STRONGER COMMUNITIES. STRONGER AMERICA.

Lessons Learned from Fuente Credito:

Using Fintech to Expand Immigrant Access to Small Dollar Consumer Loans

STRONGER COMMUNITIES. STRONGER AMERICA.

UnidosUS, previously known as NCLR (National Council of La Raza), is the nation's largest Hispanic civil rights and advocacy organization. Through its unique combination of expert research, advocacy, programs, and an Affiliate Network of nearly 300 community-based organizations across the United States and Puerto Rico, UnidosUS simultaneously challenges the social, economic, and political barriers that affect Latinos at the national and local levels.

For more than 50 years, UnidosUS has united communities and different groups seeking common ground through collaboration, and that share a desire to make our country stronger.

For more information on UnidosUS, visit www.unidosus.org or follow us on Facebook, Instagram, and Twitter.

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PROJECT PLAN YEAR
Sale UP
64%
PROJECT

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ACKNOWLEDGMENTS

Fuente Credito was initially developed and championed by former UnidosUS staffers Lindsay Daniels and Janis Bowdler, and subsequently operated by Adriana Jaramillo and Sabrina Terry. Charles Kamasaki and Laura Vazquez from UnidosUS's Immigrant Integration team also supported the development and implementation of the loan pilot.

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Specifically:

- AURA (Lender)
- Brooklyn Federal Cooperative Credit Union (Lender)
- Capital Good Fund (Lender)
- CASA (UnidosUS Affiliate)
- CLUES (UnidosUS Affiliate)
- Connection Credit Union (Lender)
- District Government Employees Federal Credit Union (Lender)
- Emerge Financial Wellness (Lender)
- eMoneyPool (Lender)
- Friendly House (UnidosUS Affiliate)
- Gulf Coast Jewish Family and Community Services (CBO Partner)
- Hispanic Unity of Florida (UnidosUS Affiliate)
- Inclusiv (formerly National Federation of Community Development Credit Unions) (Lender)
- Kitsap Immigration Assistance Center (CBO Partner)
- La Esperanza (UnidosUS Affiliate)
- Latin American Community Center (UnidosUS Affiliate)
- Liberty Bank (Lender)
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FUENTE CREDITO'S MISSION AND PURPOSE

Accessing credit is a difficult task for all low-income people but particularly for recent Latino immigrants. When people are relatively new to the country, typically they have no credit history or at best a "thin" credit profile. This ambiguity is typically interpreted as heightened risk by financial institutions, and it makes it nearly impossible for immigrants to get prime rates on credit cards, a business loan, or a home mortgage. Without significant collateral, a barrier for most low-income immigrants, they often are denied access to conventional credit products, pay higher interest rates, and/or are forced into the alternative financial services market. Of course, many Lawful Permanent Residents (LPRs) who have been in the United States for a longer period may have more robust credit histories, but there is still a need within the broader Latino community to develop, repair, and improve credit.[1]

Small dollar loans (SDL) are a critical stepping stone to helping immigrants build credit and finance their immigration journey. The main form of small-dollar credit available to immigrant consumers is the credit card; however, access to prime rate credit cards require a good credit score. Even secured credit card options require a low-income immigrant to save the necessary security deposit. Credit cards can also serve as "debt traps" for unwary consumers, especially those with little previous experience with credit.[2] Additionally, when it comes to paying fees required for various immigration-related benefits, credit cards can only be used on U.S. citizenship applications and are not a permissible form of payment on other immigration applications. A primary example of this is after the 2012 announcement of the Deferred Action for Childhood Arrivals (DACA) program, many DREAMers were unable to file for their adjustment of status due to the lack of financial options available to pay their application fee of $495, not counting required biometrics and other fees. DACA highlighted a longstanding problem: the inability of immigrants or their sponsors to pay for citizenship or other immigration-related fees, which often run into the thousands of dollars.[3]

Despite the clear need for SDLs, traditional depository institutions generally are disinclined to serve consumers with affordable SDL products. In addition, while a number of credit unions, community development financial institutions (CDFIs), and other lenders do offer affordable products tailored to immigrants, they are few and far between, and newcomers in large swaths of the country have little or no access to such lenders. Moreover, even with often significant subsidies provided by private philanthropy, most of these lenders have limited lending capacity, such that even if more immigrants had access to them, the supply of financing would quickly be outstripped by demand.

