



# REACHING MINORITY HOUSEHOLDS INCUBATOR INNOVATION BRIEF

George Hofheimer, Chief Knowledge Officer

Ryan Foss, Managing Director, Innovation

Adam Lee, Incubator Director

Corlinda Wooden, Project Manager

# The Financial Inclusion Challenge

A large percentage of America's minority households are financially vulnerable and underserved by mainstream financial institutions.

## UNBANKED or UNDERBANKED<sup>1</sup>

49.3%

African American households

45.5%

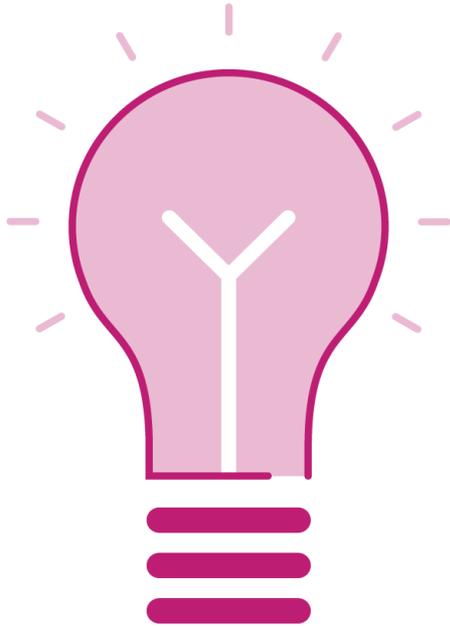
Hispanic households

18.7%

White households

- **Minority households are twice as likely as white households to live in asset poverty,<sup>2</sup>** which means they wouldn't be able to access funds to support three months of living expenses.
- Minorities make up approximately 30% of all US households, but are underrepresented in every category traditionally used to measure financial standing: they account for **only 23% of household income** and **10% of total US household wealth**, and they hold **only 8% of retirement investment balances** and a mere **5% of investments** outside retirement accounts (DeNavas-Walt and Proctor 2014; US Census Bureau 2013a, 2013b).

# Hypothesis to Improve Financial Inclusion



If mainstream financial institutions **offer alternative lending options**, they will provide consumers with **affordable solutions** they may not otherwise have had **access** to and help them get one step closer to **financial stability**.

# Methodology

To test this hypothesis, Filene, VISA and the Ford Foundation created the **Reaching Minority Households (RMH) Incubator**.

The Incubator provided a way to:

- 1 IDENTIFY** programs aimed at serving the needs of minority households with demonstrated success on a small scale
- 2 TEST** each program with financial institutions for financial viability, ease of use (scalability), consumer impact, and both financial institution and consumer demand
- 3 PACKAGE** the products that met the above tests into a business case and guide so those launching have tools to use for turnkey implementation

# Summary of Results

FILED AND



**40** CREDIT UNIONS

TESTED



**5** PRODUCTS

OVER



**18** MONTHS

**58,482**  
LOANS

**\$84.8**  
MILLION

TOTALING >

# Programs in the RMH Incubator



**Individual Taxpayer Identification Number (ITIN) Lending:** Loans for non-citizen members.



**Data Mined Auto Loans (DMAL):** Used data mining techniques to identify households that could benefit from an auto-loan refinance.



**QCash® Small-Dollar Loans:** Small-dollar loans based on relationship factors other than credit score that relied on rapid underwriting and disbursement via a mobile application.



**Community Microfinance Small-Business Lending:** Small-business micro-loans to entrepreneurs.



**Payday Payoff® Installment Loans:** Loans to consolidate high-rate payday loans or other debt into one affordable payment by leveraging alternative data for underwriting.

# Program Testing Snapshot

	 ITIN Lending	 Data Mined Auto Loans	 QCash	 Community Microfinance	 Payday Payoff
Testing Credit Unions	13	13	3	9	7
Loan Number	2,172	164	48,700	73	7,373
Loan Volume	\$27M	\$3.5M	\$43.3M	\$683K	\$9.8M
Avg Loan Amount	\$12,655	\$21,632	\$889	\$9,353	\$1,326
Avg Borrower Income	\$39,960	\$55,010	N/A	\$32,640	\$43,975
Avg Borrower Credit Score	665	630	617	687	586
Avg Age of Borrower	39	42	44	40	49

# Program Findings – ITIN Lending

**Consumer Impact:** Product was able to reach minority households: 99% of all users self-identified as a minority. Consumer survey results showed largely positive reaction: nearly 100% of respondents (97%) reported they would recommend ITIN lending to family and friends, 96% said they would use ITIN lending again if the need arose, and 95% said the program had a positive impact on their lives.

**Scalability and Demand:** Product demonstrated it could serve as a large portion of a total lending portfolio. Participating credit unions had up to 15% of their assets in the program, though the average across all was 1.0%. 100% of testers agreed that they would refer ITIN lending to other financial institutions and that members liked the program. Nearly all of the participating credit union testers (12 of 13) plan to continue offering the product and 67% of borrowers in this program were new to their credit unions.

