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WEBINAR

# FINTECH IN BLACK-MAJORITY COMMUNITIES: ADDRESSING RACIAL GAPS, STRENGTHENING FINANCIAL HEALTH AND WEALTH

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P R O C E E D I N G S

MS. BROADY: Hello everyone. And welcome to "Fintech in Black-Majority Communities: Addressing Racial Gaps, Strengthening Financial Health and Wealth." And happy for our Black History Month. My name is Kristen Broady. I'm a fellow in the Brookings Metropolitan Policy program.

And today I'm going to start off by giving you a bit of background about the racial wealth gap and access to credit. All on the is presentation, I'll be joined by a group of expert panelists that you'll hear from shortly. So let's get started.

I want to start by talking about the racial wealth gap and what is it? What is wealth? So wealth is a measure of hourly assets owned by a person, community, company, country. And it is determined by taking the total market value of all physical and intangible assets owned and then subtracting all this.

So in 2019, the median network of a typical white household at 188,200 was 7.8 times greater than that of a typical black household at 24,100. Next, I want to talk a bit about credit. So the FICO scoring system created in 1989 was designed to assess the credit readiness of consumers and scores range from 300 to 850. The FICO credit score is used by financial institutions as a qualifier to assess financial health. And it's not easy for individuals to improve their financial health once their credit score is damaged.

Black people are more likely to be excluded on a conventional financial service based on their credit scores which you can see in 2021 or on average where the low is at 677 compared to 701 for Hispanic people. 734 for white people and 745 for Asian Americans.

Next, I want to talk about minority depository institutions and banking access in Black communities. So on December 31, 2020, the FDIC listed a 142 minority deposits for an institution located in 29 states, Guam and Puerto Rico with cumulative assets of 287 billion, which may sound like a lot but for context TIAA alone had 280 billion in total general account assets in the first quarter of 2021. In all the 142 MDIs that are listed, there were only 18 black or African American owned banks. And those banks had combined assets of 4.58 billion.

And now let's look at banking status percentage by race and ethnicity in 2019, which is related to the previous slide about those very small number of Black owned banks that we see. And so, according to this slide, we see that Black people have the highest rates of being unbanked or underbanked and the lowest rate of being fully banked.

And so, what does this mean? It means that they are more likely to have to use things like check cashers or payday lenders. Approximately 40 percent of unbanked adults in 2018 used an alternative financial service during that year like a payday lender or a pawn shop instead of being able to go to a bank. And we know that there are fewer banks in Black-majority neighborhoods.

And so, let's look at just that. This information is from a paper that I coauthored with Matt Maconist (phonetic). And so, this is figure one from that paper and it shows the relationship between the share of Black, Latino or Hispanic in white residence in a particular zip code and banking competition as measured by the (inaudible) index. And zip codes located in metropolitan areas with other 250,000 people after controlling for population.

And so, what this really shows is that the share of Black and Latino or Hispanic residents as that increases so does the HHI meaning that there's less banking competition. We also found that there are a lower concentration of Black owned banks and banks overall in these neighborhoods. So this means that these people have less access to banks. They are more likely to have lower credit scores and therefore they're going to have to use some other way to cash checks or to get loans. And in fact, they may be unlikely to get loans.

So now, I want to introduce our panel to discuss how fintech companies can mitigate these gaps, provide tools and strengthen financial help and wealth. And so, I'm excited to be joined by Aisha Mills of BNC News who is going to moderate a conversation between myself, Chi Chi Wu of the National Consumer Law Center, Fabrice Coles of PayPal and Sangeetha Raghunathan of EarnIn.

MS. MILLS: Kristen, thank you so much for that presentation. It's great to be with you all. Thank you for inviting me to moderate this very important conversation. And I just want to make sure as I'm looking here that we have everybody with us. Welcome to the panel.

You know, as I was listening to you, I'm just reminded. It is Black History month and we would be remiss if we didn't just acknowledge that the foundation for this conversation is that the racial wealth gap we have in America exists because of policies and practices that have been employed by both government and financial institutions since the beginning of time that have left a lot of communities behind.

Now, the politics of the why can be debated in a different conversation on another day. But this conversation is an opportunity for us to really explore the ways that fintech is starting to bridge those gaps. As you put up the FICO chart there and started to talk about FICO scores. I think it makes sense for us to start with that.

There's so much controversy around whether FICO is the best judge of credit worthiness. So I want to open it up to the panel to just ask the question for you all to weigh in on, on what is FICO? Why does it matter? And do you think that it's a good assessment of credit worthiness?

MS. WU: So I'll start maybe just with a few basics of what is FICO? The FICO score basically is your financial GPA. And your credit report is your financial report card. It's a record of how you've borrowed and repaid money. And the FICO score takes all that information and spits it out in a three-digit code.

And it's incredibly important not just for credit. For auto loans, credit cards or mortgages. But 90 percent of landlords use it so it's sometimes really hard to get an apartment without a good credit score. There's a special type of credit score used for insurance. And employers use credit reports, not scores. So you might even, if you have credit blemishes, have a hard time getting a job.

