TESTIMONY OF

LORI A. TRAWINSKI, PH.D., CFP®, CCDP/AP

ON BEHALF OF

AARP

BEFORE THE

U.S. SENATE SPECIAL COMMITTEE ON AGING

ON

“UNBANKED AND CREDIT INVISIBLE: BUILDING FINANCIAL INCLUSION FOR AMERICA’S UNDERSERVED POPULATIONS”

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For further information contact:
Bill Sweeney
AARP Government Affairs
202-434-3717

Chairman Casey, Ranking Member Scott, and Members of the Committee, thank you for the opportunity to testify on behalf of AARP on issues faced by people who are unbanked and those who are credit invisible, and about the importance of building financial inclusion for America's underserved populations. I am Lori Trawinski, Director of Finance and Employment at the AARP Public Policy Institute.

On behalf of our 38 million members, and all older Americans nationwide, I am pleased to share AARP's views on these important topics. For over 60 years, AARP has advocated for policies and programs designed to help older families achieve financial security as they age. While many Americans are benefitting from increased longevity as a result of advances in health care and safety, they are also facing the challenges of how to finance these additional years with the sources of income that are available: Social Security, personal savings (both retirement and other), and if they are fortunate, an employer-provided pension.

Increasingly, personal savings is becoming a more important pillar of support for financial security at older ages. The ability to save throughout one's working life is vital to supporting additional years of retirement. Financial inclusion throughout one's life helps lead to better financial security at older ages. Financial security hinges on two important aspects of our financial lives: access to safe and affordable banking and access to credit. Banking access provides an opportunity to keep money safe, access it when needed, and to put some money aside for an emergency or for other long-term goals such as saving for a down payment on a house, for college, or for retirement.

Access to credit provides an opportunity to help a person smooth their income vs. consumption needs throughout their life, by helping them purchase items that they cannot pay for outright, such as a college education, a house, or a car. When people lack access to the mainstream banking system and credit, they end up paying more to conduct transactions and borrow money.

Financial Inclusion is Key for Stability and Long-term Financial Security

Financial inclusion means providing access to high-quality financial products to all people, regardless of age, race, ethnicity, gender, sexual orientation, geography, family status, ability level, or income. These financial products should meet an individual's needs in a range of areas, including banking transactions, payments, savings, credit (including credit cards, mortgages, auto loans, etc.), and insurance.

Access to mainstream banking products is key to achieving long-term financial security. When people have access to banks, they are more likely to save and develop financial behaviors that will help them manage their finances in economic downtimes. They will also pay less for banking services. Having a bank account can also provide a pathway to credit products offered by the bank or credit union.

Financial inclusion also requires protections for all consumers, particularly people with diminished capacity and other vulnerable consumers, who are often targets for financial exploitation and abuse. Increasing use of technology to conduct financial transactions allows access for more people, but the speed with which these transactions occur makes consumer protections more critical than ever.

When people lack access to banks, they often end up using alternative financial services--non-banks--that offer check cashing services, money orders, payday loans, auto title loans, and other products. Consumers pay higher costs for these services. In the case of payday and auto title loans, consumers typically pay triple-digit APRs and frequently find themselves trapped in a continuing spiral of high cost debt. Ironically, people with the lowest incomes, who cannot afford to pay higher prices, are the ones who end up paying the most for financial services.

People without bank accounts also face longer waiting times to receive their tax refunds or other payments, which are deposited electronically into bank accounts for those who have one.

Financial Access: Bank or Credit Union Accounts

Access to banking services is one part of financial inclusion. Approximately 7.1 million or 5.4 percent of U.S. households were unbanked, meaning they did not have a checking or savings account at a bank or credit union in 2019.[1] Approximately 3.1 million of those unbanked households were headed by someone age 50 or older. People with disabilities are more likely to be unbanked than people who do not have a disability. In 2019, among households headed by someone age 25 to 64, 16.2 percent of households with a disability were unbanked compared with 4.5 percent of households that did not have a disability. The Federal Deposit Insurance Corporation (FDIC) also found higher unbanked rates for households with lower incomes, volatile incomes, and less educational attainment. There were also significant differences by race and ethnicity: Black/African American households (13.8 percent), Hispanic households (12.2 percent), and American Indian or Alaska Native households (16.3 percent) had higher unbanked rates than White (2.5 percent) and Asian households (1.7 percent).