**Financial Viability:** Return on assets was an impressive 3.81% vs. a system average of 0.75%.

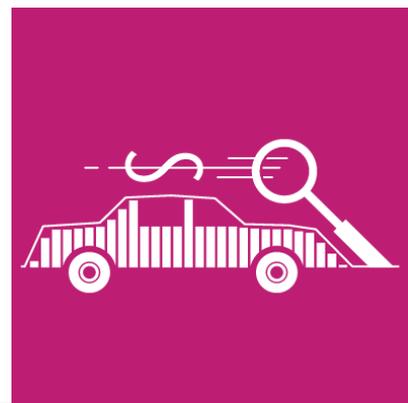


# Program Findings – DMAL

**Consumer Impact:** 100% of consumers who received a loan would use DMALs again if the need arose, 96% would recommend to family and friends, and 96% would have paid more for the loan elsewhere. Minority households were reached (62% of loans went to minority households) and tended to respond more favorably than non-minority households.

**Scalability and Demand:** 7 out of the 13 testers were able to issue 164 loans during the testing period (lower than expected), likely because testing institutions were not comfortable jumping deeply into the subprime auto lending space at onset of the program. Accordingly, loans averaged just 0.09% of assets. Only 4 of the 8 credit union testers who responded to our survey indicated they would continue the program.

**Financial Viability:** Overall ROA was a promising 0.75%, but this masked the reality that 40% of participating credit unions had losses.



# Program Findings – QCash<sup>®</sup>

**Consumer Impact:** 97% of survey respondents indicated they would recommend the loan to a family and friends, 96% would get another QCash loan if the need arose, and 95% indicated the loans were a good fit for their situation. 38% of QCash borrowers self-identified as a minority.

**Scalability and Demand:** The low number of testers (3) relative to other products tested speaks to a potential demand and scalability challenge. Though, the increasing number of QCash adopters outside the Incubator, strong financial viability testing results, and the large number of loans issued during our Incubator testing period (48,700) shows long-term promise for scaling the concept. All testers plan on continuing QCash.

**Financial Viability:** Program ROA and provisions for loan losses (6.37% and 11.78% respectively) were much higher than recent credit union system averages (0.75% and 0.46%).



# Program Findings – Microfinance

**Consumer Impact:** 100% of borrowers indicated they would recommend the program to family and friends, 96% would use the program again if the need arose, and 92% said they would have had to pay more elsewhere. More than half of borrowers (55%) came from minority households. 62% of respondents indicated the loan was to start a new business demonstrating promise for financial institutions to reach new entrepreneurs in their community.

**Scalability and Demand:** Two of the nine credit unions didn't have any loans and those that did had just 0.01% of their assets in the program. Though, all testing credit unions will continue to offer the program, and all would recommend it to other credit unions.

**Financial Viability:** Return on assets was 0.90%, slightly higher than the industry average of 0.75%, but masked wide variance among participants.

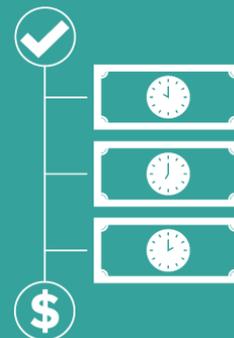


# Program Findings – Payday Payoff®

**Consumer Impact:** 90% of survey respondents indicated they would recommend the loan, 100% would use the program again if the need arose, 100% stated the loans were fairly priced and 95% would have paid more elsewhere. The percentage of minority users was high—42%. Borrowers had lower credit scores (44% had poor and 47% had fair) compared to other programs tested.

**Scalability and Demand:** Four of the seven credit unions didn't make any loans and those that did had just 0.19% of assets in the program. Also, the 3 credit unions trying the program for the first time were only able to issue 42 loans during the testing period. All testers plan on continuing to offer the program.

**Financial Viability:** Testers achieved an overall average ROA of 5.23% and loan loss provision of 10.11%) which are much higher than recent system averages (0.75% and 0.46% for 2017).



# Consumer Impact – Verbatim Feedback

*“It's actually helping me to save money and increase my credit score, while also building trust with a financial institution that I love doing business with. To me, that actually helps me try to be more responsible overall when it comes to money.”*

QCASH

*“(Getting this loan) encourages me to move forward with my dreams and fight to reach them.”*

ITIN LENDING

*“I refinanced because I needed more cash flow each month to pay off other bills. I've saved \$400/month by refinancing and that has helped a lot.”*

DATA MINED  
AUTO LOANS

# Consumer Impact – Verbatim Feedback

*“I had a taken out a high interest payday loan earlier this year which seemed to be taking forever to pay off since I was mostly paying interest out of each payment. This loan offered by the credit union has given me a peace of mind with my finances, knowing that I'm not just paying a ton of money back in interest.”*