And we know there’s these huge racial disparities in credit scores. As Kristen showed one datapoint, there’s actually at least a dozen studies showing the same racial disparities in credit scores for Black and Latinx consumers to a lesser extent. And it is. It’s incredibly troubling because credit scores, they're basically a reflection of that racial wealth gap that Kristen talked about.

All that history, all that discrimination it manifests the racial wealth gap and that in turn manifests in credit scores because it’s a lot harder to deal with financial bucks and, you know, unemployment, COVID when you have -- it’s a lot harder when you only have eight, $12,000 in assets versus over $100,000 and that shows up in credit scores. And, you know, if they were just an analytical tool that would be okay. But they're also used for a gatekeeping function. And that gatekeeping function replicates all those historical legacies and discrimination.

MS. MILLS: Does anybody else on the panel want to weigh in on the FICO scoring and why that racial disparity exists in today’s scores?

MS. BROADY: So I’ll just add on. I guess one of the big things is how it affects homeownership. And that when you're getting ready to buy a home, it can impact how much money you need to put down. How much money you're going to be qualified for?

And we know that homes are a big portion of wealth and how people are able to borrow against their home equity or use that money to start a business or pay for their children to go to school, et cetera. So if they don’t have that to borrow from or to leave to the next generation then the next generation is starting off with fewer assets. And so, the racial wealth gap then continues.

MS. MILLS: So the reason we talk about these FICO scores is because I love the way that you talked about gatekeeping there. Is because they are gatekeeping. And what that does is it allows or disallows people to be able to access good services, homes, you name it.

Talk to us about how banking then is directly connected to credit worthiness and how we end up in a situation where with regards to traditional banking and banks, we see the racial wealth gap also perpetuated there.

MS. WU: Well, I mean one thing to be clear is that banking isn't directly related to your credit score because the information in a credit report is about credit accounts so credit cards, auto loans, mortgages. Your deposit account information doesn't show up.

But it is indirectly related because we know that if you have a bank account then you have a relationship with the bank and that first maybe credit card or first auto loan might be with your deposit bank. It's the on ramp. So how do people get a credit file? How do they go from invisible to visible? You need an on ramp. And often it's with the bank that holds your deposit account.

And then, you know, in terms of fintech, what we're here to talk about. You know, there are some emerging technologies to help folks who maybe don't have a credit file or have one that has blemishes. What they call cashflow underwriting. This idea that instead of looking at your credit report and coming up with a score, you look at your bank account.

You know, the credits, the debits, what your cashflow is looking like. And that is promising. It also has risks obviously. I mean that information in your bank account, it's incredibly rich. It's incredibly sensitive. And we want to make sure that when consumers share it, it's totally because they want to. They know they're doing it and that that information is not abused.

MS. MILLS: So I want to bring Sangeetha into this and Fabrice because, you know, the thing about the banks is that the banks are then the gatekeepers. They are the financial institutions at which all those other products that are based on FICO scores are held for the most part. You're not going to just -- I mean you could get a mortgage from places that aren't your deposit institution, but often times you do get your mortgage there.

I'm curious from a fintech perspective as we think about access to digital banking. Could the two of you talk a little bit about digital banking? And the merits of it? And the way that it might be bridging the gap particularly in Black communities who we know are underbanked if not unbanked all together.

MS. RAGHUNATHAN: Sure. I can start off and then --

MS. MILLS: Jump right in.

MS. RAGHUNATHAN: Sure. So, you know, I think previous financial services were really focused on communities that were really defined by geography. So you really only had access to, you know, a bank or a store within the few blocks of where you lived and worked. That means that there's only check cashing and payday loans in your store, that's what you're going to use.

I mean no one is going to travel for an hour to go get, you know, to go get free checking. What fintech really does is it enables community-based consumer segments rather than geography. And that just provides a lot more options to people. Today, anybody with a phone has access to the high-quality services. You know, whether it's in the Bay area where I live or whether it be in Detroit or Tennessee.

It's really community and banking based on technology not based on geography. And that creates services that cater to just a number of different communities that has not better served by traditional financial institutions. And there are so many really interesting and unmet needs that we know of. You know, there are now banks that are targeted towards Native Spanish speakers so that they are able to bank in the language that they're most comfortable in.

And so, these are the types of services that fintech can enable because they are using that technology for that. And that brings new products to market. That serves communities in new ways. And, you know, I think that just because something is new doesn't make it bad. It's really important that we evaluate these services on their own merits. And I think that's what we want to be doing here today.

MS. MILLS: What’s interesting to me about all of this is that there are the services that certainly can be innovative because we're now moving digital. But I’m interested in who is being served.

And I started off framing that up as we know that BIPOC communities tend to be the most underbanked, which also creates a market opportunity because as a financial institution looking to grow, there’s a massive market out there of underbanked people who need to be served, right? Through some of these services that maybe they couldn’t access through brick and mortar before for a variety of convenience reasons.

There’s also a culturalism aspect to that. And I would love for you all to speak on just kind of stepping back and thinking about the market before we get into the nitty gritty of who we're going after with, you know, digital banking, et cetera. When we think about the market that we're serving could you share with us perhaps some of the cultural or policy nuances that have created this underbanked market that fintech is now solving for.