Differences were also observed based on the classification of household residence location, i.e., urban, suburban, or rural. Suburban households had the lowest unbanked rate at 3.7 percent, urban households the highest at 8.1 percent, and rural households at 6.2 percent. Some of these differences can be partly explained by decreases in access to brick and mortar bank branches.

Although younger households are more likely to be unbanked, among households headed by someone age 50 or older, 3.1 million households were unbanked in 2019. There are significant disparities among the 50+ unbanked population: 13 percent of African American/Black households and 11 percent of Hispanic households were unbanked, compared with only 2 percent of White and Asian households.[2]

Why are People Unbanked?

According to the FDIC, the top four reasons given for not having a checking or savings account are: not having enough money to meet minimum balance requirements; they do not trust banks; avoiding banks gives more privacy; and bank account fees are too high.

Efforts to help people gain access to mainline banking products have been ongoing for years. One example is the Cities for Financial Empowerment Fund, through its Bank On platform, that works directly with national and regional financial institutions to encourage widespread availability of safe, affordable bank and credit union accounts.[3] These accounts offer low or no

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[1] Federal Deposit Insurance Corporation (FDIC), How America Banks: Household Use of Banking and Financial Services, 2019 FDIC Survey, October 2020. 3https://www.fdic.gov/analysis/household-survey/2019report.pdf

[2] Joe Valenti, "Banking after COVID: Emerging Gaps in Financial Access," Blog, April 21, 2021, https://blog.aarp.org/banking-after-covid-emerging-gaps-in-financial-access

[3] Information about Bank On is available here: https://joinbankon.org/about/

minimum balances and free checking and savings accounts, among other benefits.[4] Primarily targeted to people with low incomes, these accounts seek to create a pathway to mainstream banking and to a better financial future.

Several major banks have recently announced that they are reducing or eliminating overdraft fees for many consumers, which typically carry triple-digit APRs that can be higher than even those of payday loans. These announcements followed the release of a report from the Consumer Financial Protection Bureau (CFPB) that found banks were earning two-thirds of their fee revenue from overdraft and non-sufficient funds fees.[5] It is expected that more consumers might seek to open bank accounts as a result of these fee reductions.

How do people conduct banking transactions?

There are other factors that affect whether someone may have a bank account. One is access to a bank branch. Nine percent (7,500) of all bank branch locations closed in the United States between 2017 and 2021, more than 4,000 of which closed since March 2020.[6] Branch locations are important not just for individual consumers, but also for small businesses located in the community.

The FDIC survey found that 77 percent of households headed by someone age 50 and older still relied on bank tellers for some transactions and consumers age 65 and older relied on bank tellers more often than other age groups. Nonetheless, older consumers increased their usage of computers, tablets, and mobile devices to conduct banking transactions from 2017 to 2019. The 2021 FDIC survey is likely to show a continuation of this trend, as many older consumers have had to adjust their banking methods as a result of the pandemic and surging bank branch closures.

Another factor that may affect access to a bank account is the availability and affordability of broadband internet access. The recently created Affordable Connectivity Program will help more low-income families pay for internet access. But for many rural communities, high-speed internet access is still not available. According to the Pew Research Center, 21 percent of adults age 50-64 and 36 percent of adults age 65+ did not have broadband internet service at home in 2021.[7]

Financial Access: Credit Products

Access to credit is another important part of financial inclusion. The ability to borrow money at a reasonable interest rate, with a reasonable term, allows people to buy things they need when they cannot afford to pay for the entire item in one payment. Likewise, access to a credit card can help people afford necessities, like prescription medications, food, or car repairs, if they do not have cash available to pay for these things. Unfortunately, not everyone has access to high-quality credit products that they can afford to repay.

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[4] https://joinbankon.org/wp-content/uploads/2020/10/Bank-On-National-Account-Standards-2021-2022.pdf

[5] https://files.consumerfinance.gov/f/documents/cfpb_overdraft-call_report_2021-12.pdf

[6] J. Edlebi, B.C. Mitchell, and J. Richardson, "The Great Consolidation of Banks and Acceleration of Branch Closures Across America," National Community Reinvestment Coalition, February 2022.

[7] https://www.pewresearch.org/internet/fact-sheet/internet-broadband/

People who have a low credit rating, people with no credit rating (credit invisible), people with a stale credit rating (no recent transactions), and people with thin credit files (where there is not enough history or credit transactions to generate a credit score) all lack access to low-cost credit products. When these consumers are rejected for mainstream credit products, they end up using high cost non-bank financial products, like payday loans, auto title loans, and rent-to-own services.

People who lack a credit score or who have a low credit score are affected not only when they try to obtain credit, but also when seeking employment, rental housing, or buying auto and homeowner's insurance, obtaining a cell phone, and accessing utilities without a deposit. The use of credit scores for non-credit purposes is controversial because credit scores are designed to assess creditworthiness, not risk of default in other contexts. There are large disparities in credit scores by race and ethnicity and by geographic area of the consumer.

Credit scores were designed to measure the likelihood that a borrower will become 90 days late on a credit obligation, not for other purposes.[8] Yet credit scores and their derivatives are frequently used in other contexts. Some employers use them as a screening tool when making hiring decisions. Landlords use them to evaluate prospective tenants. And insurance companies used them to determine whether to underwrite a policy and at what cost. For a consumer with no or a low credit score, the ripple effects can have an impact on many aspects of their lives and ultimately, their long-term financial success.

The FDIC found that consumers with low-incomes and less educational attainment are more likely to use high-cost nonbank credit products. Black/African American households (8.8 percent), Hispanic households (7.5 percent), American Indian or Alaska Native households (9.2 percent) used nonbank credit at more than double the rate of White households (3.6 percent) and more than triple the rate of Asian households (2.5 percent).

In rural communities, 6.3 percent of households used nonbank credit products, compared with 4.9 percent of urban households and 4.1 percent of suburban households.

Ten percent of households with a disability (age 25 to 64) used non-bank credit products compared with only 5 percent of households without a disability.

Not surprisingly, the same underserved populations that lack a checking or savings account are the same underserved populations that use high-cost credit products and end up paying more for basic financial transactions.

Who is credit invisible?

People who are credit invisible do not have a credit history with any of the nationwide credit reporting companies. In 2015, the CFPB found that 26 million people were credit invisible.[9] An additional 19 million people were found to be credit unscoreable: 9.9 million because their file was thin and they had insufficient credit history and another 9.6 million because they had stale files and lacked any recent credit history.

The CFPB found that consumers in low-income neighborhoods are more likely to be credit invisible and have unscoreable credit files. The same is true for Black/African American and

[8] https://www.consumerfinance.gov/data-research/research-reports/data-point-credit-invisibles/
[9] https://www.consumerfinance.gov/data-research/research-reports/data-point-credit-invisibles/

Hispanic households. By age, younger consumers until about age 24 are largely credit invisible. After age 60, credit invisibility and unscoreable records increase with age, particularly for Black/African American consumers and Hispanic consumers, partly reflecting a lack of recent credit history. At ages 75 and older, nearly a quarter of Black/African American and Hispanic consumers were credit invisible, compared with 17 percent of White consumers.

Credit scores provide an important foundation for many consumer credit decisions. The higher the score, the lower the cost of credit for the borrower. Even when people have a strong credit file, errors in credit reports can sometimes trigger adverse credit decisions. It is important for consumers to obtain a copy and check their credit reports annually to ensure that all information is up-to-date and correct.

Alternative Data: A Double-edged Sword

Alternative data is information that is not included in traditional credit reports.[10] This includes monthly payment obligations like rent, cell phone bills, or other utility bills. As we seek ways to help people gain access to mainstream credit products, care must be taken to ensure that we are not harming people. Someone with no credit history is better off than someone with a bad credit history. For example, some older consumers prioritize their monthly payments to ensure they can cover their essential expenses, like food, housing, and prescription drugs over utilities in the months in which utilities cannot be turned off. Many of these consumers are living on fixed incomes and may have trouble meeting their monthly expenses. That may mean they must put off paying their electric or gas bill. Reporting these late utility payments to a credit bureau would likely make things worse for consumers in this situation; their credit scores could go down, or they might prioritize utility payments over other essentials like prescription drugs. For this reason, AARP is currently examining policies that consider the use of alternative data and will evaluate them to ensure they do not hurt the very people they are intended to help.

Consumer Protection is Vital

As people age, many people rely on help from family and friends so that they can continue to age in place. In some cases, older people have dementia or other conditions that cause cognitive decline, which often means they need help managing their finances. In 2020, 58 percent of family caregivers said they provided help managing their care recipient's finances.[11] Many older adults receive care from caregivers who are not family members or friends. No matter who the financial caregiver is, financial exploitation may be a cause for concern.

According to The National Elder Abuse Study,[12] 90 percent of financial exploitation is perpetrated by family members. Meanwhile, the average victim loses $120,000 as a result of exploitation by both known individuals and strangers. [13] Fortunately, there are several solutions available to help address this growing problem.

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[10] Credit Invisibility and Alternative Data: Promises and Perils, National Consumer Law Center, July 2019.

[11] https://www.caregiving.org/wp-content/uploads/2021/01/full-report-caregiving-in-the-united-states-01-21.pdf

[12] National Center on Elder Abuse, American Public Human Services Association. The National Elder Abuse Incidence Study: Final Report. Washington, DC: Administration for Children and Families & Administration on Aging, U.S. Department of Health and Human Services.

[13]The MetLife Study of Elder Financial Abuse (National Committee for the Prevention of Elder Abuse, Virginia Tech, and MetLife Mature Market Institute, June 2011)

- AARP has developed Bank*Safe,* which includes a free training platform for frontline workers at financial institutions to help them identify and prevent financial exploitation. All banks, credit unions, and investment firms within the United States can have their staff trained through the Bank*Safe* platform at no cost.
- There are bank account features that are already available that could help older adults and people with disabilities. For example, a read-only feature, or third-party monitoring, authorizes a family member or friend to monitor a senior's/person with disabilities account for irregularities in a format that allows monitoring, but does not provide access to funds or the ability to make transactions. The third party monitors the account through online banking or monthly statements.
- Asking a customer about his or her needs and preferences, including the use of a quiet room or extra time to make financial decisions. These preferences could be listed as part of the customer's account and allow front-line employees to address them when the customer contacts the bank.
- EverSafe® has developed software that focuses on early detection and prevention of exploitation before it occurs. This service scans financial accounts daily and issues timely alerts to customers and a third-party monitor about any suspicious activity. It helps protect customers by detecting abnormal spending patterns, unusual credit card charges, missing deposits, unauthorized cash withdrawals, and identity theft.
- Since 2013, AARP has provided the AARP Fraud Watch Network as a free resource for people of all ages. Consumers may sign up for "Watchdog Alert" emails that deliver information about scams or call a free helpline to report scams or get help from trained volunteers in the event someone falls victim to scammers' tactics. The Fraud Watch Network website provides information about the latest fraud and scams, prevention tips from experts, an interactive scam-tracking map and access to AARP's hit podcast series, *The Perfect Scam*.

Technology Solutions Can Help

Increasing use of technology by older adults had been observed over the past two decades. Today, 75 percent of adults age 65+ said they use the internet.[14] The FDIC found that the share of households age 50 and older increased their use of mobile banking and online banking over the past several years. Despite these increases, older adults lag behind younger age groups in adopting financial technology.

Fintech for Financial Resilience, a collaboration between AARP Foundation and Chase, provides a website where consumers can access a free toolkit to help build confidence using technology to manage finances and protect them from scams.[15] The website also includes resources for organizations, including a guide that explores ways to help older adults overcome technology adoption barriers while also providing design recommendations for fintech innovators.[16]

[14] https://www.pewresearch.org/fact-tank/2022/01/13/share-of-those-65-and-older-who-are-tech-users-has-grown-in-the-past-decade/
[15] https://fintech.aarpfoundation.org/
[16] https://fintech.aarpfoundation.org/wp-content/uploads/2020/05/AARP-Foundation-Report-Fintech-over-50.pdf

Addressing the needs of older consumers is a smart business tactic. Providing safe infrastructure for financial transactions along with strong consumer protections are critical for fintech adoption.

Conclusion

Thank you for the opportunity to share AARP's views on these important issues. We look forward to working with you to ensure that all consumers, especially older Americans and people with disabilities, are included in our financial system and have access to high-quality financial products that are safe, readily accessible, and affordable. While technology may improve access for many more people, we must work to ensure that consumers are protected from financial exploitation and abuse and that online transactions and financial products have the same level of protection as other financial services.