Transcript of Unleashing a Financially Inclusive Future: Fireside chat with Governor Barr July 15, 2025

EVELYN STARK. So, thank you very much to everyone for inviting ideas42 to join. Governor Barr knows ideas42 very well from 15 or 16 years ago when it was created. You have lack of slack,we have scarcity. But in both cases, we're talking about working with folks who are dealing with a lack of slack. Our work is on behavioral science, behavioral design. We are trying to create or improve, innovate on products that are designed to serve low to moderate income folks. But there are a lot of these products. But they're not getting taken up or people use them, don't use them successfully, drop out of them. So, a lot of the work that we do is with practitioners who want to address a specific problem that their "good product" isn't working for the people that they want it to work for. A lot of this could be due to scarcity. You're dealing with so many things, you have bandwidth issues, and then somebody wants you to read the terms and conditions. They want you to get your Social Security card and scan it and upload it before you can apply. And that's going to stop somebody from doing what they wanted to do in the first place. So, we call this the intention action gap and it's something that we're trying to bridge. I'm going to talk about repayment reminders in a few minutes, because it's one of those nudgy things that people think about with behavioral science, and yet it's not always out there in the marketplace. So, I think all of us know what these nudges and reminders look like. I really don't think I've actually remembered a doctor's appointment in the last five years that I didn't get a reminder for. But we don't always do it in financial services. And, you know, as you mentioned, for a product to be successful, particularly a loan, you have to repay it on time. So, I know that I want to talk about small dollar loans, but I'm going to ask you to talk about why you are so interested in this space and where you think it can take us.

GOVERNOR BARR. Thank you, Evelyn. It's a real pleasure to be in conversation with you on this topic. I got started working in behavioral finance about 20 years ago, working with two of the founders of Ideas42; Sendhil Mullainathan and Eldar Shafir, an economist and psychologist. And the three of us got together during the subprime crisis. Before the global financial crisis, the sort of canary in the coal mine was the subprime crisis. And we tried to think about ways in which we could use insights from economics and from psychology and from the law to come together on a framework for understanding how we could improve not only products and services, which is the area that you were just focused on, but also regulation and law itself, to make sure that we were, in thinking about our legal frameworks, setting up a framework that made sense for human beings and human decision-making. And not just assume that humans would act according to traditional economic principles, but based on years of behavioral research, how humans actually make decisions. And you've talked about some of the gaps here, that gap between forming an understanding of something, and actually acting on that understanding is one of those. But there are many biases that we all have that are important for us to take into account in thinking about shaping regulation. But we also wanted to point out in the work that we did together that it's not just about human beings, it's about the market environment that human beings interact with each other in. And there's sometimes moments in time in which market forces are well aligned with helping human beings overcome their behavioral biases. And that can lead to good outcomes. And the other context in which market participants may have incentives to exacerbate or take advantage of human biases. And in those instances, we need regulators, supervisors, the law to step in and move the market back to a place that provides for safe and fair products and services. So, that work is really what, and that collaboration with these I think wonderful and talented academics, is really what brought me into the space that, again, led to this book, No Slack, but also before that, a bunch of papers that the three of us work together in this area that advance my own thinking, and I hope helped the field a bit.

EVELYN STARK. So, your team asked me to talk about, specifically in small dollar lending, how we have seen behavioral science connect. So, we've seen quite a lot of growth, as you mentioned, in small dollar lending since 2020. You know, six of the top ten banks are offering them. Bank of America and Wells have mentioned them in their earnings calls. You know, they're reaching millions of people. The credit union space is growing quarter after quarter in the small dollar lending space. So, what's interesting there that we hear when we talk to customers, is they're breaking mental models. So, customers have these mental models of banks that say banks are slow. Apologies to the banks that are here. Banks are slow, banks don't want to serve somebody like me, banks start their personal loans at $5,000, I'm going to have to do a lot of paperwork. So, when they've been introduced to the small dollar loan, they've actually been amazed. Customers told us, these are much easier, faster, and better than payday lenders. They can apply online, always. They can apply at 10:00 at night or the day before they need it and the money is very often in their account within five minutes. So, we love that that is happening. It's often the first yes that people have ever received from their bank for a loan. But inclusivity, inclusive financial products also have to be good and they have to actually help you achieve your outcomes. So, I'm going to talk about two of the things that we've seen help meet people make good choices, which is what Joanne talked about this morning. So, one is positive friction in the application process. So, behavioral scientists taught a lot of us to do defaults and to pre fill applications. The problem with that is if a customer is in need, they are lacking slack, they need to solve a problem, they're not going to go in necessarily and check, wait, is that the payment? If that comes out on the second Friday, is that also the day that I'm paying my car loan? Right? They can change the date. But if we pre fill it, are we actually setting them up to have the payment clash with their other cash flow needs? Another thing is putting the total amount that you can borrow. So, if I have a $1,000 need, but I have a $2,000 offer, present bias is going to tell me, oh, I should take the 2,000. You know what? There's all these other things that I can use that other 1,000 for. But this is where an application can say, right away, to your future self, you are going to have to pay me back $600 a month if you choose 2,000. So, you can use the sliders and all those other things that you've seen on sites where you can actually see, oh, wait a minute, I'm comfortable with $300, and I want it on the second Friday. So, in the application process, we can start making it easier for people to be successful. And then the other part is reminders. So, everyone thinks about these reminders, but they don't often happen. So, we worked with a bank, a credit union outside Richmond, People's Advantage Federal Credit Union, to put reminders in. They didn't want their customers getting late fees, having their debit cards turned off, or getting reported to the credit bureau. So, we designed reminders that weren't, you know, too judgy, too mean, but they were timely. And after our test, we saw that 11% fewer people had any late fee consequence, any late consequence. So, this really worked. Did it work for the bank, though. Well, the bank saw the proportion of past dues drop 19%, 20%, on multi months. And then they thought it was such a great idea that they applied it to their entire portfolio, not just their small dollar loan portfolio. And the following month, they had 1.3 million less in delinquent payments. So, the idea that, you know, we think of reminders sometimes as just little nudges, but the ultimate impact can actually be really, really quite good.

GOVERNOR BARR. I was just going to say a couple of interesting observations about the story you just told that I think are really important to highlight and maybe bring out. One is, you know, people often talk about financial education as being really important. But one of the things behavioral research has shown is it really has to be right when the consumer needs it, not some abstract class. And the thing you're demonstrating really is if you educate people, in the particular form that you do, by showing them choices in the moment in which they need to make a decision, you can have a very big effect. The second I think really interesting thing from your remarks is that giving people control over their financial lives is really the goal. And if you give people that kind of control, just little things like the dial you can slide to pick the right amount of payment, that makes a big difference in people's lives. So, they're pretty simple lessons, and they can have a very, very large impact.

EVELYN STARK. And, of course, it could only be powered by cash flow data in this case. So, I know that alternative data is something really that you've been diving into. And we talk to customers. They're very aware of their credit scores. They are not often that clear on what alternative data might be, or what cash flow data might be. So, I would be interested in how you see that fitting in to the larger space of consumer decision making.

GOVERNOR BARR. Yeah, I do think that alternative data can play an important role in expanding access to credit services and to improving the credit scores of individuals, depending on the program they participate in. Cash flow underwriting is, you know, the most prominent example of using alternative data. There are others. But that basic idea with cash flow underwriting is: consumers are engaged in all kinds of transactions all the time that are missed by traditional credit scores. So, if you are regularