want to start?

MS. DUGUAY: Sure. So I want to give a shout-out to non-profit lenders, CDFIs, and others. We're finding that a lot of non-profits are actually becoming lenders, that you would think of as being lenders, and I'm talking about groups like Goodwill, Catholic Charities, domestic violence non-profits, disability groups, and the reason they're becoming lenders is that the constituents that they serve actually can't get credit anywhere else.

And so one of the biggest challenges is, is that, because they're non-profits, they don't have advertising budgets. So many of them are located in, you know, high-poverty communities, but people don't necessarily know that they exist.

And so I think that trying to raise the visibility of CDFIs and other non-profit lenders that will say yes to someone who's credit invisible.

I always use the analogy that

non-profit lenders, micro lenders, are like riding a bike. You have to start with training wheels. Once you, you know, know that you can ride, then you can take the training wheels off, and it's the same situation with non-profit lenders.

They will say yes with, usually, a small loan, then you start building credit, then you can go to the bank and they will say yes, instead of no.

I just wanted to highlight two products that I think are very innovative. One is a credit builder loan, and I know the CFPB has done a study on credit builder loans.

It basically works like this, you don't get the money at the beginning, you get the money at the end. They're usually between, the payback time, 6 months to, you know, 9 or 12 months at the most.

And you payback, usually, like, $50, or what you can afford, and each payment that you make is being reported to the credit bureau, that's, you know, an essential component, you can't build credit. You can't call it a credit builder loan if you can't report to the bureaus.

And so every time you make a payment, it's being reported, and once you make all your payments, sort of like the vault is unlocked, and then you get the money.

So this is a very low-risk type of loan for lenders because the money is received at the end. So that's something that I've read a report that about 1400 credit unions have a similar product, and many of our members also have this product.

And then the second thing I just wanted to talk about briefly is, Credit Builders Alliance, from a grant that we received years ago from the City Foundation, did the first pilot for rent reporting, specifically with affordable housing providers.

And the results, in summary, of working with eight affordable housing providers, geographically dispersed, found that 100 percent of the tenants that were credit invisible became visible.

And we found that vast majorities of them moved into a lower risk segment, so from, like, subprime to non-prime, or non-prime to prime, or even prime to super prime, so it was, on the most part, very, very, very successful.

Two things that we found out that were, sort of, challenges, is that, if you are an affordable housing provider, you're probably receiving money from HUD, and because of HUD's privacy regulations, you have to get permission from the tenant. You had to have them sign an opt-in form.

And just, you know, the act of having to find that person, you know, get them to sign the form, our pilot members were very creative. They would, you know, put it under the door, have pizza parties, like, all kinds of things to try to get them to sign the form.

But the problem was, is that, you know, the percentage that actually participated in the pilot was much lower than the 100 percent we thought we would have from the beginning, so that continues to be a challenge. HUD doesn't show any interest at all in changing that.

It would be just an administrative rule. They could do it if they wanted to, but we've been told there is no interest, so it remains an opt-in.

And then the second challenge for rent reporting we found is that, a lot of the software that is used by a landlord is not really easily convertible to actually report that data to the credit bureaus, so we're really working with some of the technological challenges, but we think that this is an area that can really help people.

Most of the people in public or affordable housing, really don't have any other credit product that they can actually have that could be reported because they're living in a cash society, or living using products that are not typically reported to the credit bureaus.

MR. SANTUCCI: Okay. So speaking of those products, I just want to run through a list of these entry products, and what they are, and what's out in the market today. We've spoken about a few of them. Ken, in particular, did.

But one of the ways that you can gain access into mainstream credit markets is by piggy-backing, and that's by becoming an authorized or a joint account holder on someone else's credit card.

In addition, there are options for students, so anyone of any age, but enrolled in an academic program, to receive a student credit card, they typically accept consumers without credit scores. You will have to have an independent source of income, or asset, so you can pass the ability to pay criteria.

If not, those can be co-signed for as well. And I would recommend, if I'm making recommendations here, and again, you know, I have to issue that standard disclaimer, but if you are a student, it's probably a better idea to do that rather than to look to secured credit cards, which is the next option.

So with respect to secured credit card programs, some of them, but not all, accept consumers without credit scores. So one example of one that does and is a pretty big program, is the Citi Secured Mastercard.

Now, their credit criteria looks at debt that you have and they also ask for your income, and you cannot have a bankruptcy record on file in the past two years. And my interpretation of that means that, you cannot have declared bankruptcy any time in the past nine years, otherwise it would have showed up.

So that's a -- you know, if you read it exactly as it's written on the Web site, that's a pretty stringent criteria for bankruptcy filers.

And one of the other groups I look at with the Consumer Finance Institute are older adults. And we know that bankruptcy filing in that group has been increasing, so that's a concern of mine, certainly, but I think -- now, that's just one program.

They tend to be fairly cookie cutter and one other thing you can look at would be another program like the Green Dot Platinum Visa, so there are these secured credit cards out there.

Now, there are other slightly more nefarious, more expensive alternatives. There's a company from outside the Philadelphia area called First Progress that issues a variety of different secured credit cards as well as the Open Sky secured visa card.

And one of the things that came up, and I'm not certain if I understood this correctly when Ken was speaking, was the idea of a closed-loop store card. So for example, your Home Depot card, that can only be used to, you know, buy fertilizer and rakes at Home Depot, and can't be used outside anyplace else.

It does not have a Visa brand or a Mastercard brand, but that, many of them do not require a credit record, and that tends to be an option that we see a lot. So echoing some of the things that Ken found, when people first enter the credit bureau, the records they tend to have are credit cards, and in the data that we look at, we really can't tell whether they are closed-loop store cards or whether they are general purpose cards, or any other kind of card, but they tend to have that, and then student loans, and auto loans, and I think auto loans is number two, as a matter of fact.

One of the other ways that you can start to accumulate trade lines, of course, is through student loans, and I know from experience that that happens pretty often. I think I was getting a trade line, or two, every semester, but that -- those things build credit and I'm just laying them out here.

Now, for foreign nationals, I think we've already addressed the problem there. When foreigners come to this country, or immigrants, they are immediately credit invisible. Fortunately, there is some innovation in that space from Fintech.

There's a company called Nova Credit, whose been working to, along with TransUnion, take credit bureau data from other countries, turn it into a FICO-style score, and then they've been working with lenders like MPOWER, who underwrites student loans, for foreign nationals, so there's progress being made there.

I'd really like to see that business model expanded to other credit products. I think there's a lot of value there.

One of the things we'll be talking about again is the Petal Card. So I think Jason Gross is here in the audience and I'm going to leave that to him. I really like the idea there. They are using something called conventional alternative data, which, so there's conventional and non-conventional, or fringe, alternative data, and that data is the, kind of, squishy social media data.

The kind of data that they're using is bank account data, they're looking at cash flows and things like that.

We also talked about credit builder loans from banks with or without a co-signer and then Mr. Garvey is over there, who can tell us about Self Lender, and other options. So I'm at ten. Co-signed auto loans. That's an option, and that's actually, like, as I said, the number two thing that we see in people who have just entered the bureau.

There's some concern there, and what worries me is that, some of these auto loans, if you've seen these no credit check auto loans, you can apply for one of those. Back when it was the CFPB, they fined a company called First Investors Financial Services Group for incorrectly reporting the data to the consumer, to the credit bureaus.

There are also buy here, pay here lenders who tend not to report at all, so you've got to watch out for those, because they will -- while you will be able to finance your vehicle, and at a rather high cost, you will not be building up a credit history.

And then the last thing I want to mention is, and I'm really pleased to hear this, is that Marla is telling us that the Build Card is now in this space and I guess they've moved past the minimum 550 FICO threshold.

Now, that said, there are some other products out there that you think would help, but don't, and I just want to mention that some of the Fintech loans from Lending Tree, et cetera, they all have minimum scores.

So Lending Tree's minimum score if 500, OppLoans is 550, Avant is 580, Lending Club, 600, and then Upstart Prosper and Loan Depot are all 640. Again, those are all personal loans, but there is a FICO threshold there.

And those are spoken about a lot. There's a lot of money there, but I'm not sure that the way they are currently configured they are really appropriate for this space as of yet.

So that's my review of what's out there. There's a lot. The problem is that, one of the problems is that, there's a lot out there. There are still gaps and it's really hard to identify what those gaps are and which populations, exactly, are underserved in this product space.

So hopefully that's something that we address during this conference.

MR. DODD-RAMIREZ: Great. Thank you. That was a great overview of the field. Thank you, both. So the next question is going to be for both Matt and James, and I'd like to ask you, how can these products be structured to set consumers up for success?

So you can talk a little bit about features, the roles of financial education, how that's implemented. You know, a lot of times we're talking about high tech. High tech is always the answer, but it's really, also, high touch, and we heard about a very successful coaching initiative. We've been administering our own coaching initiative through the Bureau, through a contract we have administered.

And it really does take, you know, we were talking earlier about chat bots that Marla brought up, and the role of education. When we're thinking about how to take these initiatives to scale, or we're looking at how to reach rural areas, these things are all really critical. We're thinking about tele-coaching and we're thinking about how to work with consumers.

So again, you know, how can these products be structured to setup consumers for success, what are some of the features, and what's the role of financial education? And either of you can -- or, Matt, do you want to start?

MR. HULL: Sure. Thank you so much. Before I get into the features, just want to mention briefly how we got to where we are. The Community Loan Center started in Brownsville, Texas, the initial idea was kicked around in about 2009.

What was happening in Brownsville, Texas at the time was that, all of the traditional financial lenders had pulled out during the economic downturn and they were replaced by over 23 predatory, payday, and auto title lenders in downtown Brownsville, Texas.

This program was created by a non-profit CDC that does about 100 new affordable housing loans a year in the Rio Grande Valley, and they receive about 1000 people a year that come into their office to become eventual homeowners, to go through the home buyer counseling process, they were seeing an uptick in the number that were being derailed from that process from having taken out a high-cost loan.

And it was mainly just to make ends meet, you know, auto repair, health charges, whatever it was. People didn't have any other options because their traditional lenders pulled out, so they created this product and they wanted it to be based around some very simple principles.

And these are what -- the way that they structured it and these are sort of the things that we would recommend to all lenders that they structure.

One is that it's fairly priced. Payday loans in Texas carry an APR around 664 percent. The Community Loan Center is at 18 percent with a $20 origination fee, which puts the APR around 22 percent. Non-predatory terms. We don't roll in any other services that the borrower doesn't need.

There's no credit life insurance, there's no other terms that are not beneficial to the borrower. It's made with the ability to repay. Our maximum loan is $1000 and if someone makes less than $2000 gross a month, we only lend up to half of that, so if they make $1800, their maximum loan is $900.

That keeps the repayment below 5 percent of their take-home pay every month. It should report to credit bureaus. Because we're all independent lenders under a franchise structure, we can't mandate it, we highly recommend it, and many of them have great relationships with the CBA.

Easy repayment options. Our repayment is encouraged through payroll deduction and about 95 percent of borrowers repay through payroll deduction, and if not, we ACH out of the bank account. We make it as easy as possible.

And then the last item is easy access to financial counseling or coaching. Every Community Loan Center lender has to have the ability to reach out to borrowers and provide and offer financial counseling or coaching at no charge.

It's not a requirement to get the loan, but they must be touched after the loan is originated, and whether they do it online, in the work place, over the phone, you know, we don't necessarily have a preference, but as long as they can do it.

And so I think those are the main points that we'd like to make, is that it needs to be convenient. As soon as you make a fairly priced alternative inconvenient, our borrowers will typically go to a higher cost lender because it's more convenient for them. Thanks.

MR. DODD-RAMIREZ: Thank you.

MR. GARVEY: Yes, and I'll echo that with Self Lender. You know, we've created an app that makes it easy to get started with credit, easy to build credit, easy to see your credit score. We've combined credit monitoring as well.

So every month, you're going to get your free vantage score from Self Lender and we're also able to see, you know, new delinquencies, new bankruptcies, new public records, new employer data, new trade lines, having that data, you know, we use it as an engagement tool, but also it's just a way so that consumers can understand what's going on in their life.

You know, with Self Lender in particular, what we've done is, you know, we've partnered with a couple banks and we've made it very easy because, you know, it's on your mobile phone. We've also offered a couple different price points, starting at $25 a month all the way to $150 a month.

And it has to be convenient, it has to be affordably priced, also, from an APR perspective, it needs to be low, and so we've done that. And what we've also done is, we've created a whole bunch of automated notifications.

And so the consumer needs to be able to understand what's happening. So for example, if they're one day past due, receiving an electronic notification that says, hey, you know, you're one day past due, here's what's going to happen.

You know, 15 day, you get a late fee, 30 days, you get reported to the credit bureaus as late, that's just really critical in the customer's lifecycle so they understand what's going on.

And when you pair that with seeing their credit score every month, you know, Self Lender, in particular, we can track the outcome, so we can see if people's scores are going up or if they're not.

And, you know, what we've seen is, you know, people that are starting from 0, and that's from a 0 vantage score, we see people go from 0 to 670 fairly consistently. We've also seen people that are thicker file, on the rebuild side, see about a 45-point improvement, on average, within 6 to 12 months.

And so the thing that we've also done is paired a little bit of financial education, and it's also very critical so that, you know, you understand what's important, what are the factors in your credit score, how do you establish your credit score or how do you build credit? All those things are really important.

And when you combine that with the convenience of repayment, combine that with a mobile experience, it makes a huge difference.

MR. DODD-RAMIREZ: Great. Thank you. The next question is going to be for Dara, to start us off, and so what can we observe in terms of entry by consumers who use secured credit cards and other products? You know, how are they interacting with these products and how does that compare to other types of entry products?

And after Dara, you know, Matt, if you would talk about your insights from the employer-based model, and, Larry, specifically to the research that you've done with secured credit cards.

MS. DUGUAY: When I heard the results of a survey, or a study, that CFSI, and correct me if I'm wrong, if I get this wrong, but they were commissioned by Visa to do a study on secured credit card usage, and I was really shocked by the fact that there was only 1 percent of the credit card market is secured credit cards. Am I correct? Okay. What's that?

(Off-microphone comments.)

MS. DUGUAY: Oh, Larry has data too. Does that conform with your data too?

MR. SANTUCCI: It's about 1 percent of what's out there and then as a percent of originations, it's a little bit higher, but it's still below 5 percent.

MS. DUGUAY: Okay. So that's the first problem, right? That, you know, secured credit cards are not being accessed and we ask why. So some of the responses that we're getting from the field from our members is that the barrier, the biggest barrier, is the security deposit.

So I know that most of us are very familiar with a study that is quoted often from the Federal Reserve, and I always forget whether it's $300 or $400 that, if the average American -- was it $400? Okay. Thank you.

So, you know, if the average American

has trouble coming up with $400 for an emergency, you know, and when I think of emergency, I think of, you know, like, your plumbing is broken, or, you know, something, I think of that as an emergency, so if you can't come up with $400 for something like that, you know, certainly, coming up with $400 for the security deposit for a secured credit card is not going to be a priority.

So I think that that's a challenge. I have looked at, there's some new models. Is anyone here from Capital One? Yes? Okay. I had a board member who, I'm so sorry she left, but I loved Nancy Stark so much, but she is going down to part-time, and so she resigned from our board, so I'm always, like, abreast of everything that's happening with Capital One, and now I've lost my connection.

So please, help me out here, but I don't know whether this product is live yet, where, with Capital One's secured credit card, that you can pay in installments for the security deposit? It is live? Awesome. Okay.

So that's a great way to be able to deal with that barrier, where you can pay in installments for the security deposit. But I think it's a product that we should try to be encouraging and, you know, at CBA, you know, this is what we're all about, right? Helping our members to help their constituents build credit.

And we think that this is a tool that should be more widely pushed than it currently is, and maybe with that barrier issue now being alleviated by making payments, that can be something that we can surface again.

MR. HULL: With the Community Loan Center, what we see is that -- well, to backup. We are only available to employees of employers who have signed up to participate in the program. We're strictly an employer-based lender. Of the 40,000 loans that we've done, that was made to an eligible borrower pool, somewhere around 75,000 employees, who were employed at roughly 150 employers, over 10 states.

That includes our smallest employer, which is a hair salon in Brownsville, Texas with two or three employees, up to the City of Dallas, which has 13,000 employees, soon to be taken over by the City of Houston, with 23,000 employees, when they come online later this year.

What we're seeing as far as entry to the product is that, the majority of our borrowers are female. We've done a couple of different surveys of our clients, somewhere between 65 and 75 percent of our borrowers are female.

Average income is right around $40,000. So already, this is a group that is vulnerable, and by and large, is asset poor. About 83 percent didn't have savings to make it three months of just regular household expenses, so that's kind of who we're talking about.

In some of the consumer service, or consumer satisfaction surveys that we've done with our clients, 96 percent of them see our product as an employer benefit, which was a pretty big surprise for our employers, because it doesn't cost them anything, they do limited marketing, we do a lot of the marketing for them, and that as much as we would like to think that it was, you know, just a great product that was selling this to these 40,000 borrowers that we've had, it's really word of mouth.

A lot of our survey work shows that, you know, we can do all of the marketing all day long, and it's really, you know, when you have that one key employee who borrows, and then tells someone, that has a ripple effect throughout each employer that we've signed up. So I think with that, I'll pass it on.

MR. SANTUCCI: Okay. So I have two experiences with secured cards. One is as a researcher and then the other is out in the private sector, and so hopefully I can speak a little bit about both of those, but right now, I'd just like to talk about the research.

So it was a few years ago when we started to really dig into secured cards and asking the question of, to what extent were people able to rehabilitate their credit scores with this product, and we have some interesting data that we've used.

And let me just start by saying, secured cards clearly have their pluses and minuses and I think we've talked about that here on the plus side. The application process is easy and familiar, the companies offering some of these products are household names, not always, but they are, and if you do everything right, you can improve your score.

But on the other hand, you're going to have to leave that money in the deposit account for at least 6 to 12 months, and from what I've seen, sometimes up to 24 months before you can really see a measurable improvement in your score.

The market is strange, so we had data on 19 large, very large, financial institutions, 6 of the 19 had no secured card program whatsoever. This is three years ago. May have changed. I don't think it has.

Seven of the nineteen had tiny programs, so as a percent of their outstandings at the time, it was less than 2 percent. We've also found that secured cards typically tend not to be actively marketed. More than 40 percent of the cards that were in our survey originated by way of a take one in a branch.

And I've seen this firsthand. We did some market research, I did some undercover market research years ago, walking into different branches and asking for a secured card. And most of the time they said, well, apply for an unsecured card and see what happens.

And when I insisted that my credit was just so terrible, finally, they would pull a pamphlet out of the desk drawer and say, okay, we give up, right?

So we followed some of these accounts for about two years and I have to say that, you know, once you start to look at the performance here, you realize two things. One is that, there's probably some robust financial justification for why many credit card companies are not offering this product.

And two is that, there's a lot going on

in the lives of people who are using secured cards. So after two years, we saw that about 17 percent of the accounts had closed. More than 8 percent of them had charged off and another 2-1/2 percent were closed by the issuer with a balance.

And when that happens, I believe that the account holder has to pay that balance off over five years, so that's not a good thing.

At the time another 9 percent were open, but delinquent, and had experienced these bouts of frequent delinquency over time, so you're talking about 20 percent, potentially, that could have, you know, end in negative consequences.

But that said, profitable segments can be found. So 20 percent were transactors in good standing after two years. This is all after 24 months. Another 45 percent were revolvers. There were revolving balances on $300 limits, so that's not only profitable for the bank, but if the end result is an account closure in good standing, then that's good for the consumer as well.

And in fact, after two years, at the

median, consumers who kept their accounts open for that time had a 24-point increase in their credit score. So some good comes out of it.

Unfortunately, on the other side, if the account was closed with a balance, at the median, that's a 42-point reduction in credit score, and if the account was charged off, that was a 60-point reduction. So what we saw in that group was a 60-point reduction in scores. And that's not causal. There's a lot of other things going on that we were not able to identify and isolate.

But you think about this group, these are the people who had enough interest to apply for this card, they had enough funds set aside to apply for this card, if they had to make the decision as to what was I going to use this $300 for my emergency savings or was I going to use it to help rehabilitate my credit score? They said, I'm going to use it for that, right?

And we know that they're cash constrained, so this is a big decision. So in terms of advantageous selection, I think this is a good group. Twenty percent of them may have negative outcomes.

So there's a lot of problems going on. I don't think -- I think secured credit is great. I think there are ways that, James, I think you're going to talk a little bit about, in which the product could be enhanced. It certainly has its flaws and I think it certainly has its benefits.

MR. DODD-RAMIREZ: That's great. James, why don't you go ahead and talk a little bit about that.

MR. GARVEY: Yes, absolutely. So, you know, as Larry said, the biggest problem is coming up with the deposit for the secured credit card, and so with Self Lender, we're helping people be able to establish credit, and also save some money, and at the time, we can help them save some money so they can use the money for a secured credit card deposit.

And so one of the things that we're offering with our secured credit card that's launching in Q1 is that, the consumer is going to be able to increase or decrease their limit. And so some credit card companies will give you the opportunity to increase your credit limit by putting the larger deposit, but we're not aware of any that allow you to decrease your limit.

So you can imagine a situation where I've got a $500 secured credit card and I really need $200. Some credit cards will allow you to do a cash advance, but wouldn't it be a better product just to say, listen, let's just remove $200 and, you know, reduce the credit limit to $300?

And so we can do that because of a bunch of tech that we built underneath, and we can do it in an efficient way, but that's one of the things that we're really excited about launching in Q1.

MR. DODD-RAMIREZ: Great. Thank you. I just wanted to remind folks, you can start passing your note cards, if you've got a question, to the aisles, and somebody will pick them up, and we'll address those questions in about another eight minutes or so.

One last question -- or actually,

another question before we start taking -- a couple more questions. The first one here is regarding something that Sarah Bainton Kahn, who's on my team, who leads our credit work, and I talk about regularly, about, you know, what can we do, you know, what can be done to make these products more widely available and how do we -- how do companies -- you know, why aren't more companies offering them?

So what's the business case as far as using these, even as on ramps, to graduate to other products? Dara, would you like to talk from a non-profit's perspective and then we'll have Larry -- actually, we'll go to James to talk more from the Fintech partnership platform perspective.

MS. DUGUAY: Sure. So my comments are going to be specifically about small-dollar loans. And if you talk to most of the major banks, they will tell you that they're not profitable; these products are not profitable.

And, you know, to provide a loan that's $300 versus a loan that's $3,000 or $30,000, it's the same amount of paperwork. And so to have to, you know, go through all of that effort for very little gain, most of them have decided to not, you know, offer small-dollar loans.

Now, there are some exceptions out there certainly, but I think that what we're trying to do is, we're trying to look at the non-profit space as the perfect space to be able to offer more consumer small-dollar loans.

So if you look at the vast majority of our lender members at CBA, the type of loan that they offer falls in the small business space, which is great, right? I mean, small businesses need the ability to get loans in order to buy that food truck and start the small business, which is a huge engine of our economy.