MS. BROADY: I’ll start. I wrote my dissertation on mortgage foreclosure, focusing on payday lenders. And so, we're not talking about mortgage foreclosure here, but in that study, I found that payday lenders are overrepresented in Black majority neighborhoods. That there are more of them in lower income neighborhoods as well, and fewer banks in those neighborhoods.

So people could actually go there and talk to someone and feel like they were receiving valuable information. It was information posted on the log that had some of the interest rates. And so, it seemed really clear, but people would get themselves into debt in ways that they could not get themselves out of. And so, some people were more likely to do that because they could actually go there.

Where with online, it could be kind of unclear, right? So I don't want to speak for the fintech folks. I’ll let them talk about their products, but just because something is face to face and there’s someone standing there talking to you doesn’t mean that it’s better than something that you access online.

So we need to make sure that people are financially literate. That they understand the products that are being offered. That they understand what the repayment plans are. What the penalties are. All of those things are important.

MS. MILLS: Kristen, is also getting to something that I think is really important here as we talk about Black communities especially, but other minority communities is trust.

There's so much distrust in the financial services systems because so many communities have not regularly accessed them and had a culture of relationship with bankers, for example, that I'm curious, you know, how these newer more accessible fintech practices are actually able to cultivate greater trust and transparency to the point that Kristin was making there.

MS. WU: So I'll jump in with a few thoughts from the perspective of a consumer advocate. I think Kristen is right that some traditional brick and mortar institutions have not been gender trust with BIPOC communities.

And one of the leading reasons is overdraft abuses, right? You know, we know that Black and BIPOC communities are disproportionately affected by overdraft fees and they have drained billions from consumers.

On the other hand, though we also know a couple of things that stand as barriers to any promise of digital banking, really overcoming these gaps of lack of branches in BIPOC communities. So for example, one really important and obvious barrier is broadband access.

You can't do great digital banking if you don't have broadband access. We know some of these communities really lack broadband access. Not just the physical restructure but broadband cost money. And so, for example, the broadband benefit in the American Rescue Act was incredibly important for banking. And we need to see that continued. Low income and BIPOC communities need that broadband subsidies so that they can engage in the internet.

We also know that some communities and some low-income consumers need more high touch support when they are engaged in financial products. And, you know, traditionally that may have meant brick and mortar and that still might mean brick and mortar. And so, how do you make sure you provide that level of support to consumers who need it?

MS. MILLS: So let's talk about the tools. The tools themselves and, you know, how these tools and resources that financial technology companies are offering are providing kind of fresh access to, one, credit products? That's really important and certainly banking at large. Who wants to walk us through a few?

Fabrice, I'm going to bring you in because we haven't heard from you. We have you? Fabrice, you're on mute. Fabrice? He's delayed, okay. So, yeah, walks us through. I mean I find the innovation to be interesting because, you know, one of the things that people have a tough time with because of lack of financial literacy, it seems to me is understanding.

Well, this is how my checking account works. And now, there's this maneuver, for example, when I go and I swipe my card there's something that maybe can put cash into savings. I keep the change and it goes over here. Or maybe I didn't know that I could actually take my debit card and be able to use that and leverage that in a way that I can get access to another product.

I don't know if I'm breaking up. But I actually had a client that was a bank up in Boston, based out of Boston. And one of the things that they were trying to innovate around was -- wait. I don't know if that's me. Is that Fabrice?

Fabrice, I think we're having a tough time hearing you. I'm not sure what's happening with your connection there. Speaking of broadband access, I think Fabrice is going to go ahead and dial in using the phone for audio. And then we'll come back to him.

So, yeah. So just in terms of how we're innovating with tools to meet community need by using digital banking in a way that people are able to transact in ways that they didn't transact before. I'm curious what is out there and what's happening in the marketplace.

MS. RAGHUNATHAN: I'm happy to share just one, you know, an example, of really what's going on.

So, you know, I think as you noted, it is really important to understand who these customers are. According to the CFPB actually, there is about something like 40 million credit invisible in the country. And they need options that are available to them beyond, you know, beyond what is offered to people who are financially secure.

So one option that I think, you know, my company offers is we have a couple of products, but one is early wage access or earned wage access. Just to kind of take a step back and talk about who our customers are. This is through survey data. But, you know, our customers are about 69 percent female, 29 percent male. Forty-four percent are about 18 to 34 years old. Thirty-five percent are Caucasian. Thirty-two percent are Black and 17 percent are Hispanic.

The significant (inaudible) by unrepresented communities. Financially, 70 percent make about, you know, between $20,000 and $75,000 and really our top industries are retail, healthcare and customer service.

So what earned wage access does is it, you know, it provides people with liquidity based on their earned income. It is by design a nonrecourse service meaning that there is no debt collection. There is no credit reporting and there are no financial repercussions if a customer is unable to repay. There is no interest and there are no late fees.

So that's a different financial product and really what's out there in terms of what payday lending or check cashing. And so, you know, it's interesting because it serves our community. And we have heard this from our community that it really helps them for kind of small purchases that are incredibly important to their lives such as, you know, the top reasons that they cash out are buying food.