PAYDAY PAYOFF

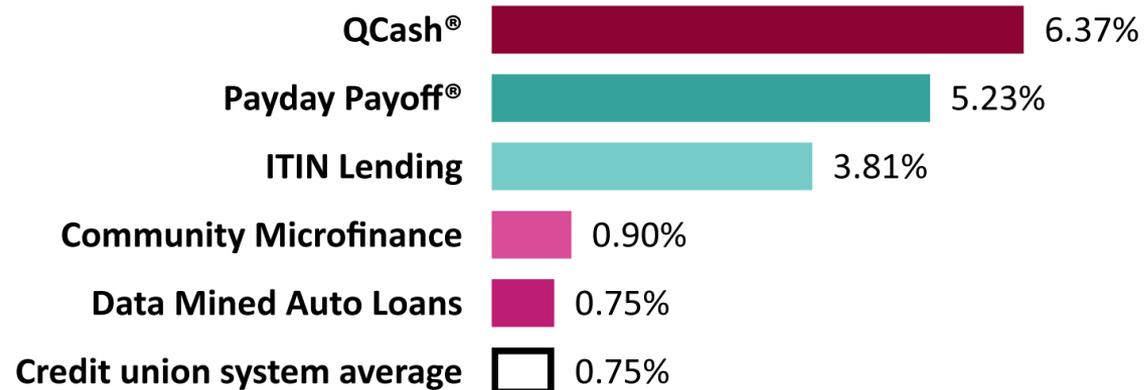
*“It changed my life for the better. I am now running a successful business and wouldn't have been able to do so without this opportunity from this credit union.”*

COMMUNITY MICROFINANCE

# Doing Well by Doing Good

Financial institutions do not have to choose between helping consumers in need and supporting their own financial bottom line. Incubator testing shows strong directional evidence that programs tailored for vulnerable populations can change lives and result in a healthy return on assets (ROA).

## PROGRAM ROAs AT A GLANCE



# Key Findings for the RMH Incubator

1

***Traditional financial institutions, including credit unions, community banks and large banks can reach minority households.*** In testing, we discovered that serving financially vulnerable populations starts with having the right mind-set. These programs require patience, determination and, for many, the need to step outside one's comfort zone. But our study showed that financial institutions using products geared toward serving minority households and other vulnerable populations can reach the intended consumer while supporting the institution's bottom line.

2

***Programs serving financially vulnerable populations create meaningful impact for minority households.*** Member sentiments around program satisfaction and impact were generally more positive for minority households. Financial institutions should be optimistic that when they serve financially vulnerable populations and purposefully engage minority households, they move the needle on financial inclusion.

3

***Serving minority households is not a one-size-fits-all endeavor.*** Although credit union testers started with a consistent playbook and set of principles, each adjusted rates, processes, technology, staff roles, and product marketing to meet the unique needs of its institution and community.

# Key Findings for the RMH Incubator

4

***These programs should not stand alone.*** Programs that provide value to minority households should be part of a suite of services and not a onetime loan. Many financially vulnerable consumers have deep systemic challenges that no single product or intervention can correct.

5

***It is necessary to look beyond traditional measures of creditworthiness.*** Financial institutions that prioritize serving minority households should consider using measures other than credit scores and traditional underwriting methods to determine which consumers are a good fit for their product.

6

***Financial institutions should give themselves permission to offer products with higher rates and fees compared to other products in their portfolio while always following fair lending practices.*** Charging higher rates to vulnerable populations based on credit risk may feel immoral to community-oriented financial institutions but is often necessary for their financial sustainability.

7

***Financial institutions need to create space for constant innovation.*** Many institutions struggle to innovate because of the time, resources, and planning it requires. Overcoming this barrier is vital since the needs of financially vulnerable populations and minority households are continually changing and require ongoing experimentation.

# Next Steps

Based on the successful results from testing, Filene is currently working to develop an ITIN Lending implementation toolkit in partnership with the National Federation of Community Development Credit Unions and Coopera, a Hispanic consulting firm, and will share this with the marketplace to promote the launch of ITIN Lending on a larger scale.

Thanks to generous additional funding from Visa, Filene will also conduct long-term qualitative research in two areas: ITIN Lending and Small-Dollar Lending (which will encompass both small-dollar products from testing: QCash Small-Dollar Loans and Payday Payoff Installment Loans).

*For more data, analysis, figures, inspirational quotes, best practices, and ways to make a difference, please see the full [Reaching Minority Households Incubator report](#).*



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FORDFOUNDATION

The research and report are complete. But the work of creating meaningful change has just begun. A final thank-you to all of the financial institutions that will put this research into action and make a difference in the lives of financially vulnerable households.

# About Filene \*

Filene Research Institute is an independent consumer finance think and do tank. We are dedicated to scientific and thoughtful analysis about issues vital to the future of credit unions and consumer finance.

We live by the famous words of our namesake, credit union and retail pioneer Edward A. Filene: “Progress is the constant replacing of the best there is with something still better.” Together, Filene and our thousands of supporters seek progress for credit unions by challenging the status quo, thinking differently, looking outside, asking and answering tough questions, and collaborating with like-minded organizations.

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