But if you have the lending structure already setup, infrastructure setup, why not also consider -- in addition to offering small business loans -- adding consumer loans?

So what we did is, we did a survey a couple of years ago through a grant from MetLife, to find out, of our members that offer consumer small-dollar loans, what type of loans were they offering? And we came up with this really interesting, innovative list of types of loans.

So in addition to credit builder loans, there were very topical-specific types of loans. So for instance, bail loans. You know, it's a huge issue in this country. We know a lot of states are getting rid of, you know, bail in its entirety, but many more states, you know, have this, which is effectively creating debtors prisons, and people don't have the funding for bail. So we found that some of our members had that.

And we found out a lot of our members had assisted technology loans, and immigration loans, that Unidos talked about, and I can go on and on, but very, very creative loans.

So what we did is, we came up with this list, and then we got a follow-up grant from MetLife to be able to identify four of them that we thought are easily replicable and would be in demand regardless of where you are in the United States.

And we came up with four and we developed products in a box. Our products in a box is basically just a toolkit, and they're on our Web site. We have a separate Web site that has all of our educational materials, and it's CBATrainingInstitute.org.

And that was unveiled last January with a grant from Capital One and Chase that allowed us to have this separate Web site.

But when you go there, it's free. These toolkits are free. And they're over 200 pages, and you do not have to read the entire thing. But if a non-profit is not a lender and is interested in possible becoming one, we wanted to provide them with directions on how to do that, so there's all kinds of links.

You can find out what are the requirements in your state and so forth. For those of our members that are already lenders, they just skip those chapters and they can go directly to where we have really mapped out for them, the parameters around these various different types of loans.

So the four that we identified and decided to turn into toolkits are assistive technology loans, and these are for those organizations that help persons with disability. The most common assistive technology loan is actually a hearing aide, believe it or not, because that's usually not covered with most healthcare plans, and it can go all the way up to buying a ramp for your van, which is quite expensive.

The second one is what we have decided to call our re-entry loan. We've been doing a lot of work in the returning citizens space because of grants from the Small Business Administration. Returning citizens is a new term for ex-convict, you know, it's more politically, I think, palpable, so if you're looking at me like, what is a returning citizen? Have they returned from vacation? Not really.

I think they wish that they had been on vacation, but we've been doing a lot of work in that space, and what we found out is that, when you leave, you know, a period of incarceration, especially if it's for a lengthy period, you might not even be the same physical size you were when you entered.

And so you don't even have clothes, in some cases, so that, and all the fines and fees that have added up, people are already leaving with a significant amount of money, and having some kind of re-entry loan that will help them, would be very helpful.

And then another one is immigration loan. Again, this was talked about earlier. This is a big impediment to actually becoming a U.S. citizen, is because you don't have the actual funds to be able to do that.

And then the last one is what we're calling housing stability loan. And we think that this is a product that will really help significantly with the eviction epidemic in this country.

I don't know how many of you heard on Thursday night at the Shakespeare Theater, Matthew

Desmond was in town. It was packed. Shakespeare Theater was packed at Harmon Hall, and he wrote the Pulitzer Prize winning book, *Evicted*, which, basically, I found out that 20 percent of Americans had been evicted at some point in their life, which is frightening. We should all be frightened by that. And it's usually because of small amounts, so why not have a housing stability loan that will help you from being evicted?

And so those are the four loans. We're continually fundraising to get money to build more toolkits, because as I said, our list was very long and we're trying to encourage adoption, and more we feel that these non-profit lenders -- the CDFIs -- are perfectly positioned to do more consumer small-dollar lending.

And so that's the space that we're working in.

MR. DODD-RAMIREZ: Great. James?

MR. GARVEY: Yes. You know, what we've seen is that, you know, banks really do want to do these small-dollar loans and small-dollar deposit accounts. The challenge, of course, is just the servicing costs and it's just incredibly expensive. There's roughly four software companies that control most of the software market for banks.

And so, you know, your checking account can, you know, be anywhere from $50 to $100 a year in software every year, per customer, and so, you know, if you're a CFO, it's tough to make that call and say, hey, we're going to do this because we're going to lose a bunch of money.

And so in our case, you know, we had to build a lot of this infrastructure. You know, we had to build our own core processing system, our own system of record, our own servicing, credit reporting, payment processing, we had to build all this because if we would have used off-the-shelf tools, it just would be so expensive that the business doesn't work, unless you charge really high interest rates, which we didn't want to do.

So, you know, that's just one of the big challenges is, there's the software that the banks are using.

MR. DODD-RAMIREZ: Great. Thank you. Larry, I'm going to have you hold off because we've got a couple questions here for you, and ask Matt if he'd like to weigh in. And of particular interest has been how you partnered with, you know, banks in order to kind of achieve scale with your products.

And I know that you're looking at actually, potentially, going to 50,000 loans a year. That's a goal that has been mentioned in your strategic planning, and so I know you've got, you know, very large ambitions.

MR. HULL: And sometimes our eyes are larger than our stomachs, but it's always good to have some push goals out there. The thing that I would like to mention, as we talk about financial institutions, is, our product is really a subsidized loan for capital.

Our product is what we would call a low-margin, high-volume loan. We are the McDonald's of lending. We are not art by any means. Meaning that on any given loan the most in interest and fees that the lender's going to make is about $115, and then they have a number of expenses after that.

So for us, it's really a volume business. And in order to make that volume work, you have to have subsidized capital. We can't go to Wall Street and get money at double digit interest rates. We're looking at banks and social investors contributing to us at, you know, 2-1/2, 3 percent.

We're comfortable at that rate, and because of that, it really is a non-profit model. You know, we often joke, you know, well, you know, why do you charge 18 percent interest? We get this a lot. And the reason we charge 18 percent interest is, we can't make the program work at 17 percent, and if we charge 19 percent, we would feel that that's usurious.

So we've settled on 18 percent and we estimate that somewhere around $2,500 to $3,500 loans per year is the break even for most of our non-profit lenders.

One of the interesting things, and we've talk about, you know, the compliance issues that regulated financial institutions have, and how their break even on a consumer loan is going to be right at $3,500.

We actually have one FDIC-regulated lender that is an equity owner in the Rio Grande Valley Multi-bank -- the group that owns this product -- that has signed on to become the Community Loan Center of San Antonio.

So the bank itself will adopt our product, use our logo, use all of our branding material, and offer it to their consumer clients to plug into their employees.

Yes, it's exciting, and I hope it works, and I hope it gets us to that 50,000 loans a year kind of push goal that we've set for ourselves, so we're really excited.

MR. DODD-RAMIREZ: Great. Thank you. And I assume those banks are credit for --

MR. HULL: Exactly. They get CRA

credit, they get a little bit or, you know, rate of return, probably, you know, they break even on it, but they're doing it because they want to see products out there available to their future clients as well.

MR. DODD-RAMIREZ: Great. Thank you. So let's go to a few of the questions. I'm not going to be able to get to all of them, but the first one here, for Larry, how do the negative outcomes of secured cards compare to conventional card outcomes? And then it follows with, is 20 percent high?

MR. SANTUCCI: Yes, 20 percent is high. So right around this time in 2015, I think if we would have looked at the annualized charge-off rates on a unsecured credit card portfolio, you would have been in the 3 to 4 percent range, so you're talking about something on the order of magnitude of, you know, two to two and half times higher, so the losses are higher.

Now, it's really difficult to do an apples-to-apples comparison because the credit score distribution for people who have credit scores in the secured card space is very, very skewed to the high-risk end of things, and then there are other people who do not have credit scores.

So it would be challenging to even build a like-for-life set there. So it's difficult to say with any measure of scientific precision, really, what that difference is, but, you know, I think we are talking about a product that even being secured and having that collateral there, it still carries with it some degree of risk to the banks.

MR. DODD-RAMIREZ: Great. Thank you. And next question is for Matt. Mr. Hull mentioned credit life insurance as an example of a product that's not in the borrower's interest. Do you see any of these add-on products, often insurance, as benefitting the borrower?

MR. HULL: I mean, they can be, but it's all context, right? And so our term on a loan is one year. For us, something like credit life insurance is not advantageous to the borrower when the term of the loan is one year and over half of our borrowers payoff early.

So, you know, there are products out there that are add-on products that, sure, given the context of whatever that product is, could be advantageous, but for our product, we see it just as adding costs to the borrower, costs that they don't need.

They're obviously asset poor, liquid asset poor, they need some kind of income intervention, and, you know, the CLC and other products, but you just have to be cognizant of, you know, what is it that you're doing for the borrower.

MR. DODD-RAMIREZ: Next question is of particular interest to my office, we're the Office of Community Affairs, that focuses on low income and economically vulnerable, the traditionally underserved, and so many of the people that we're focused on don't have bank accounts.

And so we're, you know, always looking at, you know, prepaid cards and thinking that that's a viable, you know, alternative for people that don't have bank accounts.

So this question is for anybody here. What do you think about the use of prepaid cards, regular loading and consistent use, as a ladder to get in credit? Some credit card companies, who also have prepaid cards, could use?

MS. DUGUAY: I think the biggest problem is prepaid cards are not reported to the credit bureaus.

MR. SANTUCCI: So from an industry perspective, I think that prepaid cards are often seen as a complementary product, but I don't think it should stop there. And there may be some companies down here who are doing this exact thing, but I think the prepaid card can be a gateway to credit offerings, because once you do have that data, that transactional data, you're seeing those deposits and you're seeing those transactions, you're seeing the types of transactions that are being made, that's information.

That's data that you can use to then underwrite that consumer. So there are complementarities between those two products, but again, the major drawback is that, it's not a credit product. And that's actually a source of confusion for people.

MR. DODD-RAMIREZ: The Bureau's undertaken some research, and you can take a look at, you know, the work that we did with American Express that actually determined how many people were saving on prepaid cards, and so I'd encourage folks to do a search on our Web page to get a little bit of that research.

Let me go to -- I just wanted to mention that. We got time for another question here and then I've got one last question for the group. FS Card mentioned its credit card is unsecured. Do you see a growing market for subprime unsecured cards? Larry's ready to go on that one and then Dara.

MS. DUGUAY: Is Marla still here? Is she here? No? I remember when I first talked to Marla, and she used to work for Capital One also, and she said she went around and talked to all of the major credit card companies, and they said, this is not going to work. You know, this is going to fail. You know, we've looked at this and, you know, offering unsecured credit cards to the subprime market is, you know, a recipe for disaster.

And I think that it's just amazing. I mean, she has 100,000 customers now, is that it? I mean, she's proved them wrong, right? So, Marla, a shout-out to you. I don't know, you can listen to this in the video, or something, but I think that that's one of the challenges, is that, this is not a market that most companies want to go after.

MR. SANTUCCI: Marla, she is here or she isn't here?

MR. DODD-RAMIREZ: No, I don't think she is.

MR. SANTUCCI: Okay. So the Build Card is a little on the pricey side. I think we're all aware of that, so I don't want to go into it, but, you know, it costs about $125 to the consumer to open that card, so there are economics involves.

Now, those are changing and they have been changing, and when Marla spoke about it a few years ago, it was cost of capital that was -- you know, they were working on, so I think those dynamics will change because they do have their heart in the right place, and it's a good organization.

The other thing I would point to, and again, Jason Gross, I've mentioned him twice now, is this Petal Card. It's cash flow underwriting-based, the credit limits are from $500 to $10,000, there's no fees, and they've got interest rates -- the APRs go up to about 25-1/2 or 26 percent, so I think we may have to look to the alternative data space for those sorts of products.

MR. DODD-RAMIREZ: Great. Thank you.

MR. SANTUCCI: From the affordability perspective.

MR. DODD-RAMIREZ: With a couple minutes left here, we've gone through a few of the questions, and I think many of those questions will be answered later, looking at them, with some of the other panels, but I'd like to get us looking forward. If there's anybody that would like to talk a little bit about what new products are needed to help more consumers access credit or what other emerging products, like you just mentioned Petal, Larry, what other emerging products are on the horizon?

This is open to anyone here and we'll close with this question.

MS. DUGUAY: Well, I think that there's a bill that's passed the House that talks about alternative data. And Congressman Ellison had helped to spearhead that for many, many years. A companion bill is now in the Senate. I think it's going to be voted on this week. I'm not sure.

But basically, what this bill says is that, utility companies, telecom companies, there's no problem with them being able to report positive data to the credit bureaus.

Right now, if a utility company doesn't know and they ask the state regulator, many times the regulator says no, or they don't know, and so because there's all this confusion, they just don't report positive on-time payment.

So I think that that's an issue that we've seen bubbling up. I don't know what's going to happen in the Senate, but, you know, if you look at the utility and telecom, and other companies, they're not forms of credit; however, you know, if you don't pay, it's going to appear on your credit report.

So, you know, if you're in collections, if you're, you know, 90 days late, whatever, if it's a charge-off, that is going to appear. So the negative appears, but not the positive.

So I think that we're going to be seeing this as an issue more and more, and I'm sure this is going to be talked about later this afternoon.

MR. DODD-RAMIREZ: It will be. Yes. Any other last words from anyone on the panel?

MR. SANTUCCI: I just want to talk about what some of the work that the credit bureaus are doing. So, you know, relying on -- there's something of a problem with the model here when it comes to the credit bureaus, clearly, right? The concept has already been proven that there is data available with which you can underwrite your consumers, that has nothing to do at all with credit risk or information that's in the bureau.

So, you know, you want to see positive movement on the margin of the credit bureau, so I like seeing things like the VantageScore or the FICO Expansion score, Experian's Extended View score. TransUnion recently acquired FactorTrust and I hope that they make it possible for users of payday loans and other short-term, small-dollar credit products to now receive credit scores, but there's got to be work on that end.

And I think we're past the point where we should be just thinking about it. I think we should be doing something.

MR. DODD-RAMIREZ: I think on that note -- or go ahead, Matt. So I just want to thank you all, I mean, not only for being here today, but for the work that you all are doing, you know, to address this important issue in your communities and around the country.

We've got, as someone said earlier, I think it was Ida, it's really extraordinary and gives us hope when we're thinking about these issues, to see so many extraordinary leaders around the country that are working on these issues to try to serve the underserved, and thank you all very much.

MR. HEDGESPETH: Good morning. Hello. We're going to get started here. My name is Grady Hedgespeth. I am the Assistant Director Head of the Office of Small Business Lending here at the Bureau. And some of you may wonder why the Bureau of Consumer Finance would have an Office of Small Business Lending, so some numbers may put it in perspective of why this is an important place for this office to be and why this panel is especially important in trying to provide a bridge into financial participation in this economy.

50 percent of all people employed in this country are employed by small businesses.

And small businesses create 2/3 of the new jobs in our economy. There are 27 million small businesses by the most frequent definition, and this is from the Census Bureau, and 24 of that 27 million are single-employer firms; 60 percent of those are the major breadwinner for their households.

So small businesses are very, very critical if we're going to create paths of opportunity for America, and really, to create more and more opportunities because they create the jobs that bring that next generation along.

And we're very, very pleased, and it is my privilege to host our panel this morning, because it brings together four of the most distinguished practitioners and innovative practitioners in this field.

And they will give testimony to how important businesses, small business creation and entrepreneurialism is to become financially participant in our economy.

You have their bios, but people

listening to this by Web probably won't know all of that, so let me take just a minute to introduce everyone here. To my left, your right, is Daniel Upham. Daniel's the acting director for the Office of Economic Opportunity, my old job at SBA, and he's done a great job of taking it to the next level since I departed two years ago.

Next to him is Tiq Chapa. Tiq is the director for external relations at the Latino Business Action Network -- probably came the longest for any of our panelists here this morning, coming from California, so we're delighted to have him with us.

Next to him is Galen Gondolfi. Galen is the senior loan counselor --- which may not sound that important until I tell you some of the things that he's done -- and director of communications at Justine PETERSEN, which for 20 years has been a trailblazer in providing asset building, credit building, and wealth building strategies for folks in the Midwest.

And finally we have Rajitha

Swaminathan. She joins us from Grameen American, which has only been in business ten years but has already helped more than 100,000 women move along the path to financial solvency and vibrancy.

So I'm going to take a moment to help tee this up by asking Dan, because one of the things that he's responsible for at SBA is the Microloan Program that's been in existence there for almost 25 years now. In fact, over 25 years, and it is the largest public sector funder of both Microloan dollars and grant dollars to support that lending in the country, having put more than $1 billion into this space over the last 25 years.

Dan, you want to give us a bit of an overview of your programs and what makes them different from the other SBA programs, like the 7A and the 504 loan program?

MR. UPHAM: Absolutely. Thanks, Grady. Everybody be nice because we are what stands between you and lunch before too long, so I've got enough material here -- thanks to Grady -- for about the next three hours if you're not careful.

Yes, so the SBA, I work with the Office of Capital Access, and as Grady mentioned, in the Office of Economic Opportunity, and so I have the privilege of sort of overseeing some of our cap access programs for the smallest on that food chain or that ladder of opportunity.

The Microloan Program, the Community Advantage Loan Program, so these are small-dollar loans, whereas some of our other cap access programs that you may be familiar with -- the 7A Loan Guarantee Program and the 504 Program -- are sort of for those guys that are a little bit higher up on the food chain, a little more sophisticated, closer to being bankable without needing the support of the Federal Government.

But the programs that I oversee are the small-dollar lending programs, and they're offered through mission-based lenders, non-profit lenders. And their emphasis is on providing small-dollar capital as well as counseling, training, technical assistance, to those younger businesses -- those entrepreneurs that only need small-dollar amounts of capital, but really need that trusted guidance to allow them to get into business, do it the right way, increase their level of business knowledge and sophistication, and give themselves the best opportunity, you know, to compete, and survive, and grow.

So the Microloan Program, as I said, it's offered through mission-based lenders, non-profit lenders, the Small Business Administration makes loans to those intermediary lenders, who then in turn, make small business loans up to $50,000.

They also are providing training and technical assistance, that's a required piece of the program, both before they make the loan and after, and so that's a critical piece, and that's a major difference between the Microloan Program and the other programs, cap access programs, at SBA.

You know, the fact that we're tying the capital and the training together to give small businesses and young entrepreneurs that best chance for success as they get started and as they grow.

One of the other interesting pieces and differences between the Microloan Program and some of the other cap access programs at SBA, when you get into the larger government-guaranteed lending programs, they're very strict and they have a very strict set of credit criteria that the small business borrower is going to have to meet in order to get the approval of the government guarantee.

And so those guidelines are set by SBA and they're very, very particular in terms of collateral and credit scores, and, you know, the things that you would think lenders -- bank lenders in particular -- would be looking at in terms of credit in order to approve a loan.

With the Microloan Program, our intermediaries set the credit standards that they're going to approve loans based on, so it's done at the local level, and it's not dictated by the SBA.

So that flexibility is a huge difference and one of the major differences that really allows success with our small business lending programs, because for the most part, especially in those markets where we really want to provide excellent service, underserved markets, minority-owned businesses, small women-owned business, veteran-owned businesses, low-income communities, those borrowers aren't going to come with perfect credit scores or with the collateral that a bank lender is going to be looking for, or the experience, for that matter, in owning a business.

But that flexibility that our program allows our intermediaries to make their own credit decisions is a big distinguishing factor in the program and one of the factors that has led to the success that the program is seeing.

MR. HEDGESPETH: Thank you for that setup. Did that very well. Thank you. I think I'm going to turn now to two of the most active practitioners in the SBA Microloan Program, because they represent some of that creativity and the ability to be sensitive to the market that you're actually trying to serve.

And so first, I would like to ask Rajitha if she could give a bit of an overview of the Grameen approach, if the name sounds familiar to you, yes, it is the American affiliate of Grameen International that -- whose founder received the Nobel Prize for their work overseas, and for ten years, they brought this model here and have some really good experience.

So, Rajitha, tell us about how you're using the program and other microloan funds.

MS. SWAMINATHAN: Sure. So Grameen America, like Grady mentioned, was born out of the Grameen bank model in Bangladesh, and when it started ten years ago, there was a lot of apprehension.

I mean, who would have thought that microlending would work in the U.S. This was ten years ago, everything was great, 2008 hadn't happened yet, so it was kind of a bizarre concept, but we did bring the model to America because of this huge credit invisible population that completely lacked access to capital, so to speak, right?

And the most vulnerable population was women. So that's what we do. We lend -- we do microloans to women entrepreneurs who are either going to start their business or the ones that already have their business, and we're driven by the mission of financial inclusion -- the biggest pillar of which is access to capital.

None of our loans require any collateral; none of our loans require a credit score to begin with. You don't need to have a business to start with; you don't need to have a visible business. So it is very much a starter package, right?

So loans start as small as $1,500, and they go up to about -- they go a little over $10,000. We work at the grass-root level in communities, and we have a very specific model that we use.

So the model that we use is, we rely on

what we call social capital. So groups of women come together to request a loan. So if one woman wants a loan, she finds five other people, four other people that are like-minded. They come to Grameen together, make a pitch for the loan, and they all kind of vouch for each other, right?

So how do we take their loans basically? It's based on their word, right? And it's their word for each other and their willingness to take the responsibilities for each other and their willingness to work together as a group to overcome challenges.

So that's what the whole model is founded upon. We meet with them every single week, so our frontline staff meets with every one of our members every single week. So that's 50,000 women, 52 weeks a year, in what we call, these units call, call center meetings, which is 30 to 40 women.

So we have this incredible asset with them, which is their time, so we meet with them once a week for an hour, that's when we do a lot of financial coaching. We work with them through the loans, we work on credit building programs, then we work on asset building, and kind of build this more holistic approach towards financial mobility.

Yes, and so the way that we use SBA microloans is, what Daniel mentioned is exactly right, gives us the flexibility to move quickly, it gives us the flexibility to move at the grass-roots level, and lend to the most vulnerable population of the lot.

MR. HEDGESPETH: Thank you very much. That's a really, I think, good perspective. You are doing microlending at the very smallest range and as I understand, what's the average length of the loans that you put up?

MS. SWAMINATHAN: So all of our loans are six months only. Every six months, you are up for a new loan, and the new loan is slightly higher than your previous loan, right? So you start off with $1,500, that gets done in six months, you are now up for something up to $2,000.

And every increment is kind of based upon your behavior over the last -- the previous loan, or whatever history, so it's talking about alternative data actually, and linking together what we will talk about in future panels, it's almost using a very fuzzy data, it's not really data, but it's the behavior that you use, and kind of brings in to behavioral economics and behavioral motivation, but that's what we use as increments for more and more loans.

So it's not the credit score, it's not exactly your repayment, but it's simple behavior like, do you come to every meeting on time? Are you actually investing the first few days of your loan? Can we actually come into your business and see how you're growing? How are you working with your other peers? Are you supporting? Are you engaged with the program?

So your behavior in your current loan will kind of decide if you're up for a next one and how much bigger of a loan will you get.

MR. HEDGESPETH: Well, thank you. Rajitha wears a number of different hats, and I think you could hear them come together in her description. Not only does she head up the loan activity, but also asset building, wealth creation, and financial education, as well as credit reporting.

So that integrated view of their customer, I think it's a very important part of their business model. And it's also true of Justine PETERSEN, I will tell you that right after the riots happened in Ferguson, Missouri, I was sitting there running the SBA loan programs and I said, well, I wonder how many SBA loans we've done in Ferguson over the last five years.

And it turned out, only one SBA loan had been issued. And I said, wait a minute, you're kidding me. So then I looked at the microlending data and what jumped out at me? Justine PETERSEN, which is the name of social activists in the St. Louis community who helped really start a movement more than 20 years ago to get folks to own homes in the inner city.

Justine PETERSEN had done 26 loans in Ferguson, Missouri in the past five years. More importantly, once the riots happened, a number of their loan holders actually suffered severe damage to their properties.

Not only did they come in with more assistance, they offered forbearance, as well as technical assistance, and in many cases, enough funds to actually keep the payroll until they could open again.

That's the kind of integrated approach that the best folks, the best practitioners, in this business do. So, Galen -- and not only that, they have, most of their loans, like 60 percent, I think, go to African-American-owned small businesses.

So tell us how you do that, Galen.

MR. GONDOLFI: Thanks for all accolades, Grady. So as Grady mentioned, Justine M. Petersen was a social worker. She was a pioneering activist in "financial asset building" when, I want to say, it was avant garde.

Justine worked tirelessly with local banks in the St. Louis region to craft portfolio mortgage products that were hyperly progressive and actually yielded significant home ownership in our north city.

We have this Delmar divide, which, many cities, unfortunately, have a thoroughfare or a viaduct that divides their city in more ways than one, and we're north of Delmar, our actual office location, and Justine's early work on housing was north of Delmar.

So what we do is meld social work, and I'm going to politically put social work on the left, and banking on the right, and it's a hybrid. At times, it's a collision. The Millennials on staff refer to it as a mash-up from time to time, but what it's about is personifying a transaction.

I'm not here to discussion Fintech, and we'll pontificate about that later perhaps, but we're very much in support of high touch. Putting a face on every transaction. I'm going to offend my banker friends and say: we reinsert humanity into banking.

But it's a clinical approach, and we

take the social worker, if you will, from a clinical perspective with our client base, and sit down and have a conversation with you. In fact, we're an SBA microlender, but our conversation with you starts with, what's going on in your life? Because your home life, in many ways, you know, bleeds over into your work life.

And that is, if you're a sole proprietor, if you're a member of the informal economy, and again, I know we're livestreaming here today, and I hope I'm not out of compliance, Dan, on some of my SBA regs, but quickly, I'll say, we're a CDFI, so we have various loan pools.

I don't always need to be SBA-compliant, but why I mentioned that is that, we're all about this idea of a nascent business, of someone who, perhaps, has a home-based business, a member of the informal economy, and working with other technical service providers, trusted guidance, if you will, to formalize this business.

Because it's all about economic empowerment and this idea of opportunity. And the fact that, today, that Grady's moderating here at the CFPB, the actual breaking down the silos of consumer finance in microenterprise is huge. It's huge because for many of our clients, there is no division.

Their home life is their small business, and they're a sole proprietor, and, you know, we essentially legitimize the hustle. When I'm out there talking to neighborhood groups and church groups, this is what we do. We get dollars in the hands of those who want to create a cottage business and formalize that business to actually be something much more empowering not only for their family, but their neighborhood and their community at large.

So again, hats off to you, Grady, and your colleagues on convening a conversation that truly isn't about Lexicon, this idea of small business lending vis-a-vis consumer lending.

What this is all about is economic empowerment. And again, if I can just mention about what happened in Ferguson. You know, Ferguson is a microcosm of inequity that we see all across America, as we all know that, and so much of that is tethered to this idea of inequity in terms of access to capital, and how merely raising credit scores can, you know, be transformational in terms of changing not only neighborhoods, but regions as a whole.

MR. HEDGESPETH: Thank you, Galen. It's interesting and important, I think, that Justice PETERSEN's mission statement is, J.P. "gives people opportunities to create new futures for themselves." And I think that was embodied in what you said.

Before I turn to Tiq, because he has a different take on the questions this morning, you both mentioned credit scores, since we're talking about credit invisibles, can you just spend a moment to talk about: how does credit reporting and credit score improvement or creation figure into your models?

MS. SWAMINATHAN: Sure. I can go first. So all of our -- like I said, all of our loans are six months. Our borrowers make weekly repayments. What we do is report these repayments and these transactions to the bureaus on a monthly basis, and as a result help build up their thin files.

Most of these borrowers have had no entries on their credit reports ever before, haven't seen what a credit report is, don't have a score, and very often, the first line of credit that they have ever received.

So this eventually builds up their credit score. They're now -- after a couple years in our program -- able to access other lines of credit. They are actually able to go to a formal institution, go to a bank, get an apartment, because who knew getting good housing could be so linked to a credit score? They are able to get cars.

So we report these small bits of repayments that accumulate over time, build up a pretty robust credit history that now enables them to enter the formal sector, so to speak.

MR. HEDGESPETH: And what is your repayment rate?

MS. SWAMINATHAN: 99 percent. So that is kind of reflected on the credit scores. After six months in our program, the average credit score is around 640, which is pretty big. So most of our members have a spotless record on our side, and this helps boost up their credit score as well.

MR. HEDGESPETH: Fantastic. And Galen?

MR. GONDOLFI: Sure. We are a member of CBA, and I want to give a shout-out to Dara and her team. I never tell a client this, but this is actual truth: Our microloan to them, depending on the size -- and let's just say it's relatively small and modest -- is chump change in comparison to the credit enhancement of their score that's made possible through our relationship with CBA in terms of reporting the repayment history.

And so I would say that essentially, lending in a vacuum is -- microlending in a vacuum, without reporting to the credit bureaus, is a complete exercise in futility.

There was a discussion in a previous panel about secured credit cards, and I want to say that Justice PETERSEN views every microloan interaction as a credit building opportunity. This whole idea of artificial credit builder loans, which we offer, isn't necessarily how we view building credit, that is, any time we lend money, that is, we are a lending-led credit building, asset development organization.

And what that jargon means is that, we solve problems and address issues through a lending transaction that yields, ideally, an enhanced credit score.

Ida had mentioned earlier in her Cred Talk that a disproportionate amount of individuals have collection debt. Well, guess what, at Justine PETERSEN, almost everybody coming through our front door has collection debt. So what do we do? And not necessarily, honestly, on an SBA loan, but on our other lines of products, we loan to address that collection, which means, we will, simultaneously, clean and build credit at the same time.

We lend a deposit for a secured credit card. Again, how can we be more creative about these opportunities to build credit? That is, how we can view every transaction as a potential intervention or credit enhancement activity?

And again, I'm excited today that Grady and his team, you know, were convened to talk about this idea, end goal is empowerment, so let's not get caught up on vernacular, on wordsmithing, on lexicon, but just getting the job done.

MR. HEDGESPETH: Thank you, Galen. And I want to now turn to Tiq, who comes at this from a slightly different vantage point, not a microlender, actually affiliated with one of the largest and most successful graduate business school programs in the country, Stanford Business School, where the Latino Business Action League has created a partnership that now has more than 400 Latino-owned companies working in cooperations with each other, representing more than $1.4

billion of top-line receipts.

And those companies are a tremendous entry point for folks who are credit invisibles to enter the mainstream, so take a few moments to tell us about this really innovative program that you're affiliated with, or both of them, actually.

MR. CHAPA: Thank you, Grady. And thank you everybody here. I don't know exactly who's in the crowd, but I think so much of this work that you all do, and we all do, is around trust and identity, and I think in the technology space in Silicon Valley, when people talk about trust and identity, often thinking of security and other domains, I think, for many of us here today, we think about trust from the consumer side, from the business owner side, how do we build that?

How do we make sure there are rules, regulations, protections so that trust is fundamentally embedded in what we do? And when I think about identity, especially for entrepreneurs, especially for our credit invisibles, so much of what people's identities are tied to is, you know, the finances, what it looks like at home, and for entrepreneurs, so much of their identity is tied to what they want to build.

And so thank you all for the work that you do. For me, I get to be a part of that through our non-profit, so Latino Business Action Network, we collaborate with Stanford, and we deliver the Stanford Latino Entrepreneurship Initiative.

So two things that we do collectively is, one, is research. And we looked at the space almost five years ago, and our faculty looked at it, and they said there's not a whole lot of research and data regarding Latino entrepreneurs specifically, so I'll talk more about the research side and my fiery desires there around more data.

But on the program side, so we deliver executive education. So we've had, I can't believe it, 6 cohorts of over 70 entrepreneurs each, so over 420 Latino business owners come to Stanford, they go through a program that's focused on scaling. How can they grow their business?

And a big part of my work is around

trust, around identity, and also around capital. So my part is, a principle part of what I do is engaging lenders, capital providers at all stages to make sure that our Latinos have the capital that they need to grow.

Briefly, there's this Latino thing in the country today, almost 20 percent of the country were young or median age, about 26, more entrepreneurial, thinking about business starts, more optimistic, depending on which surveys you listen to, but it's exciting. It's exciting to be on the forefront of that.

Many of you, because you're consumer facing in the regions you're in, or because you're working at the stages of enterprise that you're at, you've seen this Latino thing, and it's not just in California, and Texas, and New York, and D.C., and Florida, we've seen our highest growth rates of microenterprises in the south, and sometimes the deep south, and the Midwest, and other regions, so I'm excited about all the growth, and I'm excited to share more today.

MR. HEDGESPETH: Thank you very much, Tiq. I will give a testament to what you said about being pleasantly surprised on a trip that I was making from Birmingham, Alabama to Atlanta and got real hungry halfway between the two and said, I'm just going to go off on this Interstate and see what I can find.

And I found myself in an Hispanic enclave that was serving the migrant workforce, and I got a wonderful chicken pollo sandwich, and I hadn't expected it, in literally, the middle of Alabama between those two cities.

So it is an important way, and I wish you would actually share some of the numbers both from this business network and, kind of, the impact they're having, but also, what you see as the potential in this entrepreneurial side of the Hispanic economy to create more opportunity for that entrepreneur spirit.

MR. CHAPA: And I think a big of our research is, we have the opportunity in a data-driven way to really invert a lot of assumptions that people have. So every year we collect over 5000 surveys from Latino business owners across the country, all stages, and we found over half of our Latino businesses are outside of Latino enclaves, and over half, and a fair bit more of that, are serving all consumers with products that are not just targeted at Latinos.

And so again, and we think about the national footprint, you know, of course, we're in every state, but we think about our highest growth rates are outside of the top 20, by Latino population metrics.

So we're everywhere, we serve everybody, and in all industries. Sometimes people think about different entrepreneurial segments and they say, well, that segment opts out of the highest growth industries, and that's why on the median, our receipts are smaller, our firms are smaller, and that's just absolutely not true.

There are so many of the communities that that's assumed to be the case, and it's absolutely not true for Latinos. We're in high-growth industries and some we over index, in tech and in Silicon Valley, we're seeing really huge growth rates for Latino founders.

And so just so much opportunity, so much youth, and so much, kind of, of that entrepreneurial spirit, so it's exciting to help, again, in a data-driven way, really change that narrative and thinking about, so it's 2018 now, so in -- I'll say 30 years ago the community looked fundamentally different.

Right now, again, nearly 20 percent of the country, 30 years ago, when some of my faculty were -- when they were actively teaching, the segment is fundamentally different, and so when they think about 30 or 40 years ago, what did our community look like, what were the opportunities, they weren't nearly at the same scale that they are now, so thanks for that opportunity.

MR. HEDGESPETH: Thank you. Now, Rajitha, how many states is Grameen active in right now?

MS. SWAMINATHAN: So we're in 21

branches across ten different cities, so we have a very high concentration in New York, just because that's where we started, so we're in New York, New Jersey, but we are also in California. We're in the Midwest, we're in Omaha, Indiana, we're in Miami now, and very soon going to be in Houston. We're already in Austin.

So a little bit here and there. We do plan to go more national and push towards being in non-New York cities as well very soon.

MR. HEDGESPETH: And is there a particular community that you have started in, or that you find the most success in, and what are the unique challenges that they face? You've spoken to some, but it would be good to hear more.

MS. SWAMINATHAN: Sure. So back when we started, it's still open to everyone, right, so every woman that's certified as low income and has an idea of a business is allowed to walk in through Grameen's doors.

What you've seen the biggest uptick is with the immigrant population. These are relatively new immigrants. They face what we call immigrant isolation in terms of the credit economy, so not easy to get access to credit or capital, understand less about how these things work, don't have a formal financial institution to bank with.

So a majority of our members and borrowers come from the immigrant community, whether it's from the Hispanic or the West African. Lately, we have been working a lot more with the African-American community as well, which has its own set of challenges, but operates slightly differently. The nuances are a little different from the immigrant community.

So the ecosystem in which the immigrant and the non-immigrant communities operate is a little different.

MR. HEDGESPETH: I would like to make a -- if you have a question, and you want to ask any of the panelists, please write it on the note cards you were handed and pass them over to the center aisle. We'll have a chance for a couple questions.

And while you're doing that, Galen, let me ask you the same question, you know, what are, kind of, the markets you see yourselves most effective in, and what are the unique challenges you're facing there?

MR. GONDOLFI: Sure. We've actually been incredibly successful through word of mouth market saturation. We actually have unabated demand for capital and do no advertising. I do a good amount of public speaking, but if you go to our database, close to 85 percent of client base was referred by someone, that is, a relative, a neighbor, a friend.

And it goes to this idea that Tiq had referenced, and it was also mentioned when the FDIC study was referenced in a previous presentation today, it's all about trust. It's actually not necessarily proximity to bricks and mortar operations.

And how we build trust at Justine PETERSEN, how we purvey trust, is by lending money. Most of our clients have told us that, you lent us money, you trust us, and that's why they referred a friend, neighbor, or relative. It's pretty amazing.

And so because of that, our market penetration in Metropolitan St. Louis is quite huge. Now, we do service the entire state of Missouri, 29 contiguous counties in Eastern Kansas, and 73 counties in Illinois.

And we service those other markets through a combination of partnerships with indigenous non-profit organizations -- many of those are non-profit financial counseling associations, housing development groups.

We also have a pretty robust network of local bankers that refer to us, especially in our rural markets. We've actually done really significant lending in rural Missouri through partnerships with local banks on referring clients that they actually know, but they can't lend money to and that don't fit their credit box.

We also use the conventional partnerships of SBDCs, small business development centers, which are part of the SBA network, and we get a good amount of referrals -- both urban and rural -- from our small business development centers.

MR. HEDGESPETH: And Galen, what's the average size of your loan, and maybe its duration?

MR. GONDOLFI: Yes, last fiscal year was $12,000. It was a bit of a spike from the year previously at $9,000, and average amortization on our loans last year would have been 48 months, but we go up to an amortization of 60 months, and cap out at $50,000 at the SBA Microloan Program.

MR. HEDGESPETH: Great. And Dan, what's the experience across the whole Microloan Program at SBA?

MR. UPHAM: Sure. So the Microloan Program started in '92, so this is our 26th year in operation. We now have a national reach. We have approximately 150 intermediary lenders participating in the program. As Grady mentioned in his intro, the Microloan Program with SBA has done $1 billion in small business lending. Average size of the microloans is around $13,000.

Average interest rate is around 9 percent, average loan term, 40 months. This year, we will have a record year, thanks to our intermediaries' efficient use of the funding that we've been appropriated. We're looking at doing $70 million in microlending this year. About 5000 microloans. It equates to about 18,000 jobs created/retained.

And for the life of the program, the jobs created/retained -- which is a pretty impressive figure -- is 225,000 jobs. And these are, you know, folks that are just getting into business. In fact, let's see, 38 percent of all the microloans that have been completed to date are with startups, 33 percent are Black and African-American-owned small businesses, 17 percent Hispanic-owned small businesses, 50 percent of all microloans have a women's ownership interest in that business.

You know, so we're pretty proud of what the program's been able to accomplish so far thanks to the great intermediaries that do the work.

MR. HEDGESPETH: All right. Thank you, Dan. Our first question from the audience, and we've got about ten minutes left in this part of the program. So this one's for you, Tiq. The Bureau has focused efforts on limited English proficiency, what percentage of your members in your network are LEP, and how important is it that financial services companies offer services in Spanish to your members, or is English sufficient?

MR. CHAPA: Great question, whoever asked it, thank you for that. I think when we talk about -- so kind of first, the framework, or the broader framing, so when we think about our Latino community in households, broadly, you know, not all are English-dominant, but a critical mass at least have both English and Spanish in the household.

And again, one generation, let along two generations ago, that's a fundamental shift, when we had, if not a majority, close to, households that were Spanish-dominant. So more English in more spaces.

And what we've seen in practice, and you all might imagine this, thinking about the United States, but someone to run a business and get it off the ground at any scale, they have to speak English in some form.

It doesn't mean that they prefer it, but they can do it. Now, in terms of thinking about the segments of our Latino entrepreneurial population and aspiring entrepreneurs who are Spanish-dominant, back to that notion of trust, it is more easily done more quickly if there is someone who speaks Spanish so they can engage with. That's absolutely true.

It doesn't mean that you can't engage Latino entrepreneurs if you don't have someone on staff that speaks Spanish. It doesn't mean that, because you haven't figured it out, you can never foray into our communities, especially immigrant communities.

So I wouldn't, kind of, think of that as a barrier. It's an opportunity. And if you don't have someone on your team at every level that speaks Spanish, you know, think about it, and I can help you maybe find somebody, and would love to be a part of that.

But I think, again, any entrepreneur who's had to get something off the ground, can speak English, but in terms of trust and growing your offerings, you know, think about even a small number of, especially frontline staffers, that are bilingual.

MS. SWAMINATHAN: Grady, I'd like to jump on for 30 seconds. What Tiq said is exactly right, and so if you don't have anyone on staff that speaks Spanish, let that not be a barrier. That said, I think language plays a huge role, going back to your previous question on challenges, I think two challenges, right?

One is the starter community, very, very microbusinesses, language is a big barrier and even if they speak some form of English, it's not enough to get by. So where does this prove to be a big barrier, not in terms of doing business or getting more customers, but it is a barrier when you're actually trying to bank with an institution, right?

So most legal language right now requires English and it's hard to open bank accounts when you don't speak English really well, so you do well when there is a representative that speaks English, but that brings us to the next challenge of digital inclusion, right?

So digital inclusion is so integrated to financial inclusion now and most digital products are English-only, so that's one of the other big challenges we face, is that, it's good and you can get by with a little bit of English and more Spanish when there is a human face to it, when you walk into a bank or when you meet us, we're able to speak with you and understand what's going on, but when you are interacting with a digital financial product, it's really hard to get by if there's no English, so language becomes a barrier then.

MR. HEDGESPETH: Okay. I'll mash-up, there's two questions, and I didn't plant this, they're both related to Section 1071 of the

Dodd-Frank Act, and that's one of my responsibilities here at the Bureau, and the first, Tiq mentioned the importance of data on small business lending. What are the best sources of studies around small business lending?

We commissioned inside the Bureau when we began this effort back in 2016 to start to look at, how do we implement the responsibilities in Section 1071. And for those of you who are probably saying, what the heck is that? It is a responsibility in the Dodd-Frank Act for the Bureau to create a reporting regimen for small business, minority-owned business, and women-owned business credit applications.

And the purpose being to help in the administration of fair lending, as well as community development purposes. And so we have now been actively engaged in that effort for a couple years and it does take a while to do a huge rulemaking like this, and we benefitted, and want to purposefully wait for the administration of some changes to the Home Mortgage Disclosure Act, which will have a number of parallels when we implement the 1071 responsibilities.

But what we found when we looked at the available data existing for small business lending, was that no one could tell you what the size of the small business lending market was, or how it changed from year to year, because there were surveys that got taken down and now they're back up again, there's data that the U.S. Census Bureau does, it's also based on surveys.

There's call report data that the FDIC and the Credit Union Administration collect, none of that focuses on the demand side for small business loans or the approval rates, which is inherent in Dodd-Frank, and none of them have embedded in them, a yearly reporting regimen, which is also embedded in the Dodd-Frank.

So we stitched together all that we could, and for the first time, put all the different pieces that we could identify from a number of different sources together, and the small business lending market is $1.4 trillion. So it's a really important part of the economy.

And of that, 60 percent are in the things we traditionally think of as small business loans, as loans from a bank, credit cards, and lines of credit. They're also everything that we've mentioned here in terms of what the mission lenders are doing, would also potentially be part of that.

So that's the answer to the question about, kind of, what's the status and quality of the data. I'm going to turn the second part of this question over to the panelists. What advice would you offer to the Bureau as it prepares to propose rules requiring data collection on small business credit applications?

Galen, why don't we start with you. Tell us what we should be doing when we -- or what we should be thinking about in this rulemaking.

MR. GONDOLFI: I need to understand the question, though, in terms of, for more expansive, comprehensive data collection? I mean, what, specifically, is the question?

MR. HEDGESPETH: The question is, as

we've been in fact-finding mode for, now, a couple of years, we put out an RFI to solicit input about how the small business lending market works and its complexities, it's got a lot of discretion in it, so we've been actively trying to figure out how to put the 1071 responsibilities into a rule that also makes sure that credit continues to flow and that we don't force commoditization of small business lending.

So what advice could you give us to help us meet those specifics?

MR. GONDOLFI: Sure. And this may sound somewhat paradoxical, but I want to upend a data quantitative question with a qualitative response, and culturally speaking, at Justine Peterson, I've already spoke to this idea of a social work culture, but very much, our interaction with our client base is ethnographic in many ways.

And I want to argue, much could be gleaned and gained from a data perspective by, actually, the converse, and that is, deep diving into some focus group activity, ala ethnographic deep dive, to learn more specifically, the needs or unaddressed needs of small business clients in all of our footprints, for that matter.

I believe our special sauce, so to speak, has been this human touch, this idea of listening and taking the time to hear from each client and what they really, truly need.

And the sad reality is, I think, sometimes, that possibly can be lost in data collection, right? There is that disconnect. So I would argue, if, in fact, there could be an instrument to augment and complement the data activity with some sort of, you know, qualitative measure, I think that would be a really worthwhile enhancement.

MR. HEDGESPETH: Thank you. Tiq, you want to take 30 seconds or so, a minute, to offer us advice?

MR. CHAPA: 60 seconds. Ready. Go. So I talked about, we have the chance to have both pieces. The research piece, really, macro, national, quantitative, and then we've had over 400 entrepreneurs to our program, and that qualitative is so important. You glean so much insight about true pain points and opportunities.

So I think, absolutely, both are necessary. On the macro and quantitative side, more and more data, the better, you know, especially, I guess, for Hispanic/Latino, it's one question, do you identify as Hispanic or Latino, but in terms of ethnicity and background, but we've just been very surprised the last five years on how little data, especially around lending, especially around who's asking, seeking credit and capital. There's just so little data.

That's partly why we fight every year to finance collecting over 5000 surveys from entrepreneurs, but I think the more the better. It gives us such visibility into the opportunity. And again, we've been surprised and we've taken it upon ourselves to collect so much of that nationally.