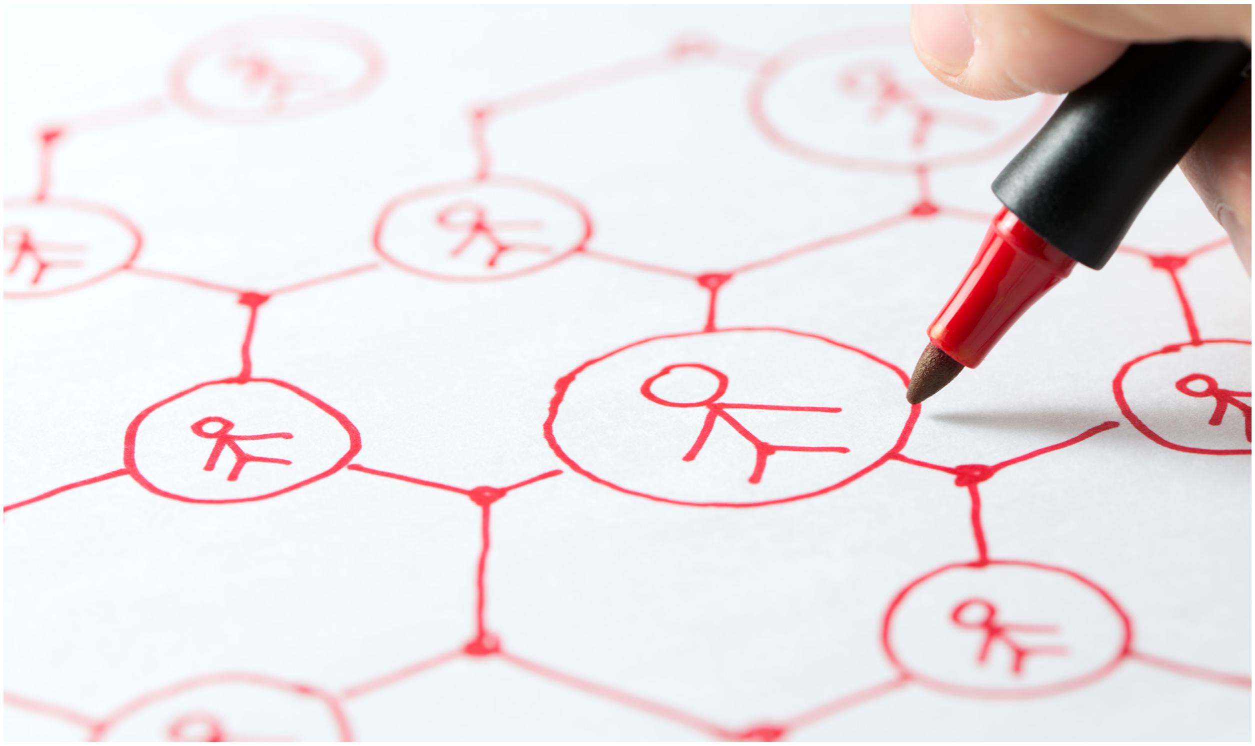
Thus, the SDL products that saturate the marketplace are predominantly predatory in nature, with high interest rates and steep fees, typically offered by payday lenders and pawn shops; tax "refund advance loans," weekly installment loans, and car title loans. While UnidosUS has long sought policy changes to reduce predatory lending,[4] it also recognizes that the market could produce and sustain commercially viable products that we are more affordable than much of what's currently available. Toward that end, Fuente Credito sought to prove that SDL accessible to immigrants was an untapped market amenable to a sustainable, commercially viable marketplace solution.

Fuente Credito was an online platform, which operated from 2014 through 2021, that served as the nexus between supply and demand for SDLs. It aimed to leverage technology to better connect immigrant borrowers to remote lenders with products that could help them overcome their immigration expenses. In addition, Fuente Credito sought to reduce lenders' costs of underwriting and servicing loans through technology and by using trusted community-based partners such as UnidosUS Affiliates to help prospective applicants access and understand financing.

The promise of Fuente Credito was to become a disruptive, yet sustainable and long-term mechanism for filling the market void of low-cost SDLs. More specifically, the platform sought to provide proof of concept for:

1. Filling gaps of SDLs beyond the small number of lenders currently providing loans or the limited grants targeting immigrants via the philanthropic community.
2. Reducing underwriting, customer acquisition, and eventually servicing costs via application of technology.
3. Not requiring ongoing heavy subsidies to provide SDLs.
4. Offering consumers a choice between various products and encouraging lenders to provide affordable rate.[5]

While the market was not fully responsive to the Fuente Credito intervention, the project provided valuable insights about what is needed to spur a sustainable response to immigrants' credit needs.



FUENTE CREDITO'S STRUCTURE AND SCOPE

How it Worked:

Fuente Credito was an "organization facing" system designed to assist loan applicants through community-based organizations. Service providers could use Fuente Credito to help connect their clients with SDLs (between $300 and $5,000 with less than 36% APR)[6] that were available to them from lenders in their area or lenders serving multiple jurisdictions. Service providers would walk clients through the system as they entered the basic personal information. Fuente Credito would filter their information based on their needs and location to match them with potential lenders.

Depending on the technical integration with the lender, pre-qualified applicants could apply for a loan online, uploading required documents through the platform, or they could use loan applications received to apply in-person. Underwriting and loan offers were, with one exception,[7] made according to the lender's existing products and terms.

Where it Operated:

Over the last six years, Fuente Credito had a total of eight participating lenders and 15 community-based organization sites. Most of the loans were provided by local and regional credit unions and CDFIs, as well as fintech lenders that have lending licenses in select states.

LENDERS	GEOGRAPHY
AURA	California
Brooklyn Federal Cooperative Credit Union	Brooklyn, NY
Capital Good Fund	Delaware, Florida, Massachusetts, and Rhode Island
DGE FCU	Delaware, Maryland, and Virginia
eMoneyPool	Nationwide
Liberty Bank	Alabama, Arizona, District of Columbia, Illinois, Kansas, Louisiana, Maryland, Michigan, Mississippi, Missouri, Nevada, New Mexico, Texas, and Virginia
Marisol Federal Credit Union	Phoenix, AZ
Emerge Financial Wellness	Nashville, TN (nationwide)

Participating lenders were required to meet the following lending, servicing, and pricing requirements:

- Mission driven and provide financial products to families or communities that traditional financial institutions have difficulty serving.
- Experience working with low-income and immigrant communities.
- Offer SDLs $500-$10,000 with APR between 0-36%.
- Accept Individual Taxpayer Identification Number (ITINs).
- Accept alternative forms of ID, including passport, matrícula consular, city-issued ID card (i.e. NYCID), etc.
- Employ bilingual staff members to communicate with clientele that are more comfortable conducting financial transactions in a language other than English.
- Provide a transparent lending process to provide maximum protection to the borrower.
- Provide borrowers access to free information, online and in print that will help them understand loan terms, repayment process and amounts, etc.
- Approve loans that the borrower has the current ability to repay, not be determined by a borrower's race, ethnicity, gender, national origin, sexual orientation, language preference, disability, religion/creed, or age, except as otherwise permitted or required by law.
- Willing to form a formal relationship with local service providers such as UnidosUS Affiliates and other nonprofits.

On average, in any given year there were four to five lenders on the platform simultaneously that enabled Fuente Credito to be administered by community-based organizations in five to six states.

LESSONS LEARNED:

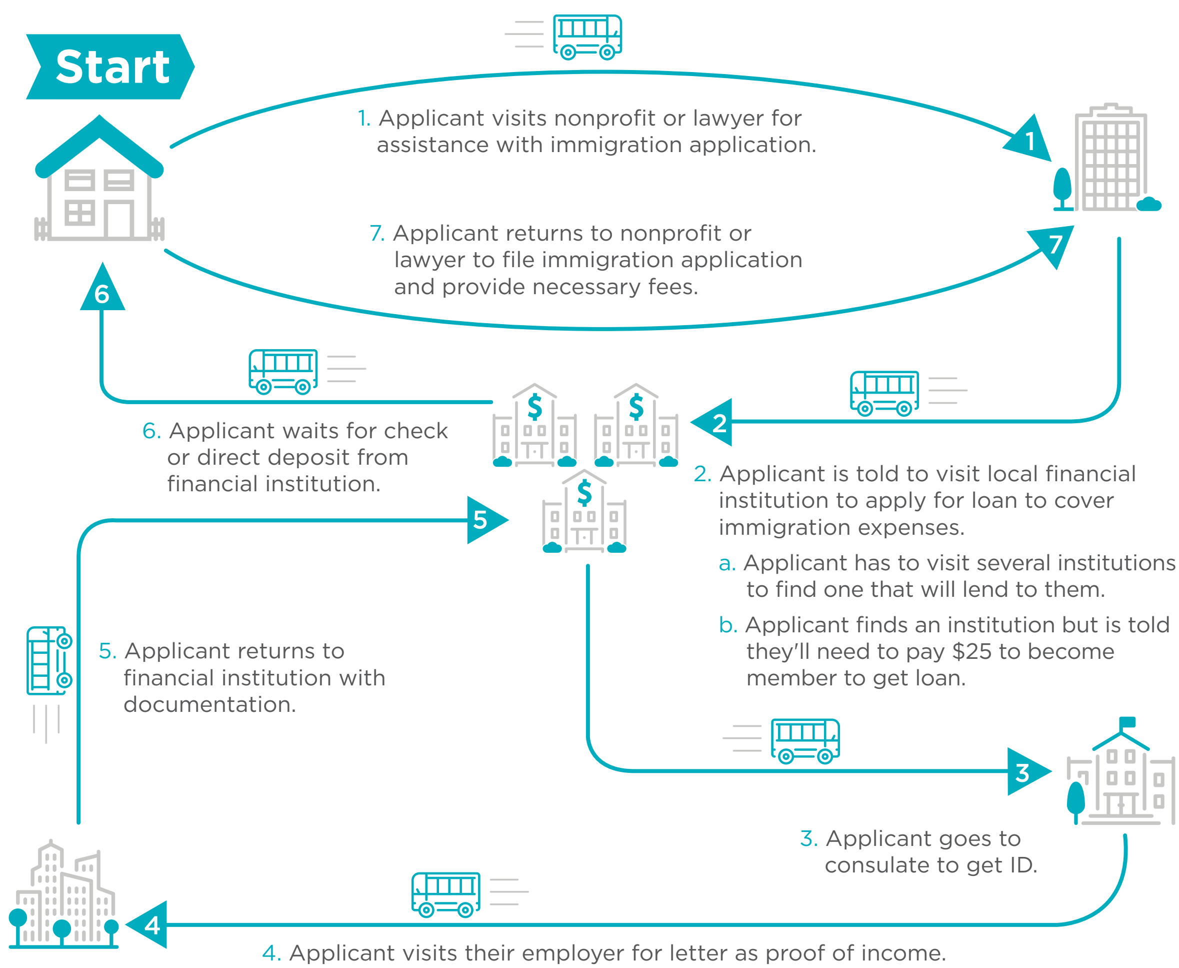
Program Design Issues

In seeking to offer more affordable alternatives to payday lenders, Fuente Credito sought to compete with key advantages: convenient locations, quick application processes, and near-instant approval. Program designers believed that in addition to using technology to provide convenience and rapid loan decisions, it could also provide the additional advantages of offering consumers more choices, and more resources. Specifically, support from trusted sources like community organizations to whom they already turned to for immigration-related services, and in some cases financial literacy/educational assistance.

In theory, the system was designed as a "lending tree" model—it would not directly offer loans but would use technology to facilitate access to lenders, saving the client from having to make multiple trips to brick-and-mortar lending sites.

SEE FIGURE 1:

IMMIGRATION LOAN PROCESS WITHOUT TECHNOLOGY



In addition, it was hoped that Fuente Credito could serve as a "bridge" allowing seamless online applications directly to lenders, not only saving applicants' time but also reducing lenders' underwriting costs. Unfortunately, this potential savings was largely unrealized, in part because of UnidosUS and its tech vendor weren't able to integrate consistently the myriad tech platforms/software systems lenders use (see below). Therefore, the inability of the system to reduce lender cost limited the development and expansion of more affordable SDL products.

Another key design feature of the system was its organization facing interface. UnidosUS partnered with local nonprofits trusted by immigrant communities that offered immigration legal services and/or immigrant-focused financial literacy education or counseling activities. The theory was that such partnerships would offer a seamless transition to immigrants seeking citizenship or other immigration benefits by linking their immigration and loan application activities. In practice, this proved more difficult than originally anticipated, in part because the immigration legal services and financial literacy programs tended to operate separately, often were housed in different departments, and functioned along disparate "business rules or program "rhythms." Attempts to align these separate but related programs met with mixed success, in part because the local programs responded to different funders, deliverables, metrics, and program philosophies.

While these "micro" program design issues made the implementation of the program more difficult, they paled in comparison with broader "macro" issues within the current financial services landscape, as detailed below.

Market Challenges

In implementing Fuente Credito, UnidosUS encountered significant challenges trying to facilitate more credit options to low-income Latino immigrants. These challenges can be categorized into three questions:

- How to design SDLs for immigrants
- How to leverage technology to provide SDLs
- How to expand availability of SDLs given complex lending laws

Understanding and navigating these challenges uncovered some promising practices that can help the design of future programs/systems to fill the market gap in SDLs.

HOW TO DESIGN SDLs FOR IMMIGRANTS?

Limited lender understanding about the immigrant market made product design and eligibility challenging. Many financial institutions, including banks, CDFIs, and credit unions, are unfamiliar with the various immigration statuses and the correlating documents associated with them. While some financial institutions have made progress in accepting alternative forms of ID, such as matricula consulars, many have yet to fully comprehend Latino immigrants' financial needs and corresponding behaviors. The Fuente Credito program sought to increase financial institutions' understanding, but most financial institutions approached to participate in the program defaulted to two responses: 1) adhering to their existing product suite; and/or 2) using standard risk-based pricing in product development. Both stances, in UnidosUS's judgment, do little to increase Latino immigrants' access to SDLs.

> ***The interest rate is crucial for having LPRs taking loans. The lower the rate, the more chances an applicant will take a loan.***
>
> **Pablo Bank**, CASA, UnidosUS Affiliate

Many financial institutions who are unfamiliar with the immigrant population can see the benefit of serving an emerging market but are reluctant to alter business models based on non-immigrant clientele. In most cases, financial institutions will promote their existing products curated for low-income consumers. While elements of these products are helpful, they still invariably require a credit score that exceeds that of a typical low-income immigrant or require collateral that is also out of reach for the target population. This results in something of a "Catch-22": most financial institutions' affordable products require high credit scores, but those with such scores typically don't require SDLs. As a result, a large proportion of those referred to lenders were rejected. When loans were offered, interest rates often exceeded what the consumer was willing to accept.

Other financial institutions, especially non-traditional lenders, may be willing to make some modifications to their product suite but appear hypersensitive to potential risk. This causes many financial institutions to require grant funding or other external subsidies to cover potential losses. While a healthy loan loss reserve is helpful to providing assurance to financial institutions, limited grant resources necessarily limits the ability to scale SDL programs. For example, many foundations provided loan loss reserves to credit unions for them to administer immigration loans for citizenship applications. This narrow use did not account for the legal fees and biometric fees that many immigrants must pay to complete their immigration application, nor did they help immigrants tackle other small dollar emergencies. Furthermore, with few exceptions,[8] lenders could offer only a relatively small number of such loans, requiring additional grant funding to meet additional demand.

Many online lenders ("fintechs") have responded to market by making loans available quickly, often on an "instant approval" basis, they have also addressed the perceived higher risk by increasing interest rates to levels that rival those offered by payday lenders.[9] Thus, only a small number of immigrant consumers can access grant-subsidized affordable loan products, while the vast majority are denied access to traditional products and instead are funneled to the largely predatory market.

> *Some lenders don't fall under the traditional predatory lending definition and still exercise predatory practices.*
>
> **Monica Zambrano**, Building Skills Partnership, UnidosUS Affiliate

The most successful lenders have been those that have a willingness to serve the immigrant market, built their business models around the immigrant consumers' needs and have a more progressive view on potential risk. Lenders that develop products that fill gaps in the marketplace and developing underwriting systems that account for immigrants' financial backgrounds, while maintaining affordability, show the most promise of reaching the emerging market and growing their customer base.

- **Affordable rates** will largely drive Latino immigrant interest in a potential loan and attract the support of nonprofit service providers referring clients.
- **Flexible loan usage** makes SDL products more accessible to immigrant consumers whose small dollar needs might be niche or tangential to a personal goal. Financial institutions that adopt broad categories of use rather than specific purposes will have more immigrants completing applications. Categories such as: immigration, education, professional development, and emergency covered most immigrants' SDL needs.
- **Accommodating credit-impacted immigrants** who have had financial trouble in the past or victims of payday lending and need to rebuild their credit profile. Most lenders focus on new consumers or credit invisible consumers but lenders would reach more individuals in need if they accommodated credit impacted immigrant consumers.
- **Accepting alternative banking history** in SDL underwriting helps to account for immigrants that utilize cash or prepaid debit cards to manage money. Some prepaid cards have an online banking service that enables consumers to show deposit history.
- **Accepting ITINs** as an alternative form of ID opens up SDL banking services and products to immigrants who are transitioning to immigrations status.

> *It was nice to offer a list of loans that the participant could apply for. Some of our participants are ITIN holders, so providing those participants with some product was helpful.*
>
> **Monica Zambrano**, Building Skills Partnership, UnidosUS Affiliate

- **Offering financial coaching** alongside products helps immigrants understand the terms of the loan and the repayment schedule. It also connects immigrants to other services that could be helpful to their financial goals.

- **Brick and mortar and online lending locations** provide the combination of services that can accommodate the range of banking preferences that exist in the immigrant community. While younger or tech savvy immigrants are comfortable with online lending services, many still prefer an in-person lending option.

> *A partnership with local federal credit unions is crucial for the success of programs. Online-only lenders may not be considered as a good option by LPRs…when confronted with the options the Fuente Credito tool offered, members preferred to drive to DC rather than taking the online loan.*
>
> **Pablo Blank**, CASA, UnidosUS Affiliate

- **Bilingual materials and support staff** is essential to ensuring Latino immigrants can apply in their preferred language and can communicate questions or concerns throughout the process.
- **Robust marketing and advertising** is essential to building brand awareness in the immigrant community and acquiring new customers.

SAMPLE FUENTE CREDITO FINANCIAL PARTNERS

The following lenders have been most successful in serving immigrant consumers in the Fuente Credito loan pilot. Their product and service models accommodate the financial background of immigrants, including embracing those that operate in the cash economy, compromised credit, and prefer an in-person customer service.

Capital Good Fund, a nonprofit, U.S. Treasury-certified CDFI that provides SDLs and personalized financial and health coaching to families in Rhode Island, Florida, Massachusetts, Delaware, Illinois, Texas, and Colorado. Capital Good Fund has curated a suite of affordable SDL products that address the immigration and emergency credit needs of low-income immigrants.

Oportun, is a Latino-led financial technology company and a U.S. Treasury-certified CDFI that provides personal loans and credit cards in Arizona, California, Florida, Illinois, New Jersey, New Mexico, Nevada, and Jersey. Oportun leverages financial technology and brick and mortar locations to better serve the immigrant community.

DC Credit Union, formerly DGE Credit Union, is a local credit union in Washington, DC, that is committed to serving the Latino community and immigrants. They provide bilingual services, flexible ID requirements, reasonably priced remittances, Citizen Application loans, New American Loans, and more.

HOW TO LEVERAGE TECHNOLOGY INNOVATIONS AND INVESTMENTS TO PROVIDE SDLS?

The fragmented technology systems used by financial institutions made it difficult to facilitate more access to small dollar credit. A leading rationale made by financial institutions in their reluctance to enter the SDL market is that the cost outweighs the potential profit. Customer acquisition and underwriting costs related to SDLs almost mirror the costs related to larger credit lines, like a mortgage or auto loan, but with less potential profit. Fuente Credito sought to reduce the upfront costs by generating referrals and completing applications online. In theory, lenders would receive eligible applicants, and depending on the level of integration, receive complete applications with supportive documentation. In reality, lenders had varying levels of automated applications, and in some cases were incompatible with Fuente Credito's system, making it difficult to integrate their systems to help reduce costs.

Smaller institutions, such as credit unions and CDFIs, incur significant underwriting costs due to the lack of the automated underwriting systems. Their online applications do not connect to any back-end algorithm or underwriting system. In these cases, Fuente Credito helped to identify a client and fully complete an application, but the receiving institution's staff would still conduct manual underwriting thus not reducing the cost of those loans. The benefit of this approach is that it allows for underwriters to take a "second look" or reconsider an applicant if they were nearly eligible for a loan or if they were being referred by a trusted partner.

On the other hand, fintechs have fully automated applications. Each fintech's origination process is unique to their model and the state lending requirements that govern them. This made it difficult for Fuente Credito to help lower origination costs because the fintechs' loan applications were rigidly constructed to ensure compliance with state laws, and they were connected to their internal algorithms. The immediate decision was time effective and provided applicants a clear answer within minutes, but it was also rigid. The lack of human consideration made it difficult to address errors or misinterpretations that led to a denial. However, Fuente Credito had promise of being a referral system as many fintechs had little to no brand recognition in the immigrant community. The nonprofits that utilized Fuente Credito were important gateways to communities of immigrants that need access.

The most successful lenders practice a hybrid model for acquiring customers and underwriting. Lenders that invest in technology to expedite their decision-making process but leave room for individual nuance are able to maximize their investments and reduce costs. Additionally, lenders that partner with community-based service providers further reach immigrant consumers.

Promising and Best Practices for Leveraging Financial Technology

- **Immediate decisioning** enabled by digital applications is helpful for immigrants to know if they are pre-qualified and encourages them to complete the entire application. This is particularly helpful when immigrants are seeking resources for time sensitive or emergency situations.

- **"Second look" protocols**, in which applicants from trusted referral partners or affinity relationships that are nearly pre-approved, have a second review of their application. In these cases, financial institutions will have a manual underwriting review of the application and request additional information that could help the applicant be approved.

- **Human customer service** that is easily available is critical to ensuring immigrant clients understand the application process and complete it correctly. Direct numbers to live agents, as opposed to live chats, have had the most success.

- **State funding to support nonprofit service providers** in making referrals is critical to ensuring that immigrant-serving organizations have the resources and staff power to adequately dedicate time to loan education and referrals. This will ensure that Latino immigrants throughout the state are gaining access and navigating technology to access resources.

> *To prevent the digital and cultural-language divide becoming a barrier on programs like this one, local NGOs should be financially supported so they can offer navigation and application support to borrowers.*
>
> **Pablo Blank**, CASA, UnidosUS Affiliate

- **Service provider partnerships**, in which financial institutions partner with immigrant serving entities, will help Latino immigrants learn about affordable SDL products at the moment they are needed and with a trusted guide that can help immigrants navigate the platform.

> *To scale an immigration [loan] program, we need to partner with attorneys, who have a financial interest in ensuring their clients have financing options as opposed to putting a client on a payment plan.*
>
> **Andy Posner**, Capital Good Fund

- **More nimble integrations** will enable lenders to better accept leads. Building systems that are more open to integrations will help lenders receive referrals.

> *The ease of access worked well, we entered the information, and the follow up was conducted directly with the client.*
>
> **Sylvia Acevedo**, Gulf Coast Jewish Family and Community Services, Inc.

WHERE ARE SDLs ARE AVAILABLE?

Technology and better product design could not overcome the limited lending footprint of financial institutions operating in this space. Most financial institutions willing to provide SDLs are not national lenders and have limited geographies in which they can lend. This causes a disconnect between the supply and demand of SDLs. Fuente Credito sought to better connect immigrant consumers to affordable lines of credit but state lending laws vary greatly causing difficulty facilitating access.

Smaller local institutions, such as community banks, credit unions, and CDFIs have a strong commitment to serving low-income but have small geographies in which they can lend. These institutions, originally created through employers, have a membership-based model and are often based in city centers. While immigrants who work in the city can leverage their work address to access credit union services, immigrants outside of the city who are most in need of services cannot access them. This also does little to help immigrants located in neighboring states with less access to resources. The Fuente Credito program helped a few credit unions leverage nonprofit service providers locations in the city to help immigrants become members but needed to be accompanied by remote loan closings.

CDFIs and fintechs lending footprints are larger than credit unions but were fragmented in comparison to the demand for loans. CDFIs and fintechs are subjected to each state's lending laws on SDLs, including price caps and loan servicing requirements. CDFI and fintech lenders must pursue a lending license for every state they seek to operate in, which can be a long and tedious process. For example, the state of Nevada requires a lender to have a physical presence in the state—a barrier for many fintechs. The state of Florida has a rate cap that causes a lender to have to alter their product to comply. Therefore, many lenders will only choose states that have the most favorable lending laws. Some fintechs sought partnerships with banks to overcome these requirements but it did little to expand access for immigrants because of their product design and cost. The Fuente Credito program was limited to the licenses of participating lenders and could not connect to service providers in other areas with clients in need.

Successful lenders in this space sought to expand their lending footprints to be statewide and multi-state lenders. While this requires significant time and investment, lenders who entered additional markets were able to reach more Latinos and expand their business model.

Promising and Best Practices for Increasing Areas Where SDLs Are Available:

- **More affiliation-membership models** among credit unions, particularly with immigrant serving nonprofits, to help reach immigrants is critical to expanding access.

> *We could help facilitate loan access thanks to the partnership we had with DC FCU.*
>
> **Pablo Blank**, CASA, UnidosUS Affiliate

- **State coordination on small dollar lending laws** would create industry standards that could help lenders enter states and provide SDLs to immigrant consumers who are in need of capital.
- **State funding to subsidize SDLs,** especially those made outside of metro areas, could encourage more lenders to enter the market and ensure that loans are accessible throughout the state. As demonstrated in California, state funding significantly helps spur lending throughout the state.
- **National banks to provide SDLs for immigrant consumers** would significantly reduce the access gap as they have the infrastructure to provide loans at a low cost and reach people in remote areas.

RECOMMENDATIONS

The Fuente Credito program sought to prove that SDLs accessible to immigrants was an untapped market that needed stakeholder buy-in and technology to foster a sustainable resolution. In pursuing that goal, UnidosUS recognized it faced significant challenges further reflecting the fragmented financial marketplace. Among the major challenges: shortage of products that meet immigrants' needs; the absence of technology innovations and systems that overcome traditional access barriers; navigating the complex regulatory lending landscape; and the very uniqueness of the intervention all made initiative difficult.

The market's unresponsiveness to Fuente Credito as a facilitator or intervention, the pilot program suggests that similar promising practices likely can be achieved only if accompanied by larger, structural or systemic changes. In order for SDLs to become the needed resource that helps Latino immigrants integrate financially in the United States, UnidosUS believes that:

- **More lenders must enter the SDL market.** Unlike many other financial products, the safe and affordable SDL market holds only a tiny niche in the overall landscape. There are few lenders that are engaged and none are national lenders with the footprint to make an impact. This is less of an indicator of the feasibility of SDLs and more reflective of excessive risk avoidance of the financial sector. Additional lenders will help meet the ongoing demand for small dollar credit and begin to establish industry norms for success.
- **More policy interventions to sustain or supplement loan products.** Since it's clear that most conventional lenders are avoiding this market, policy intervention is required to better incentivize industry participation. Similar to other lines of credit such as mortgages, the small dollar credit market needs public intervention to ensure access among underserved consumers.
- **Federal regulators should use the Community Reinvestment Act (CRA) to more assertively and proactively promote safe and sound small dollar consumer lending.** Traditional banks are in the best position to offer safe and affordable SDL products and these products are consistent with their obligations under the CRA. CRA exams should more routinely scrutinize consumer lending and do so even if the substantial majority of an institution's loans are not consumer loans. Federal bank regulators must prioritize small dollar credit in their evaluations and correlating guidance that encourages banks to:
  - Offer loan products that account for the credit building and credit repairing needs of immigrant borrowers.
  - Tailor their underwriting criteria that include the assessments of the borrower's true ability-to-repay and reasonably priced interest rates so they can be competitive, while still ensuring they are lending in a safe and sound manner.
  - Prioritize non-CRA hubs, such as rural areas or non-metropolitan areas to ensure banks reach agriculture and credit deserts where many Latino immigrants reside.

As the CRA is modified and expanded apply to other non-traditional lenders, many of whom are deeply engaged in lending small dollar credit, similar evaluations and guidance of their lending portfolio should be made.

- **Federal regulators should require banks to report microloan data in the aggregate to the Consumer Financial Protection Bureau.** Data transparency in small dollar lending is an equally important policy intervention to help ensure lending to immigrant consumers. Similar to the Home Mortgage Disclosure Act (HMDA), loan data can help banks, advocates, and legislators better monitor consumer lending trends and identify areas in need of small dollar capital.
- **Both government and philanthropy should support greater experimentation** to test the efficacy of alternative approaches to small dollar lending, perhaps through a series of carefully structured pilot programs. Such pilots could test interventions that seek to address specific barriers to scaling promising practices, including somewhat more flexible but still heavily automated loan application systems analogous to the underwriting programs developed for the mortgage market that can both reduce costs but would still allow inclusion of factors other than income and credit score in making decisions about creditworthiness; software systems that would enable direct online small dollar applications to lenders using different technology systems; targeted but temporary subsidies to test somewhat more affordable small dollar credit products that still have the potential to scale in the marketplace in a sustainable way; and various combinations of these and other innovations that could produce sustainable reductions in the cost and timeliness of the small dollar application process.
- **More information sharing on what works.** Not enough information exists on successful aspects of small dollar lending. Institutions rarely share the success of their small dollar lending models with other institutions, policy makers, or with advocates. Greater understanding of small dollar credit models, specifically those that reach immigrant consumers, would encourage more lenders to fine-tune their models and meet demand. It would also be helpful information to update lending laws so that they encourage small dollar lending while maintaining consumer protections.

Conclusion

As equitable access to financial services grows more urgent in post-COVID economic recovery, so will the role of SDLs. Latino immigrants will face more hardship without the access to SDLs that can help them overcome minor setbacks or finance a critical step such as changing their immigration status. Notwithstanding Fuente Credito's internal operating challenges, it's clear that no sustainable alternative to predatory SDL products is possible until: (1) More lenders offer affordable SDLs; (2) Conventional and CDFI lenders adopt more compatible software systems that permit technology-based cost savings to be passed onto consumers; and (3) State lending laws are better targeted such that they don't adversely affect development and offering of affordable products while appropriately limiting predatory activity.

These developments are unlikely to happen by themselves. Greater commitment by lenders to serve this market, incentivized or if necessary mandated by regulators, is necessary to produce a marketplace with variety of affordable products to choose from. Fuente Credito's experience suggests that without additional market innovation and policy support, the enormous demand for affordable SDLs required by immigrants and other low-income consumers will remain unfulfilled. In turn, this not only limits immigrants' ability to not only address immediate needs, but also endangering their long-term financial stability and upward mobility. Financial institutions and policymakers have the ability to address these issues. They should do so without delay.

APPENDIX

Profile of loan products in program:

LENDER	STATES	INTEREST RATE	LOAN RANGE	USE
AURA	California	18% *UnidosUS subsidized rates*	$300–$2,500	Flexible Use
CAPITAL GOOD FUND	DE, FL, MA, and RI	9%–24%	$700–$20,000	Immigration & Flexible Use, Payday Loan Alternative
LIBERTY BANK	AL, AZ, DC, IL, KS, LA, MD, MI, MS, MO, NV, NM, TX, and VA	19.99%	$500–$5,000	Flexible Use
DC CREDIT UNION	DE, MD, and VA	10%	$750–$2,500	Citizenship
EMONEYPOOL	Online Lender (Nationwide)	2%–8%	$500–$1,000	Flexible Use
BROOKLYN COOPERATIVE FEDERAL CREDIT UNION	Brooklyn, NY	5%–12%	$1,000	Citizenship & DACA
MARISOL FEDERAL CREDIT UNION	Phoenix, AZ	0%	$495	DACA
EMERGE FINANCIAL WELNESS	Nationwide	*Varied*	$1,000	Citizenship

ENDNOTES

1 See for example: Laying the Foundation for Improved Access to Credit for Hispanic Families | UnidosUS

2 Latino Credit Card Use Debt Trap or Ticket to Prosperity | UnidosUS

3 Small Dollars for Big Change Immigrant Financial Inclusion and Access to Credit | UnidosUS

4 See for example: Proposed Rule to Stop Payday Lending Debt Traps Released | UnidosUS

5 For a more detailed explanation of the rationale for and early experience from Fuente Credito, see: Small Dollars for Big Change Immigrant Financial Inclusion and Access to Credit | UnidosUS.

6 Only products compliant with Consumer Financial Protection Board guidelines were offered on the platform.

7 The exception was the now-defunct lender AURA (formerly Insikt), which entered into an agreement with UnidosUS to offer products at lower interest rates than under its normal underwriting standards to applicants coming through the Fuente Credito system, with the difference in interest income covered by UnidosUS.

8 Exceptions include UnidosUS Affiliates such as the San Francisco-based Mission Asset Fund and the Durham, NC-based Latino Community Credit Union, both of whom have exceptional leadership, long histories in the field, and exceptional access to philanthropic dollars.

9 Online Lenders Could Trigger a New Consumer Financial Crisis (theintercept.com).

Notes

UnidosUS.org