It’s to pay for gas and that’s specifically gas to get to work. It is to buy diapers and sort of children-based needs. It’s to avoid overdraft which I think, you know, Chi Chi touched upon in terms of the cost of an overdraft fee. And it’s to pay rent. You know, so it’s typically not luxury items. There are items that really are day-to-day needs for these consumers.

MS. MILLS: And could you explain to us, if you know. I am so curious how you're able to do that? You know, my ears perked up when you said that there’s no interest. That there’s no credit reporting. That there’s no collection that happens here, right?

And one of the pushbacks that traditional banks often have to servicing communities is that there’s risk involved. And there’s always this conversation about risk. And I clap back and I say, well, look. You're always going to zero out something on your books, right? And so, it’s really about the will to mitigate a risk.

So you're talking about your customers not as risky so much as you wanting to provide service to them. So I’m curious if there’s anything you can share with those who are watching who might be in the industry about how you're able to, quote, unquote mitigate risk and see people as worthy of having that advance, right? In a way that is to me quite innovative.

MS. RAGHUNATHAN: You know, I think the first and most important thing is that these are very small dollar amounts. You know, it’s one of the most sort of interesting stats I ever heard is that when people the day before payday, we see an increase in cash out at the gas station for like five or ten dollars.

It’s because our customers need to get to work on that last day and they don’t want to lock up $100 into their gas tank. So they're just -- you know, we're talking about $5 and $10 worth of risk to help somebody then maybe work an extra eight hours, which is like impactful. So we understand that about our customers.

But, you know, again, in truth to that this earned wage access is premised on the fact that we are getting, you know, with the customers explicit permission and we are very, very focused on ensuring that there is transparency around this.

We have an understanding of their earned income. And we really only get a portion of that. So our particular service, and there are many other models out there so I wouldn't speak for them. As we offer no more than $100 a day and $500 a pay period. So these are very small dollar amounts. Because those are the amounts that really people -- we find people need, right?

So we certainly are not putting customers in the position where they're taking out large amounts of money which then kind of increase the risk around that. And in terms of really like how we manage that. You know, customers value the service because they know that there are no fees and/or late fees, penalties or interest.

If they aren't able to repay, all we do is pause the service to them. Meaning that they aren't able to continue to use the service which makes sense. You know, we again these are the types of things where customers again don't want to necessarily use the service. You know, they can't continue to afford it. And so, we pause the service to them. You know, we bear that risk of loss. But we find that, you know, customers because it is a valuable product make very intelligent choices about when to cash out and why they're cashing out.

You know, our customers know down to the last penny what's in their bank balance. Like I don't know that any of us could say that or are so budget minded. And they're, you know, incredibly responsible about their usage of the product. I don't think we give people enough credit for really understanding how to manage their finances best.

MS. MILLS: Thank you for sharing that with everyone. As I think about how those small amounts of money make a difference just to give you all another example as we examine what is credit worthiness and how do you judge people, right? Versus serve people as business owners.

If there was a Child Tax Credit that came out essentially around the COVID Relief that provided an additional 300 bucks for household per child approximately into families' hands. Literally, $300 a month, which to a lot of people is like nothing. Like what are you going to do with $300 month? Is it really going to make or break a family? Literally, it eradicated child poverty over the course of the last year by every metric. Just $300 more a month.

So that $5 a week or that $20 a week or whatever it is absolutely makes a tangible difference in people's day-to-day lives. Really, really important stuff here.

Fabrice, I know that we had a little technical difficulty with you. I want to bring you into this conversation because we haven't heard your voice yet. I know you were trying to share something with us. Welcome back. Please jump in.

MS. BROADY: Aisha, can I jump in just one second on the last thing you just said.

MS. MILLS: Yeah. Go ahead.

MS. BROADY: So I testified in Congress on what you were saying. And two of the people in Congress brought up some of the fees or like the donations that people can choose to pay some monthly fee. I don't want to speak for you, but they were saying that considering how much people are borrowing and these fees that they may pay by choice or not. And I'm not just talking about with earning, but overall.

And thinking about if they work a minimum wage job where they make $7 or $8 or $10 an hour. How long? And, Fabrice, this is for you too. So there was this argument about people are going to have to work an hour or two hours to be able to pay the fee plus the amount that they borrowed. And so, can you just talk about that? And maybe differentiate that from the fees that are charged for payday lenders?

MR. COLES: Yeah. I'll jump in here and, you know, apologies for the technical issues I was having. And I'm really appreciative for this invitation. And happy Black History Month everybody.

You know, I think this is such a fascinating question because, look, ultimately, we know is that, you know, our current financial system it doesn't serve a lot of

Black customers well. And you point out a lot of this in your work, Dr. Broady. And we were blessed enough to work with you in Wiley College and the Congressional Black Caucus Institute to kind of diagnosis some of these issues.

But I think at its root, look, there's centuries of financial exclusion that can only be remedied by intentional financial inclusion. And I think that a lot of that especially in the context of the conversation we've been having in the past few minutes has to do with different factors. You know, yes, product selection and design. But business model design as well.

And so, I think when you're speaking for PayPal. When your secret sauce is kind of a two-sided platform, you know, it pays to keep your customers engaged and, you know, it's always something that we focus here on PayPal. And so, you know, having products that are unaffordable, you know, is not good for the merchants or the customers on our platform.

And so, you know, that's one thing I'll add is that I think fintech, you know, has provided opportunities to rethink the delivery of financial services. Again, as you point out in your paper, Dr. Broady, you know, some of the drivers of wealth, you know, have to do with things of access and financial health. So how you do payments. How you do lending. You know, how you discover the transfer of value? You know, how you do financial planning.

Those things matter. Those designs matter. And so, business model selection by the provider, I think actually is very connected to the financial health of the user. And that's something we think about a lot here at PayPal. And, you know, we're deeply committed to improving the financial health of customers. It's a part of our ethos and our mission, values and vision.

And, you know, we like to create these products and partnership, you know, not only with our regulators but also community groups and others. So I think having that big picture, foundation and orientation is a critical part of the secret sauce here.

MS. MILLS: So, Fabrice, I'm going to poke at you a little bit about this. Give us some concrete examples of a product or so that you feel bridges that gap.

MR. COLES: Yeah. No, absolutely. I think that, you know, again business model design, leveraging the strength of our two-sided platform, you know, during the pandemic. I can give you two examples.

You know, one as a channel for PPP loans. A lot of the PayPal delivered loans were over indexed in the majority of the top 30 counties that have the highest density of Black business activity. And we know how hard Black businesses were hit during the pandemic. You know, and so they're in a lot of activity there.

Also, PayPal was able to successfully bring onto its platform through direct deposit and check capture features and, you know, also was a part of VENMO capability over 330 million in stimulus payments to individuals at a moment whereby, by the way, we saw and witnessed in real time, unfortunately, some challenges in government to taxpayer payments.

And so, you know, again having that business model design and for PayPal, you know, it's the strength of our platform that I'm talking about here. Really creates a foundation for being able to innovate at scale and deliver in a timely fashion which, you know, when you're dealing with making ends meet, you know, can mean a big difference to putting food on the table and other things.

And so, you know, I think the financial inclusion conversation is a business model conversation as well. And I think in this context institutions that are mission driven are really going to be a big part of delivering value. So I'd say those are two examples to your direct question, Aisha. That, you know, I think really underpin this point that business model design can permit the conditions for very quick design and delivery of financial inclusion products at scale.

MS. MILLS: Well, come back to the ending point that I think that Kristin was making about how the sum of the business design and the models that we're seeing online really mimic or mirror what we've had in, you know, kind of the traditional financial services world.

And so, when you have, say, a pay for online payment program how does that differ from layaway? Or how does, you know, the terms of that differ than from what we know as traditional payday lending but because you're doing it online and we're calling it fintech is now feeling like something else?

So could you all speak to how fintech services might either just mirror and bring online the practices of before that are controversial, frankly. Or are innovating in a way that because of perhaps a cost or greater access or scalability are able to bring the consumer a better product and tool than they were getting through brick and mortar?

MS. WU: So I would love to speak to that. And, you know, make the point that -- and sort of following up on Fabrice's point about product design.

The design of credit is what can make it either very helpful or very harmful, right? Credit in and of itself isn't a bad or good thing. It's how much it costs? How the repayment is structured? How it is underwritten? And whether or not it's via computer or storefront or what? Is less important than those factors.

And so, some of the new fintech products might be useful. Others we find very problematic and does have characteristics of other types of lending that we have criticized. So for example, and here's where I'm going to get a little spicy.

On earned wage access, we do find it problematic for a couple of reasons. Number one, Dr. Broady, you asked about how do you assess risk? And why isn't this risky? Earned wage access isn't risky for the same reason payday loans aren't risky. It's lending based on assets not ability to repay. With payday loans, it's that check, that post-written check or nowadays that ACH debit that is the security for the loan.

For earned wage access, it's the same thing. It's that ability to hit that account right away and get that money and stand first in line that makes it very unrisky, but makes it problematic for the consumer. Because what we're dealing with is consumers who have too much month at the end of their paycheck. They're not making it to the end of their pay period.

So they need to borrow and they're either borrowing from petty lenders or they're using earned wage access. And that’s problematic because you're lending based on not ability to repay. Lending should always be based on the ability to repay. That should be the touchstone of all lending. And when you lend based upon security, whether it’s the house or the ACH debit or the tax refund, it gets problematic.

And, you know, the other thing we find problematic is the way the earned wage access gets paid is through these tips that are supposedly voluntary. But the product is structured so that you have to, you know, the default is you do pay the tip and you have to opt out and it’s -- and so, there’s all these tactics you get the consumer to pay those tips.

And, you know, there’s some -- the law out there is even if the fee is voluntary, it’s still a cost to the credit. So again, you know, it’s not whether it’s fintech or not. It’s how much it cost? How is the lending done? How is it structured? And by structured here is also problematic because it’s a single payment balloon loan. You’ve got to pay everything back at once.

MS. MILLS: Sangeetha, are you going to respond?

MS. RAGHUNATHAN: Yeah. You know, I think, Chi Chi, you make some really excellent points about the need to ensure that there’s always transparency, fairness and consumer choice.

So I’ll address kind of what I think is the main difference between payday lending and fintech is that -- and fintech and EWA is that EWA providers don’t have any kind of security. We bear the entire risk of nonrepayment. I don't know that there’s any other product out there that can say that.

We have consumer authorization to debit on the payday. And if that debit doesn’t go through just like if the consumer went to the grocery store, ran, you know, used their debit card and that debit didn’t go through. The payment isn’t there then that’s it. But nothing happens to the consumer.

You mentioned that we are first in line. There's absolutely no way that we make any decisions around what is first in line in a debit. That's entirely controlled by the bank. Banks order the debits and credits in a customer transaction. And every bank has their own policies. I think there's some pretty interesting studies about their -- one professor ran a simulation and he found that there's, you know, like 40,000 different way a bank can order a transaction.

So we are absolutely not first in line. We are a debit like anything else. If that debit doesn't go through, nothing happens to the consumer. And that's such an important difference between us and payday lending.

The second point that you made was really around the tipping model. And they're very, you know, different providers do it in different ways. My company operates on an entirely long-term tip model. And I wanted to just share some statistics really around that just to kind of frame for you really like what that means.

Eleven percent of our customers have never tipped anything. And they continue to get the exact same service. So I think you made the point that consumers are forced to tip. They're not. They choose not to tip. And I think it's really important in a service to empower consumers and give them choice. And that's what we do. You know, we don't assess a $35 overdraft fee if a consumer overdrew their account by $2. We give the consumer a choice.

The fact of the matter is 11 percent have never tipped us anything. So they certainly are able to exercise that choice. Sixty percent of our customers haven't tipped at least one. And we have a lot of repeat customers. Seventeen percent of our transactions have no tip. And 40 percent on transactions of a tip less than $2. And so, those numbers and that data speak for themselves because consumers are very well capable of choosing if they want to tip up to the amount of that tip. And whether -- and if they just don't want to tip.

And it just doesn't matter. They get the exact same service. And so, I think what you're correctly saying is that consumers have to have transparency and choice. And that's absolutely something that I can't speak for other companies. But I think many fintech do support that.

Protections like UDAAP. I'm a lawyer so I'm going to get acronym here, but, you know, UDAAP is incredibly important. Consumers should never be deceived. They should never be misled. They should always know how much their cashing out and how much they've chosen to pay when the debit is going to happen.

All those things are very -- or should be built into products. And that's the cornerstone to the regulation, right? In the sense that like this is absolutely an important thing that every provider should have to abide by and we should have to just like any other business be able to follow those rules that exist.

But it's a different product than credit. And it should be regulated as such. And products should be regulated based on their risks to the consumer. Not really just because it looks like lending.

MS. MILLS: I want to just make a note on where we are with our time in this program. This is actually the time for audience questions. So we're going to open it up. And if you have questions that you'd like to submit please go ahead and do so now. And those are going to be gathered and monitored and we'll try to get in as many as we can.

And I'm going to ask one that we do have already from an audience member. It just kind of follows along some of what Sangeetha was saying. Both she and Chi Chi and Sangeetha actually about that transparency and the choice with regards to consumers. I think this is from Rayal Jackson (phonetic) with Real Men Charities, the program director there.

And I'm going to paraphrase here. But they're essentially asking what is the plan given that there is cultural nuance here, societal nuance for the communities we're talking about, the BIPOC communities who are underserved. What is the fintech plan to connect with Black families and communities beyond just saying we have these products and this technology? But really trying to be partners with in terms of educating and making sure that they understand what they're accessing? And getting word out to folks?

MS. WU: So I would say that the barriers and the problems aren't just cultural. I mean they're structural. You know, the credit and visibility, the lower credit scores, they're a result of structural racism. And they're the results of intentional discrimination from decades and centuries that have led to a position where Black communities don't have that access and wealth.

And in order to address that we need to have intentional policies to reform and change things to make up for those decades and centuries of intentional discrimination. So, you know, thinking about things like special purpose credit programs that are targeted at helping Black communities. Down payment assistance. You know, looking at scoring models that are designed to reduce those racial disparities. Rethinking about how we analyze credit readiness.

I think those are all things that anyone who wants to work in this space to reach out more and help lift Black communities should be looking at. And I just take thirty seconds to respond on this issue that earning wage access isn't credit.

Nonrecourse loans are still credit. And, you know, I've been a consumer advocate for 20 years. One of the first things I worked on was refund anticipation forums, which are also secured. Which these days are nonrecourse. And yet, they're still loans. And they're still considered loans. And if you want to be transparent, you should treat it as credit so that all the credit protections apply.

MS. MILLS: We're getting into a conversation right now that actually is regulatory. And we haven't touched on federal regulation yet.

And so, we do have a question from an audience member. Stewart Jones with Brunswick, an associate there, is asking what regulatory action should be taken if any to ensure that fintechs have the same number of safeguards in place as the rest of the banking industry to protect consumers?

MR. COLES: Can I jump in on this a little bit? Is that okay?

MS. MILLS: Yep.

MR. COLES: You know, I think you said a terribly important question. And one that I think, you know, bear some explanation so thank you for raising it.

You know, I think there's -- I'll just speak for PayPal. I know I speak for all fintechs but I'll say that there is a misconception out there that, quote, unquote, fintechs are unregulated. And, you know, that's just, you know, it's just not accurate. And so, just again speaking for PayPal, extensive federal and state regulation, you know, as a money transmitter, you know, it had like 50 something money transmitter licenses subject to all those necessary.