On the research side, especially academic research, which, for many spaces, academic research provides the foundation of which we understand, and then build programs and legislation around, but there's very little academic research, especially around diverse entrepreneurs, because there's not a lot of data.

More data, more research to inform better policy. So that's my comments.

MR. HEDGESPETH: And, Rajitha, we'll let you have the last word on this segment.

MS. SWAMINATHAN: Sure. Well, it's hard, there is no data, right? That's why they're not as visible. I would say one thing is, correlating availability of credit with material hardship, is a good data point to collect, that most people see, and material hardship can be broken down into very simple things that you can ask and get truthful answers on that's more factual and not subjected to -- it's not subjective, it's more objective, right?

So do you actually have a roof over your head, do you have a room to stay in, have you receive a loan from family and friends or have you -- do you actually have a bank account? So just breaking it down into very simple objective data collection and linking that to material hardship, I think, would give us really good correlation for us to understand.

Because I think everyone on this panel, we all try to understand which are the most effective areas with that.

MR. HEDGESPETH: Well, I'm definitely an economist by training, so I've never seen any data I didn't like, so I agree with you, more data would be better. I would encourage you, if you want to -- the white paper that we produce on trends in the small business lending market is available on the Bureau's web page.

I would encourage you to take a look at it because we do outline the sources that are existing, but also, some of the weaknesses that, hopefully, Section 1071 will help to fill.

I want to take this opportunity to thank our distinguished panel. Certainly, hopefully you got a real view into how creative and how successful entrepreneurs in the lending space are in creating financial opportunity through microlending programs to small businesses and entrepreneurs.

I want to especially thank my partner, in the sublime, who's one of the sponsors of the 1071 effort, Patrice Ficklin, our director of fair lending for the brainchild of this symposium is, and if you see her during the course of the day, give her a shout-out because this is a tremendous collection of folks who can help move the needle.

I would encourage you to take advantage of the networking. I saw a lot of it happening in the breaks. That's what we have tried to pull you all here together for, but I am standing in the way of you and lunch, so please let me give you some directions in that regard.

There are boxes of lunch in the hallway. If you could please grab your food and come back into this room, because we are going to have a lunchtime keynote address by Jackie Reses of Square, who's doing some talk about the cusp of small business lending and consumerism. They're right at the cusp of that and she's going to have a great address for us. You just don't want to miss it.

So I know you're going to take a little time for bio break and a little bit of networking, but please come back in as soon as possible so that we can benefit from Jackie's insights. Thank you very much, thank you, panel, thank you, all.

(Whereupon, the above-entitled matter went off the record at 12:16 p.m. and resumed at 12:47 p.m.)

MS. FICKLIN: All right. If I could ask everyone to retake your seats. There's some fabulous energy in the room and I can see a lot of folks are connecting and talking about the wonderful ideas we've been discussing here.

I hope that you're enjoying the symposium as much as I am. It's really just gratifying to hear the substance of the day thus far, and we have much, much more to come.

I do want to stay on schedule, so we're going to go ahead and get started now with our lunchtime keynote segment. In order to do so, I want to introduce everyone to someone who has been our senior executive sponsor for this symposium.

It was a wonderful moment when we briefed the Bureau's Acting Deputy Director about this idea, about this concept, and asked him, who would be the point of contact for us in the Agency's front office for any questions or concerns that might arise.

And as is his fashion, he said, me. So our Acting Deputy Director, Brian Johnson, received both his undergraduate and law degrees from the University of Virginia. He previously worked for the Attorney General of Ohio, the White House Domestic Policy Council, and the House Financial Services Committee.

Through his leadership and his support, we have been able to bring you this symposium and these impressive speakers. I'm going to ask him to join me up here on the dais to introduce our lunchtime keynote. Acting Deputy Director Brian Johnson.

MR. JOHNSON: Welcome, everyone. Please enjoy your lunch. You have a treat today, and I'm not talking about the lunch, I'm here to introduce our keynote speaker, Jackie Reses. We had opportunity to catchup before this and I can tell you, you are in for a wonderful program this afternoon.

Wanted to say thanks to everybody for being here today. Welcome to the Bureau, welcome to this conference room, if this is your first time. We've had a fantastic turnout, we were oversubscribed, and this is a testament to the hard work of the Bureau team.

I'd like to extend a special thanks, in particular, to Patrice, to Frank, and to Anita, for all of your efforts. I do have the privilege this afternoon of introducing Jackie.

First, though, I wanted to discuss three quick things. On behalf of all of us here at Bureau, I'd like to extend our thoughts and prayers to all of those affected by Hurricane Florence, including the families who have lost loved ones.

Many American families woke-up this morning to significant challenges and the Bureau offers educational resources for anyone looking to recover and rebuild their financial lives after a natural disaster or other emergency.

So to all of you here and to those watching, I encourage you to refer those folks who have been affected to our Web site, as one of many helpful resources.

Second, I'd be remiss if I didn't mention that today is an important day for Americans. Today, September 17th, is Constitution Day, a day which commemorates the signing of the U.S. Constitution in 1787. So particularly, for public servants in the Federal Government, this is an important day of reflection.

It also brings me to my third point, you may have noticed that the Bureau's flag is over my left shoulder. This is a new flag and contains our new seal. Those of you with eagle eyes may be able to see that there are three dates on our seal.

One is 1787, to remind us of the Constitution and the principles it embodies, the second is 2010, which is the year of enactment of the Dodd-Frank Act. That is the statute that created this agency and it's the statute that is our duty to execute.

It's a responsibility that is large and one we take very seriously. The third date is 1776, the year of the signing of the Declaration of Independence, which is the charter that defines us as a people.

As Americans, we affirm the eternal truth that we are all created equal and that by virtue of this truth, we are endowed with certain alienable rights. These include life and liberty, they also include the right to the fruits of our labor, which is, in other words, the acquisition and possession of property.

The Bureau plays an important role in helping preserve our property rights, including by upholding the rule of law, educating consumers about financial products and services so they can make better informed decisions, policing markets for fraud, deception, and unequal treatment, and promoting consumer choice by encouraging innovation, robust competition, and market entry.

This is why I'm so excited about today's symposium. By addressing the problem of credit invisibility, we can help bring more of our fellow Americans into the financial mainstream and empower them to use financial tools to achieve their full potential.

This is worthy work and I'm grateful to all of you for your interest. With that, I have the honor of introducing Jackie Reses. Jackie, who was named one of Crain's New York Businesses most influential women and one of Dealmaker Magazine's dealmakers of the year.

Has been Square Capital Lead of Square Incorporated since October 2015.

As Square Capital Lead, Jackie oversees Square's credit products that provides sellers with access to credit and consumers with loans to pay for purchases over time. Previously, Jackie served as Chief Development Officer of Yahoo!.

Prior to joining Yahoo! in 2012, Jackie led the U.S. Media Group at Apex Partners, one of the largest global private equity firms, with over $40 billion in assets.

Prior to joining Apex, she served as CEO of iBuilding, Inc. She spend seven years at Goldman Sachs, where she worked on many keystone, M&A, and financing transactions. In her spare time, Jackie supports a number of organizations and non-profit institutions. She sits on the advisory board of the Federal Reserve Bank of San Francisco and the Board of Directors of the Wharton School.

She has, additionally, been on the boards of numerous non-profit institutions such as Baby Buggy, Citymeals, and Springboard Enterprises. Jackie received a Bachelor's Degree in Economics with honors from the Wharton School of the University of Pennsylvania.

Without further delay, I will now introduce our keynote speaker, and following her presentation, I'll ask two to three questions that we've gathered for Jackie. Please join me in giving a warm welcome to our keynote speaker, Jackie Reses.

MS. RESES: Thank you, all. That was very nice. That's something very special about a flag when you're part of the history, and it says 2010, and you have so much very historical history there and something very new, and things that so many of you were probably a part of in 2010. That is very, very special.

So thank you for having me here. Let me see. Oh, here we go. This is a photo of one of our Square sellers, or you could just go to your coffee shop on the corner, which is a Square seller, Swings is a Square seller.

So I want to start with something that I think I will resonate with something in this room, it's the concept of thinking about fairness and thinking about honesty.

Everyone in this room shares a passion, a drive, and a higher purpose that makes our work meaningful. That's why we're all here. And

Square and the Bureau of Consumer Financial Protection share a common purpose of trying to create a financial system that is honest, and fair, and inclusive.

We've been committed ourselves to building a business which provide tools to small businesses so that they could access critical information, payments infrastructure, they're given access for the very first time. They're armed with analytics, information on how their business operates so that they can make the same business decisions that a big business might ordinarily have access to.

So I'm, in particular, grateful to be here. I was honored when I got the invitation, I immediately jumped on it, and I'm proud to be here. And as regulators and influences, we are proud to share our story with you, talk about how we use technology, sometimes it might resonate with you, and sometimes it might be in conflict, but I think where you see the conversation and are a part of that, it makes the discussion better, and it makes all of us smarter about how we need to do our jobs.

The idea of credit card processing also might seem like second nature to you, but it's not always been a system of inclusion for those in America. And if you think about the small shoe store, the bake shop, the flower cart, those are the types of businesses all across America that have not had access into the financial system.

And if you think back nine years ago, Square was the company that helped create and change the paradigm of mobile payments and brought companies like your local food truck into the financial system, where they, before, never had access.

We're both genuinely committed to promoting access to basic banking services for all Americans, fostering entrepreneurship, arming small business owners and consumers with tools to make the best choices, informed choices, and there are too many communities that, even today, sadly remain underserved.

Nine years ago, Square's founders, Jack

Dorsey and Jim McKelvey, set out to improve the financial system that was exclusive, unfair, and unnecessarily complicated. Jim was a glass artist and missed out on a big sale. It's actually this particular piece.

He didn't accept credit cards. He was an artist. So if you're an artist, how do you gain access to the financial system? You can't get a merchant account, you have to provide your credit information in order to get a credit account, and also provide personal guarantees, and he wasn't able to do that.

The result of which, and something that seems so obvious, was actually not. Jim's business didn't have a clear credit history and the process for getting started, even to this day, is incredibly complicated to get a credit card processing account. That's Jim, by the way.

Square is built on a foundational idea of creating access for the underserved. By creating easy-to-use card readers that connects the phone in everybody's pocket, Square's software, and relationship as the merchant of record, gives you access to card payments immediately.

I don't know whether you can think back to nine years ago, before you could get into cabs and go to a Bodega, and none of them took credit cards. And so this innovation really changed the paradigm for small businesses all across America.

Before Square, fewer than 40 percent of business owners who applied for credit card programs were approved. Now, with Square, 96 percent of sellers are automatically approved and self-onboarded within minutes. You go to an app store, you download the app, and you have Square payments within five minutes.

Interestingly, and I think this is worth really spending time thinking about, what we did was change the risk paradigm. You can onboard and operate in minutes, where, the opposite was true prior to our approach to risk, where you had to go prove that you were creditworthy in order to get on.

Square, instead, did the exact opposite. We only threw you out of the system if we saw behavior that seemed fraudulent or didn't make sense. Mindset shift, risk shift, different way or looking at the business and using technology to enable something to serve so many more people in the U.S.

So Jim's story lays the groundwork, not only for Square, but more broadly, for how we continue to use technology to address challenges that so many small businesses face.

They're left in the shadows of the financial system and technology should and can be used to be additive for everybody.

So given the founding of Square, it shouldn't be surprising that economic empowerment is the primary driver of our purpose. It's written on our wall, it's ingrained in our business practices, we don't just make hardware, we don't just write algorithms, using technology, we developed desktop tools to make the financial markets accessible to all communities, including everyone who's underserved, that everyone in this room sees every day and thinks about every day.

At Square, we know we have an opportunity to make a contribution to society in helping millions of businesses thrive. But we also have a mindset where we place the customers at the front of what we do, at the center of everything.

Square only grows when our sellers grow. We are completely aligned with the health and success of their business, and we want every seller, regardless of community, to thrive.

We also want them to have incredible tools that they could have the same power as the largest of the large that they compete with. So the words and purpose also translate into actions.

This is a picture from the day that we went public at the New York Stock Exchange. First, you'll notice that it's outside in 2015, second, what you'll see is that it's not corporate executives standing up on an internal podium far removed from what's happening in the world. There are two folks in this photo, one is Jack Dorsey's mom, Marcia, who owns a coffee shop in St. Louis, and the second is Cheri, who owns Lily Belle, which is a flower cart.

She was our first seller and Jack and Jim convinced her to try the product nine years ago, and so she became the very first Square seller.

So instead of going public, like everybody else, we decided we would take the neighborhood public, and we opened up the New York Stock Exchange, and threw a fare of all of our Square sellers in Manhattan, and some of our very earliest, to celebrate with us, just as we were celebrating them, because it was our sellers that we were truly trying to highlight.

And I share this story because I know everyone in this room has come together to establish a more fair economic system everywhere in this country, the people in your own communities, but we believe that our mission -- we believe in our mission and we come at it from a very tech-centric approach.

We provide the tools that even out a

playing field for microbusinesses. We help our sellers start, run, and grow their business. So who do we serve exactly? We're proud that we continue to serve a large number of small businesses, millions of them, roughly half our payment volume is generated by sellers that have annual sales of less than $250,000.

It's Main Street. It's the coffee shop, it's the pizza shop, it's the hair salon, the dentist, the plumber. I'm sure you see these sellers every day. You probably notice the white iconic iPads that swing around, you sign with your finger, you'd never done that before Square, and the receipt can get emailed to you, which, I suspect you'd never done that before Square either.

We started by enabling a card acceptance to ensure a seller never misses a sale, and we've listened to business owners all across the country to understand the pain points first and then create tools to help address these pain points.

Incorporating seller feedback in our

point of view helps us expand our hardware offerings, empower small business to access powerful data and analytics, and give them tools to track inventory, manage employees, send invoices, engage their customers, you know the little smiley faces. I'm sure everyone's seen them.

I can tell you so much more about Square's focus, but I want to also mention critical issues we're looking to solve. Enabling any community shop or online business to have access to self-serve, elegant, easy-to-use banking tools, and using data for unique insight which enable companies like Square to provide modern financial products.

We are connecting a business community through data around payments. At a time when customer reliance on bricks and mortar has waned considerably, we now have the benefit of millions of handheld devices in our pockets. They're miniature banks in our pockets.

For many, bringing the branch to you is

an incredibly welcome relief. We've seen the evolution of services like photo capture, bank data APIs, deposit services that are becoming ordinary course, and improvements like these help open the banking system and evolve it so that we can use the power of personal devices and make banking easy.

The importance of these inventions means that 20th-century rules and structures don't fit the 21-century world. And we've reached the point when finance can be democratized with technology and we should now look at how to enable this to happen so that we can break down some of the prior friction that stops so many businesses from being frozen out of the financial system.

And I'll walk you through a few examples of where this was achieved by a government and by the people of a small town in Iowa.

In each situation, people banded together to see that they weren't getting served and they created out-of-the-box solutions to generate more upside for the communities than they expected.

I'll start in the United Kingdom. This is Holywell. Holywell is a small town in Wales and recently, it saw its last bank branch close in the town. The businesses on their high street had mostly operated in cash. Now left with no bank and limited access to ATMs, they were without options for their livelihood.

City leaders worked with Square and we provided free hardware and free processing prior to the holidays as part of a digital town initiative. Local government leaders are now looking into other partnerships that will create sustainable small businesses going forward.

This statement from Ted Palmer, the local barber, is the kind of statement that drives Square's work. With only one cash point left in town, people are carrying less and less cash around with them than ever before. The digital town project has come just at the right time and gives local businesses another way to make sure they can increase their takings, particularly in the run-up to the busy festive season.

Now I'll bring it a little bit closer to home, and there's actually a very short film that we produced about Maiden, Iowa, called, Dreams. If you want to pull it up on YouTube. It's an amazing, amazing story.

This is a story we hear every day. This is Webster City, Iowa, and it was the home of a large factory that produced washers and dryers, and employed 2300 of the city's 8000-person population. In 2011, the factory moved its operation outside of the United States and city residents watched real economic suffering envelope their community.

So by 2013, the city's main business corridor was riddled with empty buildings and shuttered businesses. Immediately, residual impact happened, fewer teachers, fewer nurses, fewer cops, community providers, because those families needed to move where jobs were.

The final straw was the closure of the local movie theater, the community's center of activity. Ultimately, the American spirit took hold and the community decided to rebuild itself through small business growth.

Those who lost job opportunities saw the opportunity to rebuild their community and revitalize the effort, and they were fortunate to all work together to rebuild the businesses in Webster City.

Using technology, they created an incredibly vibrant connected community. And again, I refer you back to this film series on YouTube, called, Dreams, made by Square. It's incredibly poignant.

So don't take it from me, this is Maureen Seamonds, from the Produce Station Pottery, and she captures it best. When a community has to reinvent itself, we have to ask ourselves serious questions about what we want to become. It's a reinvention, but I also think it's a return to our roots, and Square was just one of the many tools available to these amazing entrepreneurs.

When we put ourselves in the shoes of

small business owners and explore their struggles, we can see how we can help build new products and change the paradigm of how commerce is done.

Understanding and exploring these opportunities requires an open mind. We start with a customer's struggle at the root of our work and then we see if we can create something that solves their problem. This mindset can apply to regulators as well if you think about what the biggest problems are and how you might solve them.

We also see that it's not always a product that meets the needs. It's a deeper understanding of how financial products work. We're going to communities like Columbia, South Carolina, Cleveland, Ohio, Albuquerque, New Mexico this week to partner with local government leaders and provide training for the small business community in payments and financial literacy.

We want small business owners to be focused on their passion and customers. The more information we can provide that sets their mind at ease about the health of their business, the more they can focus on growth and hiring in the community.

If you think about it, it might be an iPod standing at Swings, but never before could they tell you, between 3:00 and 4:00 p.m., how many café lattes they sell and how many croissants, without having to spend hours tallying that up.

Instead, they could go to their dashboard and use very simple analytical tools to understand that maybe if they stayed open for the extra hour at the end of the day, they could do an extra X amount of business.

And so tools like that, which might feel very simplistic, are incredibly powerful, again, to the plumber, the dentist, the hair salon, Main Street America, who've never had access to these financial tools.

There are few other areas where you can have an impact, so I'll call this my banking democratization 101 friction list. First, we need an environment of seamless banking transactions. How frustrating is it, and I know this will resonate with everyone in this room, when you're stopped in the middle of a transaction and asked for more information?

You're moving along on your cellphone, you're about to buy something, oh, your credit card expired, oh, you don't have the right information, need to send more data. It's incredibly frustrating.

Banking can be enjoyable. We have products with personality that people enjoy. Imagine that, a cash register and a peer-to-peer payments app that enable people to smile. We have a huge social following for a cash register and humor in our products.

It doesn't have to be dreadful. We created an environment where our products are simple, and easy, and elegant. We made the experience fun and trusted because people know that when they see Square, it's a trusted experience on both sides of that transaction.

Second, as we enable more and more non-traditional banks to enter the market, new pricing models are appearing. We have a flat fee, for example, which removes the complexity of credit card charges.

Now, you all might never have seen the other end of a credit card statement that comes to a small business, but it's really difficult if your coffee shop, that you get a fee for, what, American Express costs you, then you get a fee for what Capital One costs you, then you get a fee for what Discover costs you, and every card has a different fee to the bake shop, to the hair salon.

It is mind-blowing to understand, what did you sell and how much money did you make on it? And so when we started Square, we abstracted that pain point and we just said, we'll deal with that complexity. We'll charge you one flat fee. Made it super simple.

Bank accounts with no fees or minimums, no hidden transaction costs, no trading fees, these are the types of things you're starting to see more and more of with additional apps that are coming to the market in the financial world.

Technology is lowering the cost to serve, so pricing flows to the end consumer, bringing even more businesses or consumers into the financial system.

Third, have you ever gone back to look at the complexity of disclosures? And it sounds like this is something you are all spending some time with, given some of the conversations. I went to Wharton, I don't understand my own mortgage. Too complicated. There's a lot of room for invention on disclosures.

We can actually invent language and make them amazing, and beautiful, and simple, so that they become part of product features. We can clarify disclosures and decide that the customer would be better served with making sure we highlight key points.

Comprehendible, easy to use, elegant, as opposed to lengthy, confusing, small font, too confusing to understand, legalese, incomprehensible, there's so many ways that, as a group, would could create very simplistic and powerful language that just reinvents what a disclosure could look like so that it's easy to understand, so that the average business person could understand all the print at the end of what they're signing up for.

We think that's an incredible place that we want to spend time inventing and differentiating ourselves. Data, it could be a really scary word to a lot of people, but it's also incredibly empowering.

We have views into payments data, small business owners have a view into the hour-by-hour health of their business, and we are basing decisions on information related to their business performance, based on every quantitative bit of data we receive from them.

If you're a startup coffee shop showing great promise in your first two months, with Square data, we can see that. When you need a second fancy espresso machine because you're growing, even though you're only two months old, we can provide you a loan to buy it.

You didn't have to wait to provide your tax returns after the first year and you didn't have to be told that a $5000 loan for the cappuccino machine was too small. Data is what makes it easier to provide loans at scale for businesses like this, where restaurants can use their sales data, salons can convert the power of their future appointments into a potential cash flow loan. That's incredibly powerful for very small businesses.

And finally, related to this, one of the biggest pain points that everyone in this room has been talking about all day, as businesses are on their path to growth, the biggest problem they have is access to capital.

We hear this over, and over, and over again. Even if someone puts in all the work to start their business, they still have an incredible uphill battle. According to the Federal Reserve Small Business Survey in 2017, 70 percent of small businesses do not receive access to capital they need to grow their business.

Most are denied or don't even apply. When businesses can't access capital, they lose their lifeline. They can't carry sufficient inventory, leads to lost sales, they can't perform brick-and-mortar expansions or repairs, which makes their business less attractive to customers.

And if they can't invest in staff, they're burdened with administrative tasks instead of focusing on growing their business. But speed and access in lending has not historically been on a small business owner's side. Even as spending many hours a day applying for a loan, followed by weeks of waiting for an approval decision, a large number of businesses either don't receive any funding or extended only a fraction of what they need.

And this process is even more difficult for businesses in underserved communities. Many traditional lenders access credit worthiness in a way that results in a denial of a loan application, due to factors like insufficient collateral, low credit scores, or insufficient credit history, and this lack of access is why we started Square Capital.

Our small business lending program is built on the foundation of years of payment data. We have amassed since we founded Square. Data from millions and millions of sellers inform our lending decisions and work through machine learning models that determine credit worthiness of a business, based on sales and transactions.

We see, in real time, what a business' cash flow is, their sales, their sales trajectory, the number of transactions within a day. Business owners don't have to provide a pile of documents, or their individual credit score, to a bank loan officer that they don't know. There's no intimidating process.

As a result of our model, we find that many of the businesses we serve have never been able to access credit anywhere else.

Since the 2008 financial crisis, the traditional lending environment's been constrained, but only for borrowers at the highest levels do we see any movement. Square Capital has focused on loans under $100,000, a level where we see incredible unmet demand.

We're enabling access in a way that prioritize transparency, speed, simplicity, with the utmost focus on a thoughtful and effective approach to risk. And for us, increasing access to capital is about more than determining eligibility, importantly, it's also about sizing the loan to be appropriate.

As I said, we only grow when our businesses grow, and so offering the right size loan to a business to enable them to thrive is absolutely critical to our work.

We base our models on payments data and we can have confidence that we are making offers to our sellers that can be successful for them, not trapping them in debt.

With this model, we can offer loans, we have an average loan size of $6000, and a default rate of less than 4 percent. We've created access that our traditional financial system, to this day, still does not offer.

Without options like Square, the owner of a bridal studio that wants to fund more inventory for wedding season goes to friends and family for cash or maxes out her personal credit cards. In just over three years, we have facilitated more than $3.1 billion of loans to over 200,000 small businesses.

But our interests are mutually lined with those we serve. We only succeed when our customers succeed. We build relationships for the long term and grow alongside our sellers. That's the advantage of doing well by doing good.

And don't just take it from me, the impact of what we could do for our businesses is best told by our sellers. So this is Lucia Rollow. Lucia turned her basement business into a 3000 square foot community space for photographers, creating the Bushwick Community Darkroom in Brooklyn, New York, and she started when she was laid off in the middle of the financial crisis, and now has built a thriving community.

This is -- oh, you can barely see Phil. Phil's in the window waving. This is Phillip Webber, who started Jive Turkey Legs in Gastonia, North Carolina. He's able to grow his catering business and support his food truck.

Then there's Andy Cullen. He owns the family-owned business of Cullen Electric in Lockland, Ohio. With Square Capital, he tripled his workforce and fleet size to serve over 10,000 customers locally.

So now we're going to take a look at Courtney Foster, the owner of a single-chair hair salon, who's used Capital to launch her own hair care line.

(Video played.)

MS. RESES: Amazing story. Amazing story. And this is just a few of the powerful stories from communities all across the country, businesses like Courtney's that, without access to funding, would not have been able to grow and realize their full potential.

So where do we go from here and what more can we do? The door that was opened for Courtney can be opened for millions of businesses around this country when they hear no to seek funding.

We've been able to open the aperture of who we serve. That's been incredible to lots of communities. A survey we conducted last year of sellers who've accepted Square Capital showed that more than half of them are women-owned businesses and more than 1/3 are minority-owned businesses.

Eighty percent of Square Capital funding goes to businesses outside of the 25 most populous cities in the United States, and more importantly, 84 percent of business owners we surveyed said that we helped their business not only stay afloat, but truly helped them grow.

So we came at a really hard problem in a really unique way, in a very business-focused way, in a very tact-focused way, the problem, bringing the underserved into the financial system and helping them grow. The solution for payment processing was a simple mobile reader that spawned an entire mobile payments industry and point of sale landscape globally.

And for credit loans that are the lifeline of small businesses and available within a day of clicking on a screen that says, you're eligible for a loan.

So to this room, I'd say if you want to ask questions, if you want to chat with how we do it, what we could do better, where things are frustrating, what we would fix, we would be delighted to have that conversation.

If you want to explore how technology impacts financial services, lending or otherwise, we are here. We think we have a unique position, a unique voice, and a strength of purpose which aligns us with the goals of creating an honest financial system.

And we can collaborate to find the best products, the best solutions to eradicate systemic unfairness. We can deliver equal opportunity and access, and a fair financial services system, for this generation and lay the foundation for so many more.

We grow when small businesses succeed and we might approach problems from a really different way than some of the folks in this room and look at it from a very different lens, but we do spend our entire day, every minute of our day, of our entire team's day, looking at economic inequality and thinking about what we could do to solve that problem, to bring businesses into the financial system and give them access to tools to empower them to grow.

We think we're absolutely unified in making Main Street thrive and we'd love to be a part of a conversation to do that, and to figure out what needs to be done to help improve the environment for small businesses. So thank you for having me. I'm happy to take a few questions. Thank you very much.

Shall I stay here? I got a little scared when I told this was livestreamed. I've never been livestreamed.

MR. JOHNSON: Jackie, thank you so much for your presentation.

MS. RESES: Thank you.

MR. JOHNSON: I was struck by several things in your presentation, I'll hit on a couple that I thought were vital, so you talked about how small businesses continue to struggle to find access to credit. Something that has been a challenge both before the crisis, and frankly, past the crisis.

You all are taking a strong first step in trying to correct that problem. What are some of the biggest impediments, or roadblocks, or challenges that exist to create even more opportunities for access to credit for small businesses?

MS. RESES: Oh, gosh, I'll boil it down to a few. I think it's really hard for really small businesses that are just starting up. It's like the point of total frustration. You know, it is all upside, like a venture bet, yet, you know what you're doing and you need credit just to get started. That's an incredibly frustrating period for a lot of entrepreneurs.

And there's no amount of financial data they could use in any traditional system to get them started. And I think it's an impediment to be able to provide that community the opportunity to grow.

And I think one of the benefits that we have, because of the depth of data, is that we are able to, within almost 21 days, see the trajectory of a business, and give them credit almost immediately after they start.

And so I think that we've shortened the window of vulnerability when a business needs credit to get going, and so I think that's one problem that we see.

I think staleness of data and getting access to data is a huge problem. You know, again, getting back to the immediacy of data that we see versus things like FICO, or tax return, or accounting data, is a year out of date.

If you're a little company with huge opportunity in front of you, where you're at today looks nothing like it did nine months from now. And I think trying to find vehicles for near-term data is incredibly powerful.

And then, lastly, I think there's a challenge around small-dollar loans because it's really an unprofitable business for a very large banking institution to offer small-dollar loans. We are able to do it because we come at it from a branchless banking system. We use the power of a mobile phone in order to bring banking to everybody in a small business.

And I think trying to make small-dollar loans, under $100,000, a profitable business is, I think, what could make that sustainable, because, you know, I think we are able to do it, and I think using tech to be able to do it will open up the aperture of who can get served, because I think the financial system hasn't been able to do it because of the incredible cost.

I mean, our loans go down to $500, is the smallest loan, and that might seem really, really small to people in this room, but if you have a business, you make $75,000 a year, maybe the $500 or the $1000 is the cappuccino machine, is getting a food truck serviced when the engine dies.

And so it is a lifeline to many, even though the dollar seems small, relative to the business that it serves. It's incredibly impactful.

So, you know, I think things like cost-to-capital, helping folks like us be in a position where we could offer those loans with a cost-to-capital that can compete with banks, and looking at how data and information moves, and removing friction like that's incredibly powerful. Long-winded answer, but hopefully good.

MR. JOHNSON: What, if anything, can federal financial agencies do, from your perspective, to help address this problem?

MS. RESES: Oh, so much. I mean, you really are at the epicenter of this problem and think about it, and spend your livelihood grappling with the complexity that I'm talking about.

You know, I think this is going to sound very loosey-goosey, but I would really be open-minded about some of the evolution of what tech has been able to do in the financial markets, and I would really embrace it with an open mind to think about how you can help people by embracing and using technology for the good of society.

And I think of, like, bank branches as my one example. If you think that now everybody has a bank branch in their pocket, and by the way, it's open 24 hours a day, that's incredibly powerful. And so what does that mean and what can be enabled by having the benefit of that technology?

I think also, as it relates to a mobile device. If people are banking on their mobile device, and businesses are banking on their mobile device, what does that mean about what banks and financial products need to communicate?

It gets to the point I made earlier around disclosure. You know, if you think about what people want to consumer, the goal should be, how do you explain things that are clear, and easy, and consumable so that people understand it?

And I do think that if you can do that

in the context of a mobile device, and, like, an iPad, a phone, and thinking about what that should look like in a 21st-century world, it could be incredibly impactful.

I think the Office of Innovation that you setup here is pretty incredible, seems super impressive, and I think the fact that that exists seems pretty damn amazing to me, and I think I would do as much as possible to really embrace all the things that could make technology better, or more applicable.

And then I guess I'll end on a caution, which is kind of a bummer, which is, I think with all of this, the one worry I would have is making sure that you've been thoughtful about cyber security and issues that could come up with regard to fraud and security issues, because I do think that becomes the police force of the future and understanding how to manage cyber-crimes.

And being watchful and mindful of what could happen on cellphones. And I think, you know, being very thoughtful on issues like that, with money, is incredibly impactful, and only the government can really, kind of, have such a leading role in that world and oversee the breadth of financial departments, that I think it would be incredibly impactful.

So I don't want to end on such a grim, bummer note, so, you know, I will say, you know, we invited you out to Square, we'd love to have you to San Francisco, we're really honored to be here. I was so thrilled to get the invitation. I think it's incredible.

We've been very open with folks who come in. We're really proud of the work we do. And so we're happy to engage in conversations on a local, on a national local, because we really truly are so proud of the work we do that we're happy to always talk about it.

MR. JOHNSON: Jackie, on behalf of the Bureau, thank you so much for joining us today and please, everyone, give her a --

MS. RESES: Thank you.

MR. JOHNSON: Thank you.

MS. RESES: Thank you. Thank you.

MR. JOHNSON: And with that, we will transition into the next panel. Thank you.

MR. RIEKE: All right. I've been instructed to direct you to take your seats. We'll start in about 15 or 20 seconds here, if people want to find their seats. Thanks.

All right. Everyone, thank you very much for being here. We're about to start the panel on Alternative Data, Innovative Products and Solutions. I want to start by saying we're going to save at least ten minutes at the end for your questions. If you don't have note cards nearby, they're in the back.

As the discussion proceeds, feel free to write down your questions and we'll have ten minutes at the end to answer those. I want to start very briefly here by introducing the great panel we have. I want to start with Andrea Arias from the Federal Trade Commission at the end. Andrea is an attorney in the Division of Privacy and Identity Protection in the Bureau of Consumer

Protection at the Federal Trade Commission, focusing on enforcement and policy matters involving consumer privacy and data security under Section 5 of the Federal Trade Commission Act, the Fair Credit Reporting Act, the Children's Online Privacy Protection Act, and the Gramm-Leach-Bliley Act.

Andie has worked on high-profile matters including the Ashley Madison case, cases against Oracle, Wyndham Hotels, and TRENDnet. She was formally a litigator with the U.S. Department of Justice. Welcome, Andie.

Next, we have Jason Gross. Jason is the co-founder and CEO of Petal, a new kind of credit card company on a mission to make credit honest, simple, and accessible. Petal seeks to use more financial data to democratize credit scoring and make credit transparent and easier to use responsibly.

Petal offers a Visa credit card designed for underserved consumers. Jason has been involved with comment letters to the CFPB, a speaker and guest lecturer on a variety of related topics, and he was formerly -- he formerly practiced law at Sullivan & Cromwell.

Eric Kaplan is the Director of the Housing Finance Program at the Milken Institute, Center for Financial Markets, where he works with policymakers and industry stakeholders to identify and solve for issues in the housing finance ecosystem.

He brings 25 years of experience across a variety of finance, legal, and policy roles. Prior or Milken, Eric was a managing partner of structured finance at Ranieri Strategies, where he worked closely with chairman Lou Ranieri on the application of Fintech to the mortgage industry.

Eric joined Ranieri from Shellpoint Partners, where he established a post-crisis, non-agency RMBS platform, and helped launch one of the industry's first expanded credit non-QM programs.

Eric is also an industry leader in the RMBS reform effort and shares the Structured

Finance Industry Group's RMBS 3.0 task force.

And last, only by last name alphabetical order, we have Melissa Koide, who is the CEO of FinRegLab, a new organization that leverages technology solutions to achieve public policy aspirations, address regulatory goals, and drive the financial sector towards an inclusive financial marketplace.

FinRegLab provides an independent platform for policymakers and regulators, technology and financial sector innovators, and consumer advocates to build an evidence-based understanding of new financial technologies and their impact on consumers and the implications for public policy.

Prior to establishing FinRegLab, Melissa served as the U.S. Treasury Department's Deputy Assistance Secretary for Consumer Policy, where she developed and executed the Treasury Department's consumer policies in the areas of credit, student loans, payments, savings, credit reporting, Fintech, and financial inclusion.

Welcome, everybody.

And I'm Aaron Rieke. I'm the managing director of Upturn. We're a non-profit organization here in D.C. that works at the intersection of technology and policy. I want to give, just, kind of a quick problem statement and introduction to the panel. I know you've heard some of this from Ken earlier in the day.

Today, there are important gaps in access to mainstream credit. The Bureau has estimated that 26 million Americans are credit invisible, meaning, they have no file with the major credit bureaus, while another 19 million are unscorable because their credit file is either too thin or too stale to generate a reliable score from one of the major credit scoring firms.

Most of these 45 million Americans are underserved by the mainstream credit system. I also want to highlight the fact that the Bureau has been clear about the equity dimensions of this issue. Almost 1/3 of low-income consumers are unscorable, and Black and Latino Americans are considerably more likely than other demographic groups to be credit invisible.

A range of commenters have suggested that alternative data can help address this problem. And so I want to start the question by just trying to get our arms around this issue a little bit. Alternative data has a really broad definition. Most people, if you ask them, they'll just say, well, it's most of the data that's not routinely held by one of the large major credit bureaus, which leaves an awful lot on the table, right?

And so I want to focus in a little bit on what we mean by this and I want to start with you, Jason. I know that, Petal, you're trying to make a business out of alternative data and you've chosen cash flow data. Can you tell us a little bit about why you got there and what you see in this form of alternative data?

MR. GROSS: Sure. Happy to. I think that, first, there's some definitional specificity that is important to understanding this debate.

You know, I think that, you kind of mentioned, the definition of alternative data has moved around a little bit.

One currently popular definition is information that's not available at the credit bureaus. One of the problems there is that the credit bureaus are actively acquiring new data assets all the time, offering new products to serve different segments, and so if we define alternative data as the things that aren't at the bureau, well, that's going to be a constantly shifting definition.

It also kind of leaves in place existing structures for obtaining data. I think that we're seeing innovation in this space coming from a few different angles and it's important that we talk and think about each individually.

So first, there are changes in the way that we access data, in the way that consumers share their information with a lender, or in the folks that provide data, furnish data, to lenders for lending decisions.

Second, there are new types of data that are available. And this, maybe, the colloquial definition of alternative data. So this is, you know, considering information like cash flow information, or like, rental reporting, or utility information, et cetera.

And then finally, you have the statistical methods that are used to analyze the data, and other, we're also seeing new differentiation, new technologies, this is where you have machine learning models, et cetera, that are being employed more and more in the marketplace.

But, you know, in some use cases, already have very much, sort of, mainstream usage and application.

So for us, as you mentioned, we are kind of at the interaction of a number of these innovations, including the use of cash flow data.

Cash flow data really is the information contained in a consumer's bank statement. But in our case, you know, this is all done in a digital format. So, you know, we refer to the information we use as the digital financial record of a consumer, which includes information at the credit bureau, as well as the rest of the information that describes a consumer's financial life; the money that make, save, and spend.

And what's interesting about so many of the 45 million credit invisible or unscorable consumers, as well as tens of millions of other consumers that have thin credit files, is that, the vast majority of them have some other information contained in their digital financial record that's not available at the bureau.

So by bringing more of this core financial information to the picture, we can bring more folks into the system, we can score in a way that's more inclusive and more accurate, and, you know, it's actually quite similar to some of the strategies being employed by small business lenders like Square Capital, for those of you that were around for the previous talk.

MR. RIEKE: So, Melissa, I want you to

take us a little deeper in that. I appreciated from our earlier conversations how even a single category like cash flow data contains a lot of different types of things. What should we be thinking about here?

MS. KOIDE: There we go. Good morning. Thank you, folks at the Bureau, for having me participate in this conversation. It's lovely to be back among government colleagues. Before I go really specific, I actually want to offer some contemplation about, what do we mean by data and go really, really broad, because ultimately, I think the way that policymakers and industry in the ecosystem have to think about, what are the tradeoffs, what are the potential benefits, what are the potential risks of alternative data or the non-traditional data? That's the term I typically use.

We have to really think about the use case and this is an entire-day conversation that is highly warranted about building the bridge to credit visibility. That means that you actually, as we heard this morning, you have to be able to get into -- you have to be visibly present by the financial sector to even be known and to be getting into the financial system.

And guess what? That comes back to data. That comes back to information about, who is that individual? How is that individual's identity verified? That comes back to the potential, or the use of data, for making sure that that person is who they say they are.

It comes back to making sure that that person isn't a fraudster. All the way down, then, to the particular financial product or service that the person is seeking, and then using information, i.e., data, for assessing them for that particular product that may be extended, so that, ultimately, the financial sector is able to serve those consumers in a way that is best for them and that is ultimately prudent on behalf of the lender and also the financial system.

So it is really important that we're really clear about what particular type of data that we're contemplating when we say alternative data, it's just simply too vast, and that we really, then, think about what the implications are for that data.

So at FinRegLab, we are embarking, or we have embarked upon, an actual experiment to examine, in the context of consumer and small business credit underwriting, what are the implications particularly for policy and regulation, and the policy aspirations we have around financial inclusion, for actually looking at data that is non-traditional, but is actually very financial in nature, and that is, looking at transaction activity and assessing the extent to which, when you bring in cash flow data, which is the term that we use, into a traditional underwriting model, because we're trying to control what we're examining, what is the difference you see in terms of lift comparing similarly situated borrowers with cash flow and FICO versus borrowers simply with FICO.

What's the value of this new type of

data? And so as we've begun the process, both, of building the experiment, also engaging industry and others in these questions as it relates to, what are the policy issues that have to be thought about when you're talking about now bringing in new data into an underwriting model?

You also begin to see that there's a lot of interesting things, even within somebody's bank account, that may be meaningful in terms of the ability to assess their credit worthiness, but that raise important questions for all of us to think about, do we want that type of data being used in an underwriting model?

And so the piece that we're looking at, vis-a-vis, the experiment, are things like really useful insights that are ultimately metrics for assessing someone's ability to repay, and that is looking at things like, what are the inflows and the outflows? What's the actual movement of money into and out of the account? What does that tell you in terms of a potential underwriting assessment?

But stepping back and talking to the broader ecosystem who are thinking about a lot of different data, you can also see other potentially meaningful indicators of credit risk. You can see things like, when are monies coming in and going out? Literally, the timing.

And that type of data may actually be predictive, but all of us together need to think about, what are the implications of that type of data?

You talk to others industry and there's useful insights even in terms of, how is somebody interacting with their phone? How frequently are they checking what is their account balance? That information too may be quite meaningful for an underwriting assessment, on the other hand, again, we, as a society, we, as people with a vested interest, both from a consumer, but also, a policy perspective, really need to think about, do we want that kind of information being used in credit underwriting?

So I offer that up to say, there is a

lot of useful information, some of it -- well, much of it are aspects of underwriting that we all need to be better understanding what the implications are of the use of the variety of information that we can see in the particular use case, and then think about, what does that mean for policy and what do our rules currently allow or not allow, and where do we need to be thinking about policy evolving in light of what this potential value, and potential risk, and potential tradeoffs are that we need to be considering. Hopefully that helps.

MR. RIEKE: It does. Thank you. I want to take seriously and try to heed Melissa's call for clarity here, especially about clarity of use case. It's awful confusing, for example, when you read the popular press, sometimes, to know whether you're talking about marketing, or identity verification, or underwriting, and in many cases -- or fraud, right?

I mean, in many cases, you have startup companies that just want to be seen as using the latest, greatest stuff, and it's really hard to tell what they're using, and why, and for what purpose. And I want to turn to Andie. This is pretty underwriting-heavy panel, but I think Andie has special expertise in marketing uses of data that could be considered alternative data. It looks a lot like financial data.

Specifically, kind of, in the realm of marketing, I know the FDCO's done research on data broker companies, and I want you to talk to us a little bit about what you found there.

MS. ARIAS: Yes, so to give you all a little bit of background, I think my role here today is to give you all -- to help you take a step back and think about alternative scores, not just in credit, but actually, alternative scores as they're being used, just generally, because they're not just being used for credit, but they're also being used to determine whether someone should have a job, or whether someone should be marketed for a particular product.

Alternative scores are really everywhere. So let me give you a little bit of background on what the FTC has done. Back in May of 2014, we did a study that actually took about two years and put out this report called, Data Brokers, A Call for Transparency and Accountability.

And what it does, it looked at nine data brokers, and it took data from them, and it really thought about, what kind of products are they putting out, how are they using that data, the quality of the data, what kind of access are they giving consumers to that data.

And so it then, we built on to that, and we put out another report called, Big Data, A Tool for Exclusion and Inclusion, Understanding the Issues, based both on a workshop we did of the same name, as well as a workshop we did on alternative scores, and that was in January of 2016.

And I think the reason that I'm calling out those reports, again, it really builds on telling you about the background of data brokers, where they're getting that data, the quality, what they're doing with it, and then the big data report, really, it was written to educate businesses, to give them a little bit of background about the laws that may apply when you're using big data, and research that is relevant to big data analytics that provides suggestions at maximizing the benefits while minimizing the risks.

Now, let me give you a little bit of background of what we found. There's a lot of good use of big data and alternative scores. It can help increase educational attainment for students, provide access to credit, as we're learning here today, especially when you have thin files, and even provide healthcare tailored to particular populations, particularly in rural areas as well as low income.

I think the example that's probably most beneficial to you all today that we learned from the report, is that there are several products out there, as we're learning today, and you all probably are better experts than I am on this, but that helps you give credit to those who don't have credit history, so that you don't just take foreclosures and bankruptcies, but you're looking at educational history, professional licensure data, and personal property ownership to be able to give credit to those who don't.

Now, I don't want to jump ahead in the discussion, but I do want to pause and say that, while we found a lot of benefits, we also have found a lot of risks with the use of this type of data, alternative scores included.

And that's, for example, certain people being denied opportunities based on the actions of others, assisting in the targeting of vulnerable consumers, and creating or reinforcing existing disparities. So I think that's something that we should all touch on today, because that's not just applicable to marketing, but I think it's applicable also to credit underwriting.

MR. RIEKE: Great. Thank you. So we've established a broad, messy definition of alternative data, we established a need for clarity, and we've established all these different stages of the lifecycle, and I want to come back to underwriting for just a second, because I think that's probably the thing that's most on our minds, and I want to turn to, I think, initially, a combination of Melissa and Jason here.

And say, you know, we've talked about cash flow underwriting, what else are you thinking about when you're thinking about near-term opportunities for augmenting underwriting consumers? I mean, both you, I know, have deep expertise in cash flow, but if you reach beyond that familiarity and expertise a little bit, what are we going to be talking about in terms of successes, hopefully, five years from now?

MR. GROSS: I can take this one first, if that's okay. You know, I think that, if you look around the world, not just in the United States, we're seeing these experiments, sort of, play out, particularly in countries that have less developed credit infrastructure. And of course, we're speaking today about the gaps in the United States' system, but, you know, in many countries, particularly in the third world, there's very little information or very little accurate information that lenders can use to make credit decisions.

And so, you know, I think that there are some very interesting experiments playing out with respect to other forms of, sort of, digital information that's now being generated as we see, kind of, the proliferation of smartphones.

There is a track record being generated for the first time for, you know, millions of folks. I do think, though, that in assessing the different types of data, the potential value, and the potential risks associated, it's very important that we pay attention to how close or how attenuated that data is to the consumer's actual ability to pay.

And I think that this, maybe, starts to get into some of the questions that Melissa was hinting at. We do have to ask ourselves, do we want lenders making decisions about a loan, pricing on loan, because of Web search history, or social media information, et cetera?

That information, you know, not only is potentially discriminatory and difficult for consumers to understand, but I think also, there are real questions about its predictive power. And, you know, for every new data source that we consider including, you have to weigh all of those different variables.

So I, for one, become quite skeptical of any claims in this space about a type of data that is one or two steps removed from actual financial behavior.

MS. KOIDE: Yes, I think that, I mean, I agree with what Jason had to say, and I mean, there are efforts still afoot that have been under foot for at least a decade, if not longer, looking at a variety of different types of data for credit underwriting, and we heard about these earlier today.

Rental data, telco data, utility data, new data being acquired by some of the bureaus, and I think those are -- each of those types of data generate really important questions about, what are the economics in terms of the entities that are effectively producing the data, I'm avoiding the word furnishing, but essentially, producing that information, their rationale for being a part of this.

I mean, the international context is interesting because, clearly, telco data has been enormously valuable in other countries when it's the mobile device that is functionally the transaction product.

So there have just been these longstanding questions about, what are the economics that make these other approaches for using other types of data that may be useful, may be predictive, may be consumer enhancing, possible, just because the rationale, the economic rationale, may not be there.

On the other hand, you know, as data is truly much more ubiquitous and able to flow more easily, maybe we do start to see changes in the economics such that other types of payment history data could be useful, but again, for each particular type of data that we're thinking about, there are implications that aren't necessarily -- aren't always ideal for the consumer who may be on the end of, essentially, producing the data.

I mean, utility data could be useful, but you also don't want to see consumers changing their behavior that may affect, then, whether or not they have, you know, electricity at certain periods of time.

So each of these potential data uses, I think, really have to be thought about in their own right and how to solve for some of the unintended consequences that may come, depending upon the data that we're talking about.

MR. RIEKE: Yes, there's one thing I've heard consistently from the experts here, it's, the devil is always in the details. Like, sometimes within the details of the details, right? And I really appreciate, Jason, what you said about attenuation to ability to repay as kind of, like, an initial gauge of how optimistic or useful this might be.

And it's worth mentioning that, you know, Facebook, the biggest social network in the world, currently has a policy that says, hey, don't use our data, our users' data, for credit purposes, full stop, period, we don't care if they give you our consent, right?

And I think there might understandable regulatory reasons for that, but this is a worldwide policy, and so I don't want to put words in anyone's mouth, but I think that speaks to, kind of, the current judgement of where something like social media data falls in usefulness for underwriting.

I want to turn to Eric for a second. Eric, when we were first prepping for this call, I immediately detected a passion for the safety and soundness issues, kind of, lying underneath this whole conversation and I want to give you a chance to speak to those.

MR. KAPLAN: Thanks very much, Aaron, and I appreciate it. And, you know, just to start, Jason and Melissa, I think what you just said about what the data is, where it's coming from, what it's supposed to represent, is a big focus on correlation versus causation.

And, you know, you could show, as correlation, World Series winners and virtually anything else under the sun, but we also know that that doesn't cause anything in the way of credit.

I would say, about a couple years ago, Facebook in particular, I had someone come to me and say, if I see who a person's friends are, I can tell you if they should get credit. And, you know, we sat down and talked about a whole host of reasons why that would be problematic from a legal, regulatory, factual perspective, because we also know that algorithms can run away and we can lose control over things that are the product of artificial intelligence, and would be embedded, or historical discrimination in our assumptions, or in the inputs, and that's a very dangerous thing.

So I'm going to try and keep this shorter. I actually prepared remarks to make sure I don't say too much, because, yes, I'm passionate about it, both from a perspective of consumer protection and market protection.

And that's, you know, ten years ago, my background is mortgage, and we've got a little bit of a history in that, and so safety and soundness, and borrower protection, all, to me, are critical. I look for the win-wins for borrowers and for the market.

So there's no question that alternative data can, in terms of credit usage and behavior, new ways to analyze income, assets, employment, and other metrics that fall outside traditional underwriting guidelines, they can be of tremendous benefit to the credit invisible consumer.

But I think we have to dig deeper to understand these practical considerations. And at first, I think it's important to point out, not all credit is created equal. A $10,000 unsecured personal loan, or consumer loan, a credit card, very, very different than a $500,000 mortgage loan, plus the legal and regulatory constraints are different. The lending rules are different.

We operate within different primary and if applicable, secondary markets, and so it's not as simple as saying, I can make a credit decision based on something that makes sense to me because you are otherwise constrained by rules that will govern what you can and can't use.

And even within a industry, there are disparities and irregularities between different participants, whether you're, in the mortgage world, agency government footprint or a non-agency footprint, they are significant.

And in the context of alternative tools, and products, and technologies, it's just as much so.

I also think it's important to note, when we're talking about 45 million credit invisibles, to me, that means it's somewhere between 0 and 45 million should be considered creditworthy, or fall under the umbrella of creditworthiness, based on the use of alternative data.

I do not think that 45 million,

probably, are creditworthy. And again, that's dependent on the type of debt, and it's certainly not 0, and so it's incumbent upon us to really look at these astounding and fascinating technologies and tool to understand credit better.

But, you know, I think it's better to spend a lot of the time addressing the social economic cancers that are out there rather than trying to shoehorn more borrowers into credit using new approaches that may have deficiencies, which can set borrowers up for failure from the start, which is, you know, the reason why the ability to repay rule, both as a rule and in terms of common sense, that they're out there, and then also, from a market safety and soundness perspective.

We don't want to go back to 2008, you know, we're at the 10-year anniversary of the crisis. So, you know, apart from the legal risks, we know that, you know, I want to focus on this notion of the protection of consumer first and then the market.

You know, as a baseline principle, any

alternative data products, technologies, they must be accurate, they must be reliable, they must be modelable, quantifiable, statistically significant, auditable, subject to back testing.

The more you move away from that, the more you risk an unintended consequence, right? For me, it's all about precision. Is your data accurate? Is the information accurate? Are you arriving at a result that is causation and not correlation, where you really do get a clear picture of the creditworthiness of the borrower outside of traditional practices that are currently in use?

Because the more precisely they do show causation and they show a tie to creditworthiness, the better off the borrower, the better off the market.

Consider a mortgage, the ability to sustain and repay the debt lies at the heart of the bureau's mortgage lending rules, as it should. And we do consumers a clear disservice by knowingly or irresponsible granting them credit that they can't sustain, and by setting them up to fail from the get go.

And the less precise the data, the product, or the technology is making the credit determination, the more we risk saddling the borrower with a loan that he or she cannot sustain and repay.

And there's a danger in the drive to employ alternative data products and technologies in credit determinations where one would fail traditional tests.

And, you know, in the effort to expand access to affordable credit, we can never take our eyes off the word affordable in trying to expand. I think that's always been a tension and even, you know, more so now.

Moving beyond the primary market and portfolio loans, we have to think about secondary market participants because no matter how incredible a tool is, no matter how our use -- valuable our use of alternative data in reaching credit invisibles, you'll go nowhere in certain markets if the secondary market does not adopt it; does not find a way to implement it.

And, you know, think about whole loan sellers and securitization issuers, they have to convince other secondary market participants of the efficacy of these approaches. Participants have to be able to fold the new approach into pricing models, performance models, credit enhancement models, and if they can't, the market will either reject it or they'll try and price the uncertainty.

The less precision you have, the more uncertainty you have, ultimately, that uncertainty, it carries a premium, right? There's a cost to it, and that eats into the lender's or the securitizer's margin, and ultimately, we all know what happens, that gets passed off to the borrower in terms of higher credit costs, impairing affordability even more.

And so that's a dynamic that's in play and will be in play as we continue to look at alternative approaches.

But I think from a practical standpoint also, you've got to make sure that the market is able to handle traditional and alternative tools. You're going to hybrid pools take credit scores. If these scores have been setup for FICO for years and years, if Vantage score were to come in, or some other third party, what do you do if you have a hybrid pool, right?

Is a 640 FICO the same as a 640 Vantage? Always, never, sometimes? And how do you model that? Again, the less you can do that, the more it's going to impair the execution, and the more that that's going to impact borrower cost of credit.

So, you know, finally, I think these approaches can help us better also, we talk about cash flow analysis, residual income for me is a big ticket, I think, that we give short shrift to residual income, and residual income, which is the amount of money the borrower has after he or she has paid off the mortgage debt, has paid off all of the other elements that go into debt-to-income ratio, that's the amount of money that borrowers have to live.

That's the amount of money that's going to help them avoid default. And the more data that we can look at, with privacy and law being of paramount importance, the more precise a picture we can get, and it matters in terms of the decisions that a borrower makes with respect to their spending choices, right?

If a person decides to extend themselves and get a car that is much more costly than they can really afford, versus being more economical, that's going to eat into their residual income.

And at least under the mortgage rules, there is an avenue of challenge for many riskier loans, credit riskier loans, that says, you know, if the lender doesn't leave the borrower with sufficient residual income to meet his or her living needs, then that's subject to an ability to repay challenge.

We've already seen the effect that that

has on the market where the lending market had a very, very hard time originating more than a sliver of these non-qualified mortgage ability to repay loans, and, you know, until Fannie and Freddie decided to jump in, and they own half the market, and they have some special rules that allow them to originate, but, you know, we'll see where that goes.

But residual income, to me, is incredibly important and the cash flow analysis of that, including, you know, bank statement loans, are out there now. We've got people who are lending according to one month of a bank statement.

And how can you really understand a borrower's cash flow using one month of a bank statement? But they're out there now, and they're in securitization, so we have to be mindful of this.

So ultimately, look, as I said before, I do think these new technologies, and products, and use of alternative data, they're astounding, fascinating, and they hold vast promise, but we really do have to make sure not to forget the word affordable in that Bureau mission of expanding access to affordable credit.

MR. RIEKE: That's a lot to think about. Thank you. I want to ask a follow-up question that I hope is not too abstract, right? I'm hearing, don't forget affordable, not all credit is created equal, don't get too crazy about data that's too attenuated from ability to repay.

Just, kind of, to the panel, anyone who wants to take it first, like, how much of that is a function of having the right data, right? I'm not going too nuts of having quality data that really does give a read on ability to repay.

How much of this is keeping an eye on, like, protective measures as to the natures of the credit products that are available? Because I hear this concern a lot, Eric, of, if we get alternative data, that could be great, but does that lead to more default and more abuse of credit products? What does the formula to preventing that look like? How much is in the data; how much is that is in other rules?

MR. KAPLAN: You know, I think it's dependent. Certainly, the formula, because the formula is going to drive how accurate, and precise, and useful the information is, and how closely it correlates or, you're right, there's a real relationship between the ability to sustain and repay credit, and the data that you're looking at.

But once again, the rules will dictate whether or not you can see that and the extent to which you can use that. In the mortgage world, depending on where you are in the mortgage ecosystem, you have limitations on the type of data that you can use and how you can use it.

And this is a great today in that it's here at the Bureau, because it means the Bureau is looking at these issues in an effort to see if we can expand that safely and soundly.

But, you know, again, I, for about 18 months, looked at many of these technologies trying to figure out a way to how to purpose these technologies to improve mortgage lending, to improve the mortgage secondary market, to improve, you know, call it responsible borrowing as well.

And, you know, I think you have to read the rules carefully and understand them to understand where you have leeway, where you don't, where a change is needed, and hopefully out of days like today, and efforts like the one the Bureau is undertaking, we can find that sweet spot, but you've got to look at both of them.

MR. GROSS: Yes. I would add, you know, particularly as we think about the differences between mortgage underwriting, for instance, and the underwriting of other credit products, acknowledging that, all credit products are not created equal, all credit products are not used the same way by different consumers, they can pose, obviously, the structure of products, et cetera, is highly relevant.

I think that, you know, before we go too far down the road of, you know, what's the next form of alternative data that we may find, we should kind of do an assessment, or an audit, of the amount of financial data that goes into credit decisions, or underwriting decisions, as it currently stand today.

So if you take mortgage, for instance, the average cost to underwrite a mortgage in the United States is over $8000 today, right? And that's because we're dealing with a much larger financial product and a more rigorous underwriting approach that involves manual processes, the review of bank statements, which is typically included.

As we move down, sort of, the size of the loan to different products, you have products, like credit cards, that are extended, in most cases, based largely on just a credit score.

And I mentioned in my -- at the beginning of the panel how it's really important that we kind of tease out all of the different technologies that are coming together to make some of this possible.

When you think about analyzing a consumer's bank statements, it's really not an innovation in the type of data. The type of data is used every single day in small business lending and in mortgage lending.

Much of the innovation comes in the method that you use to do that analysis. So obviously, in small-dollar lending, credit cards, et cetera, which is really the frontlines of access, right, when people are looking to establish and build credit for the first time.

You obviously can't spend $8000 every single time that you need to underwrite a consumer, and so much of the technology that we've developed at Petal is the automated analysis of what, today, is done largely by manual process, looking for the very same data points, the very same relationships between those points, these are techniques that have been used, essentially, as long as human beings have been lending money to one another.

Do you have the ability to repay this loan? What's the stability of your income? Those are the core, kind of, fundamental questions that we know are, sort of, tried and true.

And so, you know, I think that the first question we need to ask ourself is, are we incorporating all of the financial data that's required to get a full picture of each and every borrower? And if we can get to that point, I think that we will have made huge strides from where we are in the marketplace today.

MS. KOIDE: Can I jump in? I think another -- I think that's spot on. It is -- so much of this conversation is about the digitization of information that's already been, by and large, used. Our focus is also on financial inclusion, not just analyzing the use of the data, the algorithms.

And I also would want to make sure that we don't lose the focus on how some lenders who are really doing their best and really effective at serving unbanked and underbanked consumers, are absolutely -- it is absolutely necessary that they are, basically, doing these manual underwriting processes.

But also, let's not lose sight of the

fact that it is, essentially, a cash flow analysis, and they're generating this ability to repay assessment on, literally, income statements, paper income statements, and bill statements.

And so as we think about this, you know, massive efficiencies opportunity that comes with the digitization of the information, especially those who want to think hard about making sure that we don't lose the connection to consumers who are unbanked, that we lose the fact that there is some value still in this need for this manual processes around it.

MR. KAPLAN: Yes. I think it's a great point. When you've got people in the bank statement programs, for example, and doing a cash flow analysis, I call it a forensic underwrite, right? You're trying to look at the money in, money out, and there's a way to do that. There's a way to underwrite that loan responsibly and maybe get a better picture than the tax returns will show.

That's absolutely part of it and it's perfectly reasonable, and that's the way you do it.

There are lenders out there, though, who don't have that expertise, but they'll issue those loans or offer those kinds of loans because other people are doing it, why can't we? They're not getting in trouble.

So it's very, very different and those types of lenders exist. So then people ratchet down from 24 months, to 12 months, to 6 months, are they doing it because they believe that they can do the quality of the work and, right, do the forensic underwriting or because, well, somebody else moved to 6 months and I can do it.

There's that pressure that if you can't conform, you're going to have to exit the market because you can't compete. I think that's important, but, you know, in light of that too, I think most of you raise a great point about needing people, especially at this point, in the development of financial technology, and the use of alternative data, for people to play in that sandbox, and to come up with new programs and new avenues to do this.

And I think thinking about things like no action letters, right, and the safety, the ability to do it, especially in the context of certain product types.

The less binding a no action letter is in terms of enforcement, the less the market will give it credit that a hammer won't come out at some point in the future, and that there won't be a distinction made between good diligent companies that make a mistake or go down a path that was inadvertent, versus willful wrongdoers.

And it is very important to make the distinction between those types of entities, especially people who are entities that are trying to implement, or devise or implement, these new tools.

And so looking at the nature of no action letters and the weight that participants, including the secondary market, rating agencies, investors, law firms, put on that, it's going to be very important, because when a no action letter is very weak in its protections, then, you know, those products may not be available or accepted in the secondary market.

Once again, there's that tension. You still need to protect the borrowers, and law and data privacy are paramount. But, you know, we're at a very exciting and crucial time in the development of how we address that tension, I think.

MR. RIEKE: Great. So for the note takers in the room, let's not lose our hats over the bright new shiny sources of data. It sounds like there's still plenty we have to study, and observe, and learn about making new and automated uses of the existing sources that are out there, and old, and that we think we understand.

Maybe to emphasize that point, Andie, I want to turn back to you, and have you tell us a little bit about the FTC's big data report and some of, kind of, the risks and challenges identified there.

MS. ARIAS: Sure. So again, the big data report really focused more broadly on data use, in general, in marketing, but we also looked at it, also, in the context, at least, of the FCRA.

And I think it's important to note some of the risks that we found, because I think they're applicable to today's discussion. So let me talk a little bit about the risks and then I'm going to pose four questions that we posed to businesses to consider thinking about when they are using big data.

So first, under the risks, we found that big data could lead to resulting in more individuals mistakenly being denied opportunities based on the actions of others.

And one example that we found when we were doing our study is that, credit card companies were lowering customer's credit limits, not based on the customer's own actions; but rather, on the analysis of other customers with poor repayment history that had shopped at the same establishments that that person had shopped at.

So that concerned us, right? Second, we found that the use of big data can lead to creating or reinforcing existing disparities. So what do I mean by that? Well, one example we found is that they were targeting ads in certain low-income consumers who would otherwise be illegible for those ads or offers weren't receiving them because they were being lumped into these categories.

And let me pause there, because I think this is important, in the marketing area, we found several categories that we're a little concerned about, right? In the marketing area, you can order a list of people that were under underbanked indicator, creditworthiness, penny-wise mortgagees, financial challenged, modest wages.

But then we found other categories that lumped other forms of data information together, such as urban scramble or mobile mixers, which were large swaths of the population that are Latinos or are African-Americans who had low incomes.

So we were a little concerned that these categories that we were placing consumers, much like we found in the big data report, were leading to creating or reinforcing existing disparities.

Again, they can be used to assist in targeting of vulnerable consumers for fraud. It could create new justifications for exclusion. Let me give you another example. There was a study out there that said that job applicants who used a certain browser were more likely to perform better in the job.

So our concern is that, if people are using these kind of big data analytics that they were, kind of, finding correlation, they might exclude people from jobs, or maybe in this instance, credit, that maybe are not actually applicable to the analysis.

It could also result in higher priced goods and services for lower income communities. And then finally, weaken the effectiveness of consumer choice. And this, to me, is really important. There are certain consumers that have opted to not, maybe, be visible in our technology space, but with big data analytics, we can still make assumptions about those consumers and effectively weaken their choice not to be associated with a certain type of information or data.

Now, let me turn to the questions that I think our big data report questioned and focused on people to really ask themselves when they're using big data that I think are applicable to today's discussion.

The first is, how representative is your dataset? And this is important because while you might be pulling information, you might be actually missing information from critical communities, whether it's somebody who, maybe, has chosen not to reveal information about themselves, maybe less involved in the formal economy, has unequal or less fluency in technology, or is simply not being observed by datasets, therefore, creating a data desert of some sort.

So that's first is, when you're using big data, think about, how representative is your dataset.

Second, does your data model account

for biases? This was key. We found a lot of folks who were saying, well, for example, in the employment space, but I think it's applicable in the credit space, is, well, there's a certain employee that I have that is kind of perfect and I want other employees that are like this.

Well, the problem is, maybe the way that you went about hiring that employee already incorporates certain biases that then you are incorporating into your model as well.

Third, how accurate are your predictions based on big data, right? Not all correlations are meaningful, and this is something that we found in our studies that's pretty significant.

And then finally, does your reliance on big data raise ethical or fairness concerns? And an example here was, an employer found that employees who live closest to work tend to stay at their jobs, and so therefore, maybe it's better to hire people who live closest to your job.

Well, certain employers decided not to

use that information because maybe certain people live farther away because of their background, right? Certain communities tend to live close to each other and maybe not because of work. And that created ethical and unfairness concerns about maybe using data that we should be thinking about when we're using these big datasets to also think about credit considerations.

MR. RIEKE: All right. We have just a couple more minutes for the panel. I just want to pause and tell the audience, if you have a question and you have not filled out a note card, please take the next minute or two to do that.

I have one more question here, kind of, on the risks and consumer issues that I want to direct towards Melissa. One thing that we hear a lot about is, as you get into new kinds of data, or maybe more complex modeling methods, how do you tell someone about an adverse action?

Like, how do we address the challenge of letting people actually know why this went wrong? Talk to us a little bit about that.

MS. KOIDE: Sure. And in light of time, I will condense this. So adverse action notices are required when -- well, it's broad, it's covered both under FCRA and ECOA, but I'm going to talk mostly about the ECOA side of this, because we are having a conversation about credit in particular, but where somebody is denied or credit is revocated from them, based on information in their credit report, or they're refused the granting of credit in an amount or terms that are different than what they had requested and expected.

This is most definitely an issue that we are hearing from some of the technologists who are thinking about not just a range of different data that may be meaningful for assessing credit risk, but also, some of the algorithms and machine learning techniques that they are contemplating using as they analyze a variety of different types of data.

And it comes down to whether it's sort of hairy scary data in algorithms or even some of the, sort of, newer, what feel like, safer, and potentially meaningful types of data that are outside the traditional bounds, so even cash flow information.

How does a lender, particularly under some of the reason codes that are pre-identified or effectively, the disclosures, which are essentially safe harbored, how does a lender both comport with what are sort of the norms in the way that you explain why a denial or a change in credit is presented, but I think even more importantly, on the policy side, how is that information potentially used as a tool to help a consumer better understand what was in their credit record that, perhaps, if addressed, would actually have a meaningful effect in terms of their ability to stabilize or lift their credit history?

So it is both a practical issue that I think we all need to be thinking about as we contemplate new types of data in underwriting, but I also think it generates this opportunity, and especially for fintechs, Jason, I'm going to call on you, you fit that bill, but in an opportunity for some of these really technology-driven firms to be savvy about doing something that really is ultimately helping the consumer result in a better off position, or at least understand the facts that enable them to then move into a better position.

So it looks like you have a handful of cards over there, so I'll stop there.

MR. RIEKE: Three of these cards focus around one issue and so I want to let the whole panel speak on this as they want. I think the biggest question that's obvious that I have here in my hand is, what challenges do you foresee with the integrity of alternative data or how can consumers have the ability to even dispute inaccurate reporting of this data?

That is to say, as we get more variety out there, how in the world are we going to keep track of accuracy?

MR. KAPLAN: So I think this leverages on what you were just talking about, Melissa, is, you know, some data is trackable, traceable, it's reported to the credit bureaus, others, the data is not, and we don't know how the data's being used.

Imagine if you mixed traditional underwriting with non-traditional or alternative approaches, and imagine if a person fit within a traditional credit box and, you know, would have gotten credit, but for more information you obtained that legitimately, put together with the traditional data, shows that the person is a bad credit risk.

We have to understand that alternative credit data may also remove a creditworthy stamp from certain borrowers as well. And so that, you know, when you look at fair credit reporting and ECOA, think about, you know, the universe that that allows for and the types of data that's not included there.

It's going to be very, very difficult, and it, once again, shows we're at a critical juncture in the landscape where the regulatory landscape and the practical tools -- the application of the tools that we have, and the new technology that we're developing, if one moves ahead faster than the other, we're going to find ourselves in a legal, regulatory, practical nightmare, right, a rabbit's warren.

And it's, again, doesn't mean we should stop the effort, quite the opposite, but we need to be mindful of that, which is, once again, not to, you know, belabor the point, but days like this and the efforts of people who do this for a living are critical.

MR. GROSS: If I can jump in quickly. You know, I think that one thing that maybe is implicit in this conversation, but it is worth saying, is that, we believe that these data sources can enhance the accuracy of our underwriting decisions.

I think that's a really important point to make. As Eric points out, this may result in certain borrowers that are deemed creditworthy that otherwise would not have been deemed creditworthy, it may also result in certain borrowers that otherwise would have been deemed creditworthy, failing to qualify for credit.

But that may be because the data has shown that that borrower does not, in fact, have the ability to repay the loan.

At the end of the day, if we can improve the accuracy of our underwriting decisions, we should be able to lower the cost of credit for all consumers across the board and expand access. That's the direction in which we're moving, but really quick, I'd like to, kind of, respond more directly to the question about the integrity of the data.

I think, first, we should take a moment and acknowledge where we are today. So just because information has been reported to the credit bureaus or is in a credit file, does not mean that that information is necessarily accurate.

Something like 20 percent of credit reports have an inaccuracy. And further, the business model of credit bureaus is mostly driven by advertising. So information at the credit bureaus is then being leveraged for big data marketing efforts, mostly without the knowledge of the consumer, about which the data speaks.

Again, this is -- I'll bring it back to the definitional concerns, every specific form of alternative data needs to be analyzed for integrity, needs to be analyzed for accuracy, and for coverage.

I think one of the reasons why Melissa and I, and others, that are beginning to work more with cash flow data, one of the reasons why we're so optimistic about this data source is that there is already an extremely strong vested interest in the accuracy of this information. It comes straight from the ledgers of banks, already subject to high degrees of regulatory scrutiny, data security, et cetera.

And it's available on, you know, potentially more consumers than traditional credit information is available about. However, when you move into other sources of data, rental reporting is sort of a notorious example in this space, you run into issues with incomplete coverage and coverage that may skew towards certain groups more than others.

MR. RIEKE: Andie.

MS. ARIAS: Yes, so I just wanted to make this point, and I wish everybody could see this graph, but it's on Page 15 of the data broker report, and it's Exhibit 2. So in the data broker report, we decided to try to trace the original source of certain information among just the nine data brokers that we looked at, which expanded from small to large across the industry.

And if you see this page right here, what you'll see is that they're all buying and selling from each other, and it's almost impossible at this point to be able to tell the original source of the information, much less where to dispute the error.

MR. GROSS: That's true even from up here.

MS. ARIAS: Yes. So the reason that I highlight that is, at least in the marketing side, not even the credit side, what we found is that this alternative data used was almost impossible for consumers to be able to tell where the source of the error came in and then be able to dispute it.

So I am curious if you guys are finding the same thing in the credit area, because we found it virtually impossible for a consumer to be able to dispute this, at least in the marketing non-SCRA side.

MR. RIEKE: Eric, one more point?

MR. KAPLAN: One more thing, to the extent we can access alternative data, and use technology to understand and get it from a, they call it, source of truth documentation, that's another thing to be very aware of these efforts in the market.

That is a tremendous anti-fraud tool. Anti-fraud is good, period, stop, you know, end of sentence and thought. And if we can then keep our eye, not just on getting at the source of truth, but making sure that that information that we now have, there's no degradation in the integrity of that data across the lifecycle of any loan product, so that it's accessible and, you know, according to the proper definitions by other users in the chain, that's another thing that can enhance safety and soundness.

Again, better for the borrower because it's more precise and accurate result, and better for the market as well.

MS. KOIDE: I wish we had, sort of, the pro/con'ing work done that we're essentially doing right now, thinking about new types of data, cash flow data, in credit underwriting. We don't have it done yet, but it is work that we have underway right now.

I will say, I think some of the things that we have to think even more holistically about are, what do our laws, right now, when it comes to governing data for credit, FCRA, ECOA, what do they succeed at and where to do they fail as we think about new types of data being brought into underwriting.

And it's hard not to also, especially as you talk to firms that are working, not just in the U.S., but in Europe, Asia, not to also need to think about needs around harmonization in terms of other consumer data privacy laws, GDPR being the big one, and really pushing ourselves to think about, what are the fundamental principles that we want to adhere to when we think about data being used for underwriting and other purposes.

And do we potentially need to think whole cloth about something different in terms of what is the governance around the credit ecosystem or the data ecosystem?

Again, I wish I could sort of dive into that deeper with you right now, but these are some of the things that we are, in a very methodical way, thinking about at FinRegLab, so I put that out there.

MR. RIEKE: So on that note, we have about one minute left for this panel. I wish we had longer because there are fantastic questions in this stack sitting in front of me. Just to give you a taste as we end. I have a question about the appropriateness of using data like education attainment data in underwriting, where, obviously, there's a lot of racial disparity, for example, underlying that factual and likely predictive source and how do we think about that?

I have questions about, when is it appropriate to use certain types of scores or alternative data only as a second chance when the traditional scoring fails and does that change our analysis at all?

And as, I think, Melissa just hinted at, a question about how national privacy frameworks might fit in to supporting the positive development of this whole space.

Unfortunately, we don't have time to discuss those questions, but I hope this just gives you a sense of, this is a live and important conversation. Thank you to this panel for being so clear, and cautious, and specific. I think it was a really good conversation.

We have 15 minutes for break, so for those of you in the room, please be back in 15 minutes, and to everyone, thank you very much.

(Whereupon, the above-entitled matter went off the record at 2:43 p.m. and resumed at 3:06 p.m.)

MR. VESPA-PAPALEO: Good afternoon. We're going to begin with the final portions of the program. Hope it's going well. We are going to now hear from one of our newest colleagues at the Bureau, the new head of the Bureau's Office of Innovation, Paul Watkins.

Through the work of the new office, and the Bureau as a whole, the Bureau seeks to fulfill its statutory mandate to promote competition, innovation, and consumer access within financial services.

Paul joins us most recently from the Arizona Office of the Attorney General, where he was in charge of the office's FinTech Initiative, including the FinTech Regulatory Sandbox, the first state FinTech Sandbox in the country.

Paul also served as the office's chief counsel for the Civil Litigation Division, a role in which he managed the state's litigation in areas such as consumer fraud, anti-trust, and civil rights.

He graduated Harvard Law School, Paul also worked in private practice and clerked on the 4th Circuit, prior to joining the Arizona AG's office. So please give a round of applause for Paul Watkins, our innovation chief.

MR. WATKINS: Well, thank you very much for that introduction. Some of the best speakers that you've heard from today try to engage the audience with a joke. You've seen that we bureaucrats, on the other hand, try to engage you with a disclaimer, which I need to give you.

Which is, these are my views, they're not necessarily, legal advice, or they're definitely not legal advice, and they may not be the views of anyone else.

So as was mentioned, I was previously at the Arizona Attorney General's Office as a consumer protection regulator and that's where this interest in innovation came from. So what I'd like to do is indulge your permission to anecdotally talk about how that transfer occurred, how that interest in innovation occurred, then talk about why innovation is important to the Bureau, and talk a little bit about where the office is and where I think we're heading.

So when we were doing consumer protection in Arizona, we entered that role with viewing consumer protection as primarily enforcement, which I think is natural, especially for a regulator. Enforcement is what we can do, so that is consumer protection.

And after about a year and a half, we started thinking, well, maybe we should be approaching consumer protection from the consumer perspective, and if we approach consumer protection from the consumer perspective, enforcement is still very important, especially the deterrent effect of enforcement, but it's hard to say that enforcement is driving, primarily driving, the Protection that consumers exercise.

There are a lot of other things going on, there are limits to what enforcement can accomplish, it's rare for a consumer to receive restitution from an enforcement action, as a percentage of the transactions that occur in the market.

So what is the protection that consumers are exercising? And as we studied that question, we came down to realizing, it's about access, it's about choice, it's about competition, it's about the ability to go across the street, to go to a different Web site, to pick a product that is a better fit.

This is the fundamental drivers that consumers want to have access to, that they need to have access to, in order to protect themselves. And the pressure that comes from the threat of innovation, plus the deterrent effect of fraud actions, I think, combine to produce consumer-friendly innovation, which is what we wanted to see in the state.

So that caused us to think, well, what are regulators doing to promote innovation? Is there anything additional that we can be doing? Because when we looked at our consumer complaints, and we're a small state, relatively small state, certainly small compared to the reach of the Bureau, we get about 15,000 or 16,000 complaints a year, many of those complaints are not jurisdictional, a lot of them are not jurisdictional, they're bad terms, they're bad service, they're things that we can't bring actions about, but yet, there are aspects of consumer's lives that we wish would change, that we wish would go away.

And so we looked around the world and saw FinTech Sandboxes being deployed successfully in the U.K., successfully in a number of jurisdictions, and we thought, let's try this out in Arizona. Let's see if this is something that can work.

And this principle of innovation driving consumer protection, I think, is also at the heart of the Bureau, and it's at the heart of Dodd-Frank, so I'd like to transition to the more important topic of why innovation is important to the Bureau.

And that's derivative of the statute. If you look at Dodd-Frank, if you look at the objectives, and I have them written down here, so let me reference some of the language so I am accurate here.

The Bureau has purposes and the Bureau has objectives, I'm not sure I could tell you what the difference is between a purpose and an objective, but I know that they're both important, so part of the purpose is to ensure consumers have access to financial products, markets, and to ensure that those markets are competitive.

The objectives include ensuring markets operate efficiently to facilitate access and innovation and ensure that outdated, unnecessary burdensome regulations are addressed.

So this is exactly the sort of thing that we thought was a new idea when we were in Arizona, and as so often happens, what we thought was a new idea was actually not a new idea, it had been thought of by many other people, it was incorporated into Dodd-Frank.

And I think when you stop and think about it, this is common sense. This is something that regulators should be pursuing, both fraud prevention and promoting innovation.

So under Director Mulvaney's leadership, the Office of Innovation was established about -- we had our two-month anniversary yesterday, so we're relatively new, and we've taken a few actions. We joined a, what was called, GFIN, which is Global Financial Innovation Network.

If you look at the content of that document, it's primarily a document whose purpose is setting the groundwork for future relationships, future actions by regulators. We also issued a revised trial disclosure program.

And before I get into that, I just want to make sure that there's no confusion about the title of the office, Office of Innovation. You may think, well, that's probably where innovation happens. That's why it's called the Office of Innovation. We have innovation over here. We have non-innovation over here and everywhere else.

That is completely false. False to a very high degree; four Pinocchios. So I've started -- you know, I've had a few jobs. I'm kind of a Millennial in that sense. I have never had a job where I have been welcomed so warmly by so many people who were eager to assist in the mission that I've been hired to accomplish.

I want to single out a few folks who went above and beyond in providing research memos, in providing materials on this subject, and the reason I'm talking about this is, that tells me that innovation, as you would expect from the statute, is part of this organization's DNA. It's part of the division.

It's something that everybody in this Bureau already cares about and this office's role is more of a facilitator, a coordinator, an instigator to empower what already exists.

So Will Wade-Gery, who happens to be in the third row there, is an expert on trial disclosure policy and wrote extremely helpful materials on that, that we were able to start off on. Ed Blatnik also wrote some extremely helpful material.

And RMR actually gave me an entire binder of background materials related to my subject matter area, which takes quite a lot of time. And I just highlight that because I appreciate that welcome so much. I appreciate that spirit of cooperation.

And Tom Devlin also produced a lot of great material, and the materials produced by those three folks allowed us to get this trial disclosure policy written relatively quickly.

So that disclosure policy came out a couple weeks ago. There's a 30-day comment period and we would encourage you all to make your views known. I can talk a little bit about the authority for that policy. It's under 1032 of Dodd-Frank.

The Bureau can permit trial disclosures under certain conditions. Those conditions include, the disclosure must be limited by time and scope, and must be for the purpose of improving upon existing disclosures, and the Bureau deems the disclosure in compliance with existing requirements, which means that when you're testing the disclosure, you will not be sued for using that particular disclosure, at least you will not be sued under some statutes.

So this initial policy was released in 2013. There were no applications in five years, so I think there was pretty broad consensus that this was something to look at and something that would be helpful to change.

Now, the supervisory highlights note that we are not only working on the trial disclosure policy, we're also working on the no action letter policy, so there may be more to discuss there later.

Now, for this particular topic that were organized very well, thanks to Patrice, around today, on access to credit, there are number of developments that I think are worth looking at and that we're looking at as an office.

There is a widely cited paper by the Federal Reserve of Philadelphia showing that alternative credit data is allowing consumers greater access to credit.

If you look at the Treasury report, the Treasury report highlights marketplace lending as an area that has increased access to credit. And if you look at some of the Bureau's prior publications, there was a data point from last year that highlighted the importance of credit cards, a traditional form of lending, in opening up access to credit, that that is often the first visibility that folks get in building their credit profile.

And the variety of these examples, I think, emphasizes the humility that our office needs to have in approaching innovation. Innovation is not just something that happens in Silicon Valley, it's not something that happens when fancy names are attached to it, in fact, in my prior job, one of the actions we brought was against Theranos, which checked all those boxes, from Silicon Valley, fancy names, groundbreaking innovation, supposedly, it didn't turn out that way, and we had to move very quickly to make sure people got their money back.

So we need to recognize that innovation can come from all sorts of different places. Now, in concluding, I just want to share my thoughts on why I think innovation in this particular space is so exciting when it comes to credit access.

The way I think about it, the market has made a determination about someone and they've said, your word, your promise, your integrity, is not worth very much, we're not going to lend you money, or we're going to lend you money on terms that are not very favorable. That's the status quo.

And technology has come in and said, the market's wrong. This person's word, their integrity, their promise, it's worth a lot more than was previously understood. And loans can be made and they can be made on better terms than were previously believed.

And we use the term consumer to describe the borrower, but we're talking about human beings, and we're talking about an important, albeit a small portion, of this human being, their credibility, their integrity, and it's my hope, as an office, that we can be participating, that we can be facilitating the revaluing of our fellow human beings.

The recognition of value that did not previously exist in the market. And I think if we can participate in that, if we can further that goal, that that will be a very successful and worthwhile place for the Office of Innovation to be.

So with that, thank you very much for your attention and your time.

MR. VESPA-PAPALEO: Okay. Our next panel will start convening and coming to the fireside chat. So just imagine the coolness of winter, crisp air, no, no, no, Grady.

Before we begin, if we get interrupted, you'll understand why. Just want to have a moment to, once again, introduce speakers, and then I will come and sit down here and start the chat.

You have Daniel Dodd-Ramirez, we saw

him moderate earlier today, Daniel's the Director of the Office of Community Affairs here at the Bureau. We have Paul Watkins, who you just heard give some great insight into his team, and his office, and his vision.

Next, Grady Hedgespeth, who you heard from earlier as he moderated a panel. He's our Director of the Small Business Lending Markets Team. And Will Wade-Gery, who is the Director of our Card Payments and Deposits Markets Team, and Patrice Ficklin, our Fair Lending Director.

Let's see if this works. Oh, this works great. So I'm going to ask a series of questions and then we'll have some time to take questions from the note cards that we've circulated. So in the next few minutes, if you have additional questions, please fill out a note card and give it to one of our Bureau staff so we can use those later on.

So let's begin with the first question. Will, first, and then Daniel, and then Patrice, and Grady, and Paul. From your vantage point in your office at the Bureau, what is the single most exciting takeaway, that you've taken from today's convening, regarding the geography, or credit invisibility, or how thin or no-file borrowers transition to credit visibility? Will?

MR. WADE-GERY: Sure. I mean, I was struck by a lot of things, but, I mean, as a major theme, I think, sort of, the importance of digital access. That was a theme throughout, in a lot of the panels. I was struck, in particular, by two nuggets.

First, in Ken Brevoort's presentation, I think that's Ken and Michelle Kambara paper, if I'm crediting that wrong, I'm sorry. That final chart that he had, right after he demonstrated the correlation between geographic distance to a bank branch and credit visibility might not be quite what you thought it would be, right after that, he then had, sort of, the equivalent chart showing digital proximity and its potential, apparently quite significant, impact on credit visibility, and I was very struck by that.

And then Marla Blow earlier had just a little nugget, which was her example of digital engagement, you know, in the servicing context, which was that, that payment prompt halfway through a credit billing cycle had a 12 percent lift in payment rates, I think, in the first few months, which is, you know, very interesting in itself.

And it got me thinking that, you know, given the importance of both the digital channel to origination and to servicing in the kind of illustrations that those two examples give you, you know, it is a curious feature of our regulatory regime that the disclosures were overwhelmingly designed for a paper context.

And that's something that I think, in RMR and in my office, that we think about that. Obviously that's changing. In recent rule writings, I think the Bureau has given more attention to electronic disclosure, but thinking about how electronic disclosure evolves, other uncertainties that it could address, are there ways in which we're not taking advantage of what electronic disclosure offers you?

Those are, sort of, the interesting questions that are prompted by that.

MR. VESPA-PAPALEO: Fantastic. Thank you, Will. So another takeaway that we have is a surprise visit by our Acting Director, who's making his way to the front, and Paul Watkins is going to introduce the Acting Director.

ACTING DIRECTOR MULVANEY: We'll do it without the introduction. Good. Yes, that's great. I promise you it was not raining when I walked out of the White House three minutes ago. So I'll just take a few minutes. I feel terrible about interrupting. I tried to get here before that segment started, I am rushing out the door, but I wanted to say a couple things very briefly.

Number one, thank you to Frank and Patrice for doing this, and thank you for helping us send the message that, we're still doing fair lending. We are still in the fair lending business. You may have read a bunch of things, or seen a bunch of things, saying we're out of that business, and nothing could be further from the truth.

And I hope that you take this symposium as evidence of that. We are still very much in the fair lending business and we're going to remain active in that space, and I hope that's one of the take-aways that you take from this.

I also hope Paul had a chance to explain to you how to fix this problem, because we do think it's a problem. Too many people do not have access to credit, too many people are living in these deserts, the credit deserts, and FinTech does offer, one, a variety of ways to fix it, so I'm very, very pleased with the team that we have on.

Frank, and Patrice, and Paul working together can help work with you folks to try and solve this problem. This is the business we're in now. We've talked more about elevating the other things that we do at the Bureau, and educating people, and trying to solve these types of market problems, which are in our statute, that we're mandated by Congress to do this kind of stuff, and we've said, I've been here nine months, ten months, that we're going to pay close attention to the statute and do what it says to do, and this is one of the things we're supposed to do.

So I'm very pleased and thankful that you all have given it the attention that it deserves and needs, and look forward to following through and doing everything I can to help you get it done. So with that, I'm going back out in the rain to go to another meeting.

So again, I do apologize for the interruption. Thank you all for taking the time to get involved. Thanks especially to our team for taking leadership on this, so I'll talk to you soon. Thanks.

MR. VESPA-PAPALEO: So, Daniel, what was one of your take-aways from today's symposium?

MR. DODD-RAMIREZ: Well, I think, certainly, high tech is a real potential, right? It's not necessarily the panacea, I think high tech, and as I mentioned earlier, high touch. You know, we heard some examples of how coaching, financial coaching, which is really high touch, and labor intensive, is really critical.

You know, we heard from, you know, initiatives today about that, and ways that we can take that to scale is really paramount, especially to get up to rural areas, right?

So we've done a lot of work developing educational content in a way that's smart and tailored. We've been training, you know, front line workers and people that are already interfacing with clients on a regular basis with a toolkit that we've got called, Your Money, Your Goals.

We've also really been very engaged with financial coaching as well. We got 60 coaches right now that are around the country that have been offering, you know, coaching, where people are receiving other services.

And we've also been developing content that are helping young people that are getting their first paycheck to better manage their money, to open up accounts. We hear regularly from those youth about, you know, they're looking very, very quickly for the best app, you know, to help them to do so, and are, at times, impatient, you know, if they can't find something that is lively, that is educational, that's easy to access, and so we're really looking at that.

And then, you know, we're also developing new digital tools that people can access. So I think we cannot, you know, we have to be, you know, still focused on this idea that, you know, high tech and high touch, especially with education.

I think alternative data is very, very interesting. I think we have to tread carefully, but I think there's some, you know, huge potential, and we've heard a lot over the years, especially, you know, Dark talked earlier about how rent, you know, has been, you know, reported, the negative has been reported, but the positive has never really been reported at the level that it could be.

And then I think, lastly, that we have to continue to look at how to strengthen the business case for financial institutions, for credit unions, for community banks, for other organizations that are out there to offer more entry-level products.

It's really important, how do we help to look at the on ramps to other products and, you know, people that are offering those initial products. I still remember my past, in Savannah, Georgia, I ran a poverty reduction initiative for almost ten years, I remember somebody on my board, this gentleman named Bob James with Carver State Bank said to me, you know, Daniel, it costs the same amount of money to process a $1500 loan as a $50,000 loan.

And they were the only CDDI in town and they were -- he said, you know, it's really -- you know, everybody's always asking us to do this, but the fact is, you know, we're the smallest, one of the smallest, banks in town. We need to have the other banks and the other credit unions come in and offer more of these sorts of products.

So we have to look at how to strengthen

this business case, and I'm encouraged today of some examples of promising strategies to do it, you know, products that are offered through employers or other platforms, and they seem to create scalable on ramps for borrowers who struggle to access credit.

MR. VESPA-PAPALEO: Thank you. Grady, what was your series of take-aways from today?

MR. HEDGESPETH: Well, coming to this consumer group from a small business perspective, I think it was reassuring to hear just how many practitioners and even our luncheon speaker, Jackie Reses speak so eloquently about the role that small business and entrepreneurial support, through small-dollar lending, can have for the economic visibility and vitality of communities, and to really address credit invisibility at a new and innovative way.

I think they model, in many ways, the kind of collaboration spirit we have here and I appreciate the shout-out to RMR and for those in our audience who don't do Bureau speak, that's research, markets, and regulation.

And I think as someone who spent a fair amount of time in government circles, it is rare that those three things are together, and the fact that we are able to look at problems from the perspective of the marketplace, from the rules that we have to do, as well as research, is just a microcosm for the collaboration we have between consumer education and fair lending in our enforcement.

And if anything today, I take this as a very strong signal of support that coming at these problems from a multidimensional approach and being modeled by this agency really does have the promise of making CFPB a leader in innovation across the whole financial services space, especially around credit invisibility.

MR. VESPA-PAPALEO: Thank you. Patrice.

MS. FICKLIN: Thanks, Frank. I think what struck me is a variation on the high tech/high touch theme that Daniel was sounding. You know, I'm thinking about the fact that I've been working in this space of advancing -- expanding access to credit, I think, for at least 15 years, wearing various hats, right?

And so I can remember being an industry attorney running around the country trying to convince utility companies and telecoms to start reporting their data as a way to bridge what we -- we didn't dub them credit invisibles, but it was the precursor to that group, and, you know, some of the loan products that we helped create and developed that were based on remittance activity or savings activity, and really trying to, sort of, tackle this.

And what I remember was the dichotomy between automated underwriting and manual underwriting, and so much of our innovative was, in a sense, relegated to the manual underwriting space, and back in those days, that was looked upon in a sense with disdain.

The thought was that, automated

underwriting was really the wave of the future and it did bring consistency, which has helped from a fair lending standpoint, but what it lost was a theme that was hearing over, and over, and over again today, which is this theme of character and trust.

And being able to assess an individual borrower, an individual consumer, really, in the sense as Paul was saying, noting their value, being able to truly evaluate their value in terms of their ability and willingness to repay credit.

And it's so interesting right now to see us in a place where the technology has continued a pace in these 15 years, since I started thinking about these issues, and yet, at the same time, the same old-school stuff still matters, right?

You know, sort of, everything you needed to know you learned in Kindergarten kind of idea, because so many of our panelists talked about trust, they talked about being able to assess character.

And I am convinced that the solution to

a lot of what we're talking about here, and there will be many solutions and it'll be over many years, but I think one of the keys is going to be this marriage between leverage technology, but at the same time, preserving the ability to see folks as individuals and to be able to assess character.

I think as we move forward in our work on the 1071 regulation, I know that some of what we've heard in terms of the small business lending world is that they're worried that once the regulators get involved, that they're going to lose the helpful core of character assessment that so much commercial lending is built around.

And I've heard that concern, but I've never felt that it was going to be the case once we complete that work. I feel we can do both. I think we can take what Ken Brevoort, Michelle Kambara, and other folks in the Office of Research have found in their data point about the importance of high-speed -- access to high-speed Internet technology and combine that with the basics around character assessment and trust.

And so it's just really interesting to see two worlds that, you know, back, 15 years ago, were seen as very different and really, manual underwriting is something that was considered unfavorable and almost a dirty word, you know, because automated underwriting was so sexy back then that, you know, of course, it wrought quite the economic crisis.

And hearing those same, kind of, core concepts back in play again, and back in vogue, and folks building business models, and reaching under-served borrowers, and making good money at the same time, using some of these really old-fashioned concepts combined with sophisticated technology.

So just exciting to me and kind of ironic in some ways.

MR. VESPA-PAPALEO: Great points, Patrice. Paul, anything you'd like to share of today's symposium in terms of your key take-aways?

MR. WATKINS: The overall theme that impressed me was the potential for improvement in the cost structure, which I think can drive a lot of access, the improvements in low-cost delivery mechanisms, and to piggyback on something that Will said just now, that really raises all sorts of questions about whether our regulations are appropriately tailored for those new delivery mechanisms, is this really the best method of getting the information that consumers need in front of them at the time that they're using it?

I think we've, in some cases, gone to scalable PDFs, which is an improvement over non-scalable PDFs, but I suspect there are even greater improvements that are possible.

And so I hope that we see those sorts of proposals.

MR. VESPA-PAPALEO: Great. So sort of following on that, now that we've identified some key themes or take-aways, I wonder if you could each, from your perspectives, leading a particular office at the Bureau, can share thoughts you might have about what tools do you have available through your specific work in your office to advance collaboration with the new Office of Innovation and advance these themes. Grady?

MR. HEDGESPETH: Well, first, I think I want to speak to a theme that Paul said, bringing innovation into regulation right from the very beginning. We're working on implementation of Section 1071 of the Dodd-Frank, which will require lenders to minority-owned, women-owned, and small businesses to report on applications for credit, and the results of those applications.

And it'll be one of the first time we have a comprehensive database that will be comparable from year to year on, really, the demand side of the equation for small business credit.

And although we're still in the early stages of it, one of the things that we are definitely benefitting from is the experience we've had with HUMDA and HUMDA modernization, and some of the technology that we just rolled out that is making it much, much simpler for lenders to report their HUMDA reporting requirements.

And speaking with Jackie Reses during

lunch, one of her concerns at Square is this requirement to have borrowers identify the ownership by race and gender. She's very concerned that is going to curtail people's interest in getting credit.

And I assured her one of the things I'm really interested in is how we can partner with the private sector to use technology as a way to lower those barriers and potentially have a registration system even that can allow small businesses to do that and so to take some of the pressure off the regulator as well as the financial institution.

And we're going to need to have conversations about that, but I would really love it if whatever rule we write, allows for that kind of development, if not on day one, at some point during 1071.

MR. VESPA-PAPALEO: And, Daniel, from the vantage point of your office and its makeup, what are some of the tools or just seeing ways that you can collaborate with the Office of Innovation?

MR. DODD-RAMIREZ: Well, as I

mentioned, we have a lot of good content that companies can use and have used, such as our Ask CFPB Questions. Those are, you know, hundreds of answers to questions on financial topics that can be adapted.

This year, we're also taking some well-tested, widely utilized analog tools, making them digital and mobile. We hope this will help people further achieve their financial goals.

And as I mentioned before, this is really crucial for connecting to all consumers, but particularly for those living in rural communities. The other thing that I think that we need to continue to do and that my office has done successfully in the past, is to really look at opportunities, like with H&R Block, or with other industry leaders, like American Express, that are engaging with consumers every day.

And let me just say, I really appreciate your comment about, let's not forget there's people here, you know, behind this word, consumers. We always put the consumer first here at the Bureau, but there's people, you know, that, at the end of the day, we have to be thinking about.

And, you know, there are people that are going to get their taxes done, you know, at certain times of the year, and for them, that's their financial checkup, right? That's the only checkup they'll get in the whole year. So how do we, you know, look at opportunities to encourage them to save some of that money at tax time, also understanding that they're going in and the money's already spent.

They're addressing debt, they're addressing all the issues that they have. However, we've got, you know, a lot examples, you know, whether it be with volunteering tax assistance programs or with private companies, like H&R Block, that have been able to engage with individuals as they're coming in and encourage them to save money for emergencies or if not saving money for themselves, but to save money for their child to go to college, you know, with a 529 plan or with a children's savings account.

And so I think we need to continue to look at opportunities. I mentioned earlier on the panel that I moderated about, you know, research that we had done that the Office of Research did with American Express that encouraged savings for people with prepaid cards that are un-banked.

And so I think there are a lot of opportunities to really look at, you know, products like that, that, are out there and to encourage innovation.

And I really appreciate your coming in with this humility and referring to us as, you know, in the same way we are, you know, I'm very, very excited to be able to work with you and to really think about, you know, putting people's, you know, interests first.

MR. VESPA-PAPALEO: And, Patrice, I would -- before I ask you to respond, I would like to just remind folks, if you have any questions, to please write them on the cards and Ann Elise is circulating around the room to collect those.

Patrice, from your office in Fair

Lending, where we work together --

MS. FICKLIN: Where we work together. The office we co-lead.

MR. VESPA-PAPALEO: -- what are some of the innovative ways that you think you can advance and collaborate with the mission of the Innovation Office?

MS. FICKLIN: Sure. Well, starting with out statutory mission, which is promoting fair, equitable, and non-discriminatory access to credit, and this access to credit piece I think is really just a key place of synergy and, really, overlap with the mission of the Office of Innovation.

I had the privilege of leveraging my deal lawyer skills that I honed as a young lawyer to lead the negotiations of the Bureau's one and only no action letter in the ECOA space.

And so I'm happy to deploy those skills again should they be needed, Paul. I'm a tough and resilient negotiator, but importantly, that no action letter was very important to me, from a philosophical standpoint, because I do believe that the ECOA, the Equal Credit Opportunity Act, even as it's currently constructed, and I now we're talking about, you know, potential, regulatory reform and legislative changes, but I think as it's currently constructed, it actually can support innovation.

And I think that the no action letter is an example of that. I hope we see many more. And I think that there are ways in which we can identify opportunities to expand access to credit in a way that doesn't harm populations and harm consumers, but met as a benefit.

And I think that that particular activity is an example of it and I hope that there are more.

I think that in addition to that, we're excited about the revamping of the trial disclosure policy, Will's baby, because I do think that there are opportunities for us to do some interesting work in the space of adverse action notices.

I think that we can use the current

adverse action notice framework, under both ECOA and FCRA, to think about some, maybe, trials where we experiment with, what do disclosures look like in the artificial intelligence, machine learning space, when alternative data are used in underwriting and pricing.

And am hopeful that part of the work that Paul's team has done will generate some interest in that and that we can partner with and support Paul's team in evaluating folks who come through the trial disclosure and the no action letter policies programs.

I guess the last thing I would mention is that the existing framework, the existing regulatory framework for the ECOA, under Regulation B includes something called Special Purpose Credit Programs, which are programs that can legally be targeted on a prohibited basis, so for example, on the basis of race, or gender, or age, to lending programs that are targeted to special audiences.

And again, there's lots of footnotes

that my friends in the legal division would have me put on that in terms of complying with the requirements of the reg, and we've had some interests. There have been some lenders that have approached the Bureau with their special purpose credit programs.

And I also feel that that existing authority, which is an authority that is, I think, very much at the center of expanding access to credit and encouraging innovation is another place where we may be able to engage with industry and create the kind of safe space where they can experiment with other innovations without fear of running afoul of the fair lending laws.

MR. VESPA-PAPALEO: Will?

MR. WADE-GERY: Sure. So I lead, with Grady, one of the markets teams within Research, Markets, and Regulation, focused on card payments and deposits. I think that one of the things that we can bring to the, you know, innovation agenda here is because we talk and meet with market players on a regular basis, and we're doing it not within my office from a compliance or an enforcement, you can have a slightly different kind of conversation, and you can learn things, not only about where players think the market might be going, but how the existing regulatory framework interacts with that.

So I think, I'm hopeful, that some of those kinds of conversations and points of contact will lead to ideas that then find their way to Paul's Office of Innovation. I mentioned electronic disclosure. I think there are lots of examples that you could think of here, Patrice has mentioned adverse action notices, I'm sure my colleague, John McNamara, who leads the Markets Team that covers credit reporting, would echo that same prediction.

So I think a source of ideas from market players, with respect to the, not new innovation tools, but revamped innovation tools. Let's put it like that.

MR. VESPA-PAPALEO: So to that end, I have a few very interesting audience questions, and, Paul, there are two for you, actually --

MR. WATKINS: Okay.

MR. VESPA-PAPALEO: -- that are related to this. The first one I'll ask is, do you plan, in your role, a formal "sandbox" to test new FinTech?

MR. WATKINS: That's a tough question to answer because there's not a real tight definition of what a sandbox is. So if you look at our revision of our -- of the trial disclosure program, we call that a disclosure sandbox, because that fits. I think the fundamental definition of a sandbox is you are, in some way, lowering the regulatory barrier to entry or reducing uncertainty, so that a product can be tested and then in exchange, the tester is giving up something.

They've limited the scope of what they can offer, they've limited the time frame, and the trial disclosure program meets all those criteria. There's a safe harbor, there's a projected time limit, and so I think it's fair to call that a sandbox.

You know, beyond that, I guess the question calls me to speculate, which I don't think I'm supposed to do, but, you know, the key thing is not really the terminology, the key is the effect of the programs, right, so I think that's where we're focused. We're not wedded to a particular terminology, we're wedded to effectiveness.

MR. VESPA-PAPALEO: Okay. There was also a question, I'm going to, I think, add a little more to this to complete the question, given the importance of innovation and the no action letters, is there any possibility of extending the comment period? I'm assuming regarding the trial disclosure policy.

MR. WATKINS: Oh, for the trial disclosure program? No. Here, let me comment on that, because I don't -- so my understanding of how the program was rolled out in the first place was that there was a fairly long comment period and the program was proposed, and then it ran for five years, and now it's being revised.

That's not a testing model that anybody uses when they're trying to reach consumers. The testing model that people use is, you do -- you come up with the best product you can, you get what feedback you can in an efficient period of time, and then you try it, and if it's not working, you change it as quickly as you can.

And so this is a policy, it's not a rule, there's not an APA requirement that it go through notice and comment, we want the revision, at the start, to be as effective and as well drafted as possible, but if there's something about it that is not encouraging trial disclosures, as the prior policy didn't, we can change that in the future. We can revise this.

We receive input all the time. We're very glad to receive input past this 30-day period, but this policy has gone five years without being used and I think that's probably long enough.

MR. VESPA-PAPALEO: Thanks, Paul. So what type of coordination could various offices, the Bureau, each of your teams, engage in with agencies, with other agencies, at the international, federal, state, and local levels to promote access to fair, equitable, and non-discriminatory credit?

What role do each of you play in working with regulators and agencies outside the Bureau? Patrice?

MS. FICKLIN: Thanks, Frank. So the Bureau is -- I represent the Bureau in regular engagements with the other FFIEC agencies, so the other federal banking regulators. We regularly meet in what we call a FinTech Discussion Forum, and we talk about FinTech and alternative data issues.

We also collaborate very closely when FinTech providers come in and are meeting with some of our sister agencies. We often are invited to sit in those meetings, and vice versa. We hear from trade associations, civil rights groups, FinTech providers, et cetera.

A number of those agencies were represented here in the room today, I'm pleased to say, and are also viewing us on livestream as well, so we have very robust dialog with our sister agencies with regard to these innovations.

We're sharing some of the observations that we're finding as we go through our supervisory and enforcement activity. We're sharing some of the thoughts and concerns that we have about potential risks to consumers as well as the potential promise and benefit of some of these innovations as well.

And I think that our collaboration and dialog will be very helpful to the industry. I think it will help in terms of, you know, institutions. In private practice, I represented institutions that had many different federal regulators who sometimes gave different messages on the same topics.

And I think that we all have a shared goal of trying to, as best we can, collaborate and coordinate around our themes and our messaging.

I think Paul will probably speak to this in more detail, but I know that many of them have

Offices of Innovation as well.

MR. VESPA-PAPALEO: So to that point, Paul, what are some of your thoughts about inner-agency and extra-agency activity?

MR. WATKINS: Right. So I think there's probably more conversations that are going on behind the scenes than people realize. I know that my perception, before I came to Washington, was that I did not know to what extent agencies were talking to each other.

So this happens informally, there are a number of formal structures where it happens, and that's a very good thing. It happens among the innovation chairs that were mentioned, but also, going back to the theme that innovation is relevant and sort of occurring all over the place, it's important, I think, for me to be aware of discussions that are going on, interagency-wise, among the enforcement side, among the rules side, among all the different aspects of the agencies.

At the international level, I think the FCA's made no secret of the fact that they would love to do cross-border testing, so there may be an opportunity for agencies in the U.S. to cooperate on that.

There may be an opportunity to cooperate with some states as well.

MR. VESPA-PAPALEO: And, Will and Grady, in terms of your roles heading up various markets teams at the Bureau, what kind of interagency activity might you be looking to to engage in in advancing this issue?

MR. HEDGESPETH: Well, we've already begun to be recognized as a real expert, especially on the cusp of consumer small business interface. The FDIC has called upon us to review documents that they're sending out to all of their lenders on how best to do small business lending.

My program manager was intimately involved in that. We participated in the FFIEC interchange. We've been engaged with SBA's Office of Advocacy, and will be through what's called the sub-brief, a process of 1071 have already begun to discuss the implications of 1071 for other agencies and discussions about how that data collection effort might be leveraged across Census, and SBA, and others who have an interest in the area, as well as the CDDI Fund for those mission lenders who are really critical for financial literacy and empowerment.

MR. VESPA-PAPALEO: Will?

MR. WADE-GERY: Not a ton to add to that. I think it's important to note, there is a formal collaboration function within RMR when we're rolling out a new rule or a new policy. There is, in fact, a formal process that's generally run by the Office of Regulations to interact at a formal level.

Obviously, I think the markets teams, our interaction with other agencies is rather more informal. It's probably along two vectors. As Patrice said, it's often meeting with the same market players. There's sort of an efficiency in having those conversations together and then having, you know, shared views about what you see going on in this market.

And then on the policy point, obviously, I think, probably, there is more that we all collectively could do to learn from each other. I mean, one of the things I work on is data aggregation. I'm not just saying this because of my accent, but in some ways, the Brits, you know, are rather further ahead than -- on that particular score, I would say, than we are.

And just simply learning from -- I'm not saying that what they've done is perfect by any stretch of the imagination, but just simply learning from that experience on an informal basis is something that we try to do, similarly, because other people have faced the same problems that we're facing too.

MR. VESPA-PAPALEO: Daniel.

MR. DODD-RAMIREZ: Everything that my office seeks to do is looking at how to get to scale, especially when we're talking about so many people that are credit invisible, so many people that are living at the poverty line around the country. We're trying to look at how to get as many education materials out there to serve as many people as possible.

So we've worked with HHS, we're working, currently, with HUD, with USDA's cooperative extension offices, that reach, you know, around the country, to get our tools, the education tools, into the hands of people that are interfacing with clients every day.

And then we're also looking at data that the Bureau is producing, the credit invisible data that the Bureau's produced. It was pretty hefty document, not everybody has used it, was using it, we actually broke it down to one-page summaries, or profiles, and we just put the 50 states, you know, on our Web page, consumerfinance.gov, where you can download a one-page summary of how many people are credit invisible in your state.

And we've worked with cities from around the country. Boston Builds Credit is actually here today. They've got an initiative to move 25,000 people who are subprime to prime by 2025. That's a very, very ambitious, you know, strategy.

And, you know, the mayor, the unions, the non-profit, United Way, LISC, I mean, there's a whole bunch of non-profits and banks that are all working together to achieve that goal.

I very much believe that innovation happens at the local level and we want to try to support that, and learn from that, and then spread that to other initiatives around the country. So, you know, we're always looking at ways to partner to get more out there to reach more people.

MR. VESPA-PAPALEO: Well, great. And I guess, as our final question, maybe, as a wrap-up, Paul, do you have any thoughts about, after this convening, sort of, next steps in how your office might want to advance, sort of, the next level of conversations around access to credit issues?

MR. WATKINS: Right. So I think our, as I noted in our supervisory highlights, we indicated the first priority is to get working policies that people want to use, and once that structure is in place, then I think it makes sense to drill down on the subject matter and to, hopefully, either through the issuing of waivers or the issuing of no action letters, to provide some guidance and some leadership on where we think innovation can occur in these areas.

So that's probably not a completely satisfying answer, because it's pretty general, but those are the next steps and the general approach that I anticipate us taking.

MR. VESPA-PAPALEO: Excellent. Well, thank you, and please join me in thanking our August panel here. And we can stay here as Patrice goes to the podium and does a final wrap-up.

MS. FICKLIN: All right. And thank you all. We had hoped that this symposium would inject additional momentum into the many ongoing conversations about these critically important issues and from the incredible discussions we've had here today, I'd say we've achieved that goal.

The Bureau is committed to continue to serve as a convener for these discussions and to take what we've learned today and use it to inform our work, and perhaps most importantly, we are committed to holding another symposium like this next year, and thinking about the themes for that symposium.

We'd like to bring together the same type of diverse perspectives that we've assembled here today to discuss other aspects of expanding fair, equitable, and non-discriminatory access to credit, or potable credit, as Ida Rademacher coined this morning.

Some of the questions that we're thinking about as we think about the themes for the next symposium are this question of once credit is established, how can consumers and communities build wealth? What does the path to sustained credit visibility and access to prime credit look like for consumers?

What innovative lending models exist to help consumers generate wealth in their communities? And through internal and external conversations in the coming months and weeks, we help to build toward this next convening and we hope you all will join us in this work.

We're also very interested in your ideas as well, so at the end of these remarks, which will just be in a few moments, I'll give you, again, our email address, where you can share with us your thoughts and ideas about folks we should invite to speak the next time around, topics that we should tackle.

I do want to take a moment, though, to thank, once again, all of the speakers, panelists, moderators, and audience participants for an extraordinary back and forth that we've had throughout the day.

And I want to thank those of you watching on Webcast. We hope to have a dialog with you as well in the weeks and months to come. We've been asked to share the list of folks who signed up to participate with us here in the room. So if you would not -- if you do not want us to share your email address, please let us know, and again, I'll give you the email address at the end of these remarks, otherwise, we do hope to assemble a registrant list and to distribute that as well.

I'm getting some scared -- oh, who are we sharing it with? We've been asked by participants who are here today, can they get a list of all of the folks who've come today. So again, if you have any concerns, let us know and we will certainly be working closely with the legal division here at the Bureau to make sure that I haven't stepped over any lines.

But I didn't want to miss this opportunity to say, if you have any objections, so this is an opt-out, okay? All right. Let me clear on that. All right.

I would be remiss if I didn't highlight the incredible work that the fabulous Fair Lending team, that Frank and I lead, have engaged in pulling this event together, especially Anita Visser, my partner and colleague, Frank Vespa-PAPALEO, for their leadership in organizing and coordinating this symposium, and our partners throughout the Bureau.

Team members of everyone represented up

here on the dais and many other parts of the Bureau have done a lot of wonderful work in putting this together, everything from making sure that the restrooms were staffed with enough paper supplies. You know, we had economists and attorneys worrying about that sort of thing, and the climate control to add the actual substance of this, but those are the kinds of things that make a day like this come together and work, so hopefully no detail left behind.

This event was recorded, so the recording will be available on our Web site. Sometime in the next month or so we will have a synthesis report, as well as a transcript of today's discussions available on our Web site.

I do want to note that the data point report that Ken Brevoort previewed this morning during his CRED Talk, which is entitled, The Geography of Credit Invisibility, was just posted on our Web site at 4 o'clock, so you all got an advance notice of it.

And I know that this is incredibly old

school, but we have paper copies available that we will hand to you as you exit, and I think many of the co-authors are here in the room, I'm looking at some of them in the back row, and they can actually autograph it, if you get them to.

And so the authors of the report, I want to -- stand when I call your names, unfortunately, folks can't see this on the livestream, but at least the folks in the room can applaud you, not only Ken Brevoort, but Jasper Clarkberg, Michelle Kambara, and Benjamin Litwin.

They're part of our very talented Office of Research. So again, we want your feedback. We could not navigate the Paperwork Reduction Act effectively enough to have an actual survey and evaluation of the conference, but we do want your feedback, good or bad, and so thank you for those watching live on the Web cast and here in the room.

The email address, cfpb_fairlending@cfpb.gov. And I'll say that one more time, cfpb_fairlending@cfpb.gov. That email address is also on the landing page on our Web site, the landing page that has the information about this symposium. That email address is also there, so please give us your input and feedback and on this symposium and your thoughts about, what should we talk about next time around?

We will not respond to inquiries that we receive to this email box, but we will read them with interest. And so, with that, I want to adjourn for the day and thank you very much.

(Whereupon, the above-entitled matter was concluded at 4:06 p.m.)