Speaker:

Welcome to the Keys to Financial Inclusion podcast, brought to you by National Disability Institute center for disability inclusive community development. Hear from thought leaders in the disability and financial communities who will share insights, analysis and emerging strategies to improve and increase investing lending and service activities for people with disabilities. And now here's your host, Michael Morris.

Michael Morris:

Today I have as my guest, Dara Duguay. The CEO of Credit Builders Alliance here in Washington, DC. Dara has an extensive background working for banks and others in the financial services industry. She was the former director of Citi's office of financial education and oversaw a $200 million global commitment. Prior to her work at Citi. She was the founding executive director of the Jumpstart Coalition for personal financial literacy, which advocates for increased financial education for youth nationwide. She started working in the field as the director of education for the consumer credit counseling service of Los Angeles. Dara is also an accomplished author and has published four books, including the critically acclaimed, Please Send Money, a financial survival guide for young adults. Welcome Dara. I'm so glad you're with us today.

Dara Duguay:

Thank you, Michael. Thank you for inviting me.

Michael Morris:

Let's go right to our questions. As you know, National Disability Institute established in June 2019. A new center for disability inclusive community development to bring added and new attention to financial institutions, on the unmet needs of low and moderate income people with disabilities. And to encourage greater investment and lending activities to support this population. What does inclusive community development mean to you and why is it important?

Dara Duguay:

Well, I think that Credit Builders Alliance's work is really very much focused on credit. So I'm going to answer that question with a very sort of narrow focus on credit. And if we look at the fact that there is about 54 million people that are considered credit invisible in this country, and that essentially means that if you pull their credit report, there's nothing there and they are unable to actually be scored. So they are unable to have a credit score. And what that means in a greater sense is they not only have lack of access to financial products, it also impacts their ability to access housing employment.

Dara Duguay:

If you look at the fact that many landlords have a tenant screening process, which usually involves the use of a credit report and about 50% of employers in the U.S also as part of their employment screening process use the credit report. So it's really, really important in so many areas of our lives. The credit report, and in many cases the corresponding credit score are just so vital. And so having people included, being able to actually have a credit identity, I think is part of the fabric of the country for better or worse. It's the way that it is now.

Michael Morris:

Well, maybe you should explain to our listeners a little bit more about Credit Builders Alliance. Why was it formed? Who are your members? What do you feel is your real mission and purpose?

Dara Duguay:

Well, CBA has been around now for a little over a dozen years. And if you can think about us as a bridge, we are essentially a bridge between the nonprofit community, also government agencies and credit bureaus. And we were created to connect nonprofit lenders. Many of them have a designation that is called CDFI stands for community development financial institution. We have a very vibrant nonprofit lending community in the United States. Many people don't realize that we have micro finance institutions that are definitely in the U.S and not just foreign based. When people ask what I do for a living and I usually summarize it by saying, I work to connect microfinance to the credit bureaus to help them to create a credit history for their borrowers. And people usually follow up by saying, what in India or in Africa. And I say, no, in fact in the United States.

Dara Duguay:

And so our lenders had to lend to people that live in distressed communities. They tend to lend to people that don't have a credit history, or that have a marred credit history and probably will be denied by mainstream financial institutions. And so we teach those lender members in how to do credit reporting. We enable it and the beneficiaries are the borrowers that are able to build a credit history. And one other major service is helping to connect those nonprofits and municipal agencies that are not lenders to the credit bureaus. And we enable them to pull what's called a soft pull credit report. And the credit bureaus don't allow many nonprofits, unless they have a HUD certification or special certifications to actually pull soft pull credit reports that are used in financial coaching and counseling. But they are able to have access to these reports through CBA.

Dara Duguay:

So anyone who's listening, I highly encourage them if they have financial coaching as part of their program. And they are finding it impossible to access credit reports because they lack a HUD certification, please know that you are able to access them through our network. And so those are two of the main services that we offer. But all of our services are basically around a concept of helping to build credit and to maintain an access affordable, responsible credit products through the establishment of a strong and positive credit history.

Michael Morris:

Right. When we think about access to credit, I think it's almost like untangling a mystery for so many people. We all know about credit scores. And as you've talked about, they're vital to maybe renting a place, home ownership, securing a loan, so many things. But the credit reporting agencies seem so mysterious. How does your group work with the credit reporting agencies and your members to improve understanding of an access to credit?

Dara Duguay:

That's a great question. And on a monthly basis for all of our members, we have webinars. So just to give you a, for instance, we recently had one on how to understand credit reports, because so many of our members have the credit report as a component of the financial counseling session. We wanted to make sure that they actually understand how to read these reports. They can sometimes be complex, confusing with a lot of codes. And so we had over 400 people that attended that webinar. And so we do monthly webinars. Sometimes they're more than once a month. And we also have a very, very vibrant training Institute that can be found at cbatraininginstitute.org.

Dara Duguay:

And if you go there, you can find a whole host of e-learning courses. We have a very long course called credit as an asset, that will teach you anything that you want to know. Not only about credit reports, but all of that complexities of credit scores and what goes into actually having a good credit score. Some behaviors that will either increase your score or decrease your score. So we go into all of that nuance because as you said, Michael, it is very, very, very complex. And so we try to help our practitioner members to be able to understand this complexity, so that they can translate it to their clients that they're trying to help to improve their financial lives. So we are really, really very, very active in the whole training space.

Michael Morris:

Great. I think you're probably aware that people with disabilities, from the experience from the research we've done with FDIC data, tend to be unbanked and underbanked. Almost one in two working age adults with disabilities are unbanked and underbanked. How can financial institutions do more in terms of products and services to change this picture? And do you think that this emerging industry of fintechs has a role here too as well?

Dara Duguay:

Yeah. It's a wonderful question, Michael. And I've been told that about 50% of people that are unbanked used to be banked, but they either had a bad experience or the bank may have a closed their account if they bounced too many checks, too many overdrafts, for instance. And so we tend to think of the unbanked as people that have never been part of the system. But in fact, about 50% of them were part of the system. They just had a bad experience and they have difficulties in actually getting back into the system. Because if you did have, for instance, overdraft bounce some checks and your bank closed your account. You're going to end up on a report that's called a check systems type report. And most major banks will pull a check systems type report or a similar competitors called, early warning.

Dara Duguay:

And so if they pull a check systems or an early warning report and they see that there's a negative on there, for instance, you may still owe money to a certain bank. It's going to be very difficult to get an account opened again. And so one of the things that CBA did very recently is start a partnership with check systems. Because the check systems report, you can access as a consumer, but you have to ask for it. And it doesn't come online immediately like a credit report does, it actually comes in the mail. And so for many of the financial coaches that are trying to help people become banked again, they find that they have to give someone an assignment to order their report. It has to come in the mail, then they have to set up another appointment. They have to come back in again. And all of that is very difficult, time consuming, and many people don't follow through.

Dara Duguay:

And so with CBA's partnership with check systems, now financial coaches can access this report electronically just as fast as a credit report. They can pull it down immediately, look at it with the client in their office and be able to discover if there is a negative there. And if they do for instance owe, maybe $300, $500 to Bank of America, they can work out a plan to try to pay this off so that once it's resolved, they can hopefully then not have any barrier to being able to open an account again. So that's one thing I definitely wanted to highlight, which is a new service through CBA. But also to answer your question, I think that more banks need to be, what's called second chance banks. To really help individuals that have had problems in the past challenges in the past. And that won't deny them when they want to open a bank account again. Because so many paychecks are now sent to people through direct deposit. There's so many government benefits as you know, that are sent through direct deposit.

Dara Duguay:

And so it's really, really, really critical to actually have a bank account. And so for those that don't, it makes receiving these benefits so challenging in many cases. And so having access to banking is super critical for everyone and especially for those adults with disabilities.

Michael Morris:

And let me go back to that second part of that question. Fintechs are everywhere. They're very prevalent in offering small dollar loans and providing an alternative path to access for credit. Does fintechs have a part of the work of Credit Builders Alliance?

Dara Duguay:

Yeah. I mean, we are definitely monitoring the explosion of fintechs out there, that offer everything from banking to credit. The warning that I usually attach to any fintech is that you need to do your research, especially in the credit space. What many of these fintechs offer is faster access to credit than maybe one of CBAs, a lender nonprofit members, for instance. And so that could be very appealing. But what you may give up is a lower interest rate. Whereas a nonprofit lender really tries to have extremely low interest rates. Some of our members don't even charge any interest. For instance, many of our members that offer loans in the domestic violence space, these are loans given without interest attached.

Dara Duguay:

And many of the fintechs, since the population they serve tend to be higher risk. They try to balance a higher risk with charging higher interest. And so I've seen many, many fintechs that offer credit products that have interest rates in the triple digits. And so sure, you can get access to credit that you might not be able to through a mainstream financial institution, but at what cost? And so to really do your due diligence to look at the pricing, to look at the fine print before you go ahead and just decide to get this loan quickly.

Michael Morris:

Right. Thank you for that advice for our listeners. Going back to thinking about the disability community again, people with disabilities. They could become and certainly would be advantageous if they became more involved with mainstream financial institutions, and build more impactful relationships. Do you have any advice for people with disabilities or disability community leaders as where to start? You've worked at Citi bank, TD bank and SunTrust bank. How do you build the relationship from a consumer perspective?

Dara Duguay:

Sure. Well, I think that one of the things, for instance, the NDI is doing is critical, which is becoming a part of a lot of these policy networks. So for instance, both NDI and CPA are part of this effort that's being spearheaded by NCRC and this is all around the sort of renewal of the CRA. So the community reinvestment act is coming up for renewal. And there's a lot of discussion amongst people that are community leaders. There's a lot of worry out there about some of the proposed changes to CRA, that it may cut out some of the smaller businesses from getting loans. And it may be more skewed toward going ahead and being able to satisfy all of their CRA requirements, by just doing really big lending projects.

Dara Duguay:

And so, that's just one of the areas that is an example of how if all of these groups can pull together. And when you have a multitude of groups and they sign a letter and that's sent to the regulators, it's certainly going to get much more attention than just signing on individually as one group. So I think my advice would be as often as possible when there are efforts being spearheaded by collaborative groups, if groups such as NDI, if groups that are working in this space are very interested in doing policy, if they want to also become involved. I think that there's strength in numbers. So the more of us that can sign our names, get involved, allow our voices to be heard. It's really, really going to make a difference.

Dara Duguay:

I certainly know that our involvement with this particular effort with CRA has really, I think paid dividends where the regulators are paying attention to our concerns. They're calling us up, they're reaching out, trying to see what they can do that maybe placate or maybe try to accommodate some of our concerns. So that would be, I think my biggest piece of advice is there's strength in numbers.

Michael Morris:

Right. Recently there's been media coverage of new proposals being considered by the credit reporting agencies. I've seen some description that these new proposals would drive scores up. I've seen other articles where they said, it's going to drive scores down. Can you help our audience understand a little bit about some of these new proposals and share your view of potential impact?

Dara Duguay:

Yeah, absolutely. We have received a lot of concerned emails calls from our members, after a lot of the recent articles about this new FICO score appeared. And FICO is going to be releasing in probably the summer throughout the rest of this year, two new credit scores, their latest version. One is called FICO 10, and one is called FICO 10T, T as in Tom. And particularly with the FICO 10T, that's where a lot of the concern has been. Because if you think about it as trends, this particular version really looks at trended data. Whereas, all of the past FICO scores are just a moment in time. So for instance, if a lender pulls your credit report today, it's just a snapshot of what your credit report looks like today, but that FICO 10T is a trend. So they actually look at over a period of time, a lot of different variables.

Dara Duguay:

So they're going to catch things like, hmm, you have a credit card where your balance is slowly going up, up, up. You may charge to the max, the credit card issuer may increase your limit and then do you charge it to the max again, are you always to the max? So that's usually a trend that that's not good. It's showing that you're using all of the credit that's available to you, as they give you more access to credit you're also using that too. And that usually is a sign that someone is living beyond their means. So that's just an example of a trend. And so people that tend to be maybe over-indebted, they may be hurt by a FICO 10T or any kind of trend to data. The most recent score of VantageScore, which is a competitor to FICO. The VantageScore 4.0 also has been using trended data for quite a while.

Dara Duguay:

And so to really look at trends where people that are maybe too indebted or living up to the max, that is going to be found if you're looking at trends. Whereas people that tend to pay off their credit card bills every month, they might charge it to the max, but if they pay off the bill in entirety, that's also a trend which is better. Because it's showing that even if someone is charging to the limit, they actually have the ability every month to pay their bills in full. And so that's where a lot of the concern has been that people that maybe are living to the limit or above their limit, may be hurt with these new types of scores that look more at trended data.

Dara Duguay:

But keep in mind too, just one thing to think about is that, these scores when they unveil them, they are not immediately used by the lenders. In order for a lender that's currently using an older version in order for them to use a newer version, they have to decide to do so. It's usually part of a long discussion. If they do decide to upgrade to a newer score, they have to add it into their underwriting. So it's not as easy as just flipping a switch. So I don't think that this is going to be an immediate concern, but this is going to be something that's rolling in bit by bit over the next couple of years.

Michael Morris:

Okay. Let's think big right now. As we're in the beginning of 2020, are there new ideas, new strategies you can share that gives you a sense of optimism that will promote greater equity and financial inclusion, for economically vulnerable populations, including people with disabilities?

Dara Duguay:

I am very heartened. If you look at sort of the growth of the nonprofit lender community. A lot of CBAs members that are certified by the treasury department and that are considered a CDFI or community development financial institutions, there's about 1400 of them and more certified every. So sort of the growth of this whole community is really, really exciting. The challenge remains that these lenders cannot meet the demand. There is more demand out there than lending capital that's available, but this also provides an opportunity. So if you look at a lot of these impact funds, many of the financial services companies are calling them social impact funds. So for instance, Citi, my old employer just announced that they have a very large social impact fund. These types of funds are going to help, not only lenders and many of the nonprofit lenders that access these funds to be able to have more capital. But it's also going to help small businesses that can access a lot of these social impact funds.

Dara Duguay:

So for instance, with the Citi fund, it is specifically for small businesses, fintechs, emerging high potential businesses. And so I think that sort of this emergence in the field of social impact funds the availability of nonprofit lenders, to me is really heartening. I think that the biggest problem is that because they're nonprofit, they don't have huge or at all advertising budgets, marketing budgets. You can turn on the TV and you can certainly see advertisements for car title, loan companies and payday lenders and more of these lenders that are extremely high cost. But you don't turn on the TV and see advertisements for a nonprofit lender in your community. So how do you find them?

Dara Duguay:

And one of the things that CBA will be rolling out in the next couple of months is an interactive map on our website, which is creditbuildersalliance.org. So you'll be able to actually find these nonprofit lenders in your community. Find the types of loans that they offer. Find out the other services that they offer and be connected with them. So I think that's the challenge, is sort of trying to find these entities. And the challenge is also to be able to find more capital because the demand is certainly there.

Michael Morris:

Those are really some great insights and observations. Let me take you to another topic, which has been an area of focus for National Disability Institute. And that is the intersectionality of race, gender, and disability and the low moderate income population, which presents added challenges to equity and inclusion. From your years of experience in the financial services arena, what can community groups and financial institution do to be more responsive to these challenges?

Dara Duguay:

It's such a challenge, right? Because there is such a racial wealth gap. And I think, again coming back to the role that nonprofits can play in trying to reduce this gap. In fact, most of the small business owners that receive loans through nonprofit lenders tend to be women. And so there are a lot of female entrepreneurs out there that are receiving funding. And in fact, we found that many of our nonprofit lenders had skewed more toward female than male. And so I think that that's sort of the reverse of what you may find in the mainstream financial institution, in terms of what gender is being funded for small business loans. So that is very helpful. But I think that in as much as lenders can do to be gender neutral, race neutral, disability neutral in their decision making, I think is really important.

Dara Duguay:

And in fact, if you look at the credit score, the credit score is really neutral in all of these areas. Because variables that go into producing the credit score, don't include someone's gender. It doesn't include someone's race. It doesn't include whether they're disabled or not. And it really includes factors that are neutral to all of those areas. The most important factor that goes into your credit score is, do you pay your bills on time? Also length of credit history. Have you had credit for a long time? Are you just new to credit? Looking at the percent of debt that you have. Do you have high debt levels, lower debt levels? So those types of factors are more important in creating a credit score. And so I think ironically, the credit score the way that it is calculated tends to help by not allowing these variables to be part of a decision that is made by a lender.

Michael Morris:

Thank you again, really wonderful insights that will challenge how people can work together. This podcast series is bringing new thinking and ideas forward that we hope will define the future of financial health and inclusion for people with disabilities. Do you have any closing thoughts to challenge our listeners who are both from the disability and financial communities to become more active in building and supporting inclusive community development?

Dara Duguay:

I think the best thing that we can all do is network more. Just to give you a closing example, CBA has done some convenience recently in a variety of cities. And when we pulled together our members in cities, such as Chicago and Los Angeles and Detroit, many of the groups don't even know of the existence of the other groups in the room. And they may be physically located within a mile radius, maybe even less than that. And so if they don't know the services that are offered by other nonprofits in the community, how can they possibly offer referrals? And no one nonprofit should try to do everything. I find that nonprofits that tend to specialize can do that very well.

Dara Duguay:

And so since we don't want to try to do everything, how can we have a great robust referral system and be able to send someone for home buyer education, if you don't offer that? And you know that someone wants to buy the home. And you've worked with them to get to the point that their credit score has improved and that they'll probably qualify. How can you find another nonprofit that has a robust home buyer education program or pre-purchase program. So really just finding out who's there in your community and how can you network with them? How can you offer referrals to one another? Because I think that we have a marvelous infrastructure in the United States.

Dara Duguay:

But again, going back to my earlier point, nonprofits really suffer because they don't have marketing dollars. And so, to learn about who exists and where they are and develop partnerships and alliances. I think that that's really the key to becoming very holistic in the ways that we can help our clients.

Michael Morris:

Thank you so much. You have provided us wonderful insights and projections for the future. You have really drilled home this message of cooperation and collaboration between the financial services industry and the nonprofit community, which with your members are really meeting needs to access credit, provide financial counseling, building financial capability for people of low and moderate income, including people with disabilities. Thank you for all that you're doing. And I hope that people will visit Credit Builders Alliance online. Learn more about your organization and the possibilities for partnership. Thank you so much.

Dara Duguay:

Thank you, Michael. My pleasure.

Ray Boshara, Molly Barackman-Eder - NeighborWorks:

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