Capital liquidity requirements at the state level. Privacy laws as well. And supervision by all those entities. Our compliance department is consistently and on a regular cadence in touch with those state regulator.

Also regulated at the federal level by the CFPB for various -- under various statutes and their implementing regulations. By the FINCEN at the U.S. Treasury addressing kind of know your customer requirements, customer due diligence. By the Federal Trade Commission. Again, on unfair deceptive acts and practices and potential enforcement actions there. And then as a partner with regulated depository institute, you know, subject to books and records inspection by the credential regulators as well.

And so, extensive regulation there. And, you know, here's the good part. Financial inclusion and responsible innovation go hand in hand. And a big part of that is working hand in hand with the government to ensure that the market place is fair. And, you know, consumers are getting what they need.

So PayPal is always happy to partner with our government, you know, colleagues really to, you know, continue to calibrate and address, you know, their contributions. And so, it's a fantastic question. One that's very important. But, you know, I think that, you know, trust in the financial services space is -- it's the foundation of everything. And I think the regulatory environment helps to promote that trust.

And so, that's why at PayPal, we really believe in responsible financial innovation. And responsible financial innovation is not about disruption. You know, what it's about is, you know, just really thinking differently about how to -- in a compliant fashion provide products at a high scale that are the fruits of innovation. So great question. Really appreciate that.

MS. RAGHUNATHAN: And, you know, I'll just add. You know, I prior to being on house counsel spent four years as a state regulator myself. So I have a fairly good sort of sense from both sides, I think, as to what is important.

You know, and I'll tag onto what Fabrice said. In that there are plenty of existing regulations that govern fintech. And there certainly should be more. You know, I think maybe that's surprising to hear but responsible fintechs are not afraid of regulation. What they support is smart regulation.

And that means that's regulation that is good for consumers and companies. Regulations that are done poorly can qualm consumer choice, competition and have unintended consequences. So I'll just give you an example, right?

One smart regulation, we have been working very closely with California. And we absolutely support regulation of, you know, our industry which is earned wage access industry. And we've spoken to other states about this as well. We've built coalition. We've put out amounts of legislation. That talks about, you know, covers policies and procedures regarding electronic funds transfer and unfair deceptive use of acts and practices, data privacy, OFAC.

These are all really, really important things that every fintech should be governed by. Some do exist. Some, it can be much more clear. And that's absolutely okay around it. And what it really also has to include is reporting. You know, companies should report on what they're doing. How their consumers are using their product? What are the general use cases? What are the types of payments consumers are making?

Those are all really important things. That it's important to be transparent about. And there's a start here in California around that. Where, you know, we provide that kind of reporting. The DFPI and we certainly understand that's just the beginning of policymaking. So I think we are extraordinarily supportive of smart regulation. It's just that that type of regulation needs to be tied to the risks associated with this particular product, which is a different product.

It's just important not to sort of force new products into old buckets just in a way that might not make sense because you can have unintentional crime to consumers. You know, if EWA as an example is regulated as lending then all of a sudden can you -- you know, consumers may have to pay back the loans. They may have to go to credit report. We may have to report to credit bureaus. We may have to provide information that's going to harm the consumer from a credit standpoint. And these are customers that are, you know, just beginning to build their credit.

They need a vehicle that's not going to sort of harm them in case there's a foot fall. And I think that's just a reportedly important thing to think about when you're talking about financial inclusion. We're not all positioned in the same way and everybody needs a little bit of boost in life. And I think that's one of the real things that fintech can do.

MS. WU: So can I just clarify that? Treating a product of credit as credit does not ever require reporting to the consumer reporting agencies. It is axiomatic that furnishing information to credit bureaus is completely voluntary. Use of credit information is actually voluntary in lending too. I mean some entities like banks might have to do it because for prudential reasons, but, you know, there is nothing to require that.

And then the flipside, of course, is in this huge debate about whether some of these products can help to build a credit profile. And that's a very complicated messy debate because, you know, on one hand people are, you know, saying well, if you use like buy now, pay later. Shouldn't you get credit for repayment? But actually, if you look at it, it may not help build your credit file that much.

And it turns out that the thing that builds credit files, those old fashion credit cards for better or for worse.

MS. MILLS: We're having a conversation here that has real deep assumptions. I don't even know that we quantified those at the beginning of this, but we're speaking in deep assumptions that the users of fintech or perhaps the predominant market for fintech -- and I know I raised this -- are people who are perhaps underbanked. People who are out of the credit markets, et cetera.

I don't want to make that assumption and it not be true. I know that's kind of where we're centering this conversation right now. So as you all respond and react, please do clarify that. But I think just to kind of to open it up a little bit as we're comparing fintech and who it's serving and how it's serving folks to traditional banks.

We have a question here from Nicholas Anthony with Cato Institute. The manager of CMFA there that is asking in what ways are fintech companies succeeding that banks are not and vice versa?

MS. BROADY: Well, I feel like I want to jump in here because I think that the other people there are going to kind of take a side no offense to anybody. But I am not a regulator and I also don't work for a fintech. So I think a couple of things that with some of these things, paying for, for instance, I've never used, earned wage access.

But you can order something and not ever have to leave the house. You don't have to go to a bank. You don't have to go to anywhere to try to get a money order or -- like you can literally sit in your house, order something, make that first payment and it's coming to you.

I'm not sure what happens if you don't make the additional payments. I tried it one time specifically for this research. I did make the other three payments. But I actually got that pair of tennis shoes. It was a pair of Jordan, and then I made the payments, right?

Now, with layaway that's not the case. That you go and you make the payments and when you finish making the payments, you get the thing. And you do have to leave the house and if you don't have transportation then that can be difficult. So for the consumers I can say that it's quite convenient. I cannot speak for the regulatory part at all though.

MS. MILLS: Others? How is fintech is working better than banking? Do what it's doing better than banking?

MR. COLES: You know, I'll turn that question around just a little bit and say that I think that the question of, you know, fintech or bank? I think is a bit overdone because I think what we should be focused on especially in this conversation is how to build that ecosystem to support underserved communities.

And PayPal works extensively with banks and especially with -- Dr. Broady mentioned it earlier in presenting her research, minority depository institutions, MDIs, Community Development Financial Institutions, CDFIs. That's just one example. We partnered with MDI in South Carolina, you know, just an aftermath of the Floyd murder. You know, and helped support that institution with $50 million.

And then, you know, I think that helps to support their financial health and helps them carry out their mission which is to serve households and small businesses and promote access to capital. So, you know, I don't think that it's an either/or situation.

I think that partnerships actually do help drive proper outcomes in this area, and we shouldn't lose sight of that. You know, because I think in the press sometimes, you know, there's this either/or dichotomy that's explored. And I certainly understand it. You know, but I think that we shouldn't lose sight of the power and transformative ability of partnership as well to help deliver on some of these outcomes.

This is the outcome that matters as well. There are competitive dynamics clearly. It's a marketplace, et cetera. But we shouldn't lose sight of the fact that there are also a lot of cooperative engagements taking place and cooperation between fintechs and MDIs and CEFIs in particular, you know, is still in the relatively early innings. And there's a lot more of that to come in the years to come.

You know, there's a lot of activity there, a lot of conversations. You know, and again, you know, I'll reiterate. Not only in partnership with banks, but also with governments who are convening a lot of these important conversations. Bringing different ecosystem providers to the table to explore how to address some of these intractable issues.

So, you know, I think that there's a lot to be said for partnership. You know, and I will take just a moment and say again, you know, business model design matters. User experience matters. And so, I'm saying if there's one thing that, you know, a lot of the literature out there points to that fintech specializes in and practices is a bit of a secret sauce there. It's user experience.

And I can tell you that user experience is a focal point for growth as well for banks and CDFIs and that is one area that CDFIs, MDIs and fintechs are having a lot of conversations about as we speak. And so, watch this space as they say.

MS. MILLS: We've got a couple of minutes. Anybody else wants to jump in on this one?

MS. BROADY: I just want to add to Febrice's points. One of the partnerships that he didn't talk about is with HBCU. And not just with HBCUs but also looking at high schools, right?

How do people learn about credit? How do they learn about banking access and all of these things? So PayPal did partner with Dillard University and with Wiley so we could do this research, right?

And so, that this research could be shared with Black college students who, I found, I won't speak for anybody else. But I worked at several HBCUs and just found that they didn't have all of the information about credit or about loans. Things that they've already taken out that they didn't really understand how it was going to impact their credit. How they were going to have to pay it back later.

So I'm appreciative of that work that PayPal has done. And I think that more needs to be done not just with colleges but with high schools so that people can learn about credit and all of these products before they actually start needing them and using them.

MS. WU: And I just wanted to say that I really appreciate the question because I think you're absolutely right. We are assuming that fintech is being used by underserved communities but that may not necessarily be so.

We were surprised to find a study that the vast majority of folks who take out payday loans, you would think they were, you know, credit invisible, underserved. They're actually what we call thick file consumers. They're folks who do have credit cards. They've maxed out their credit cards. They're struggling consumers.

And what they need isn't payday loans. It's actually what Kristin said earlier. The Child Tax credits, stimulus payments. We saw credit scores rise a little bit in the pandemic. You know why? Stimulus payments. People who needed money got money. So at the end of the day what struggling consumers need isn't better credit. It's money. It's Child Tax credit. It's stimulus. It's all those things.

MS. RAGHUNATHAN: Well, I think we're all aligned that the minimum wage definitely needs to be adjusted upward.

MS. MILLS: And that is a good point to leave us with. Thank you all for joining this really rich conversation. I wish that we can continue on. I'm going to turn it over now to Brookings. Thank you.

MS. BROADY: So thank you to Aisha for moderating this conversation. Thank you to Chi Chi Wu. Thank you to Sangeetha Raghunathan, for Fabrice Coles. And all of you for joining us.

Hopefully, you've learned something about credit and banking. You've heard from two sides that agree on some things and disagrees on others, but overall come to together to provide access to banking and hopefully to lower fees maybe. Maybe. I don't know. I guess I can say that now that it's over. But thank you everybody for coming this afternoon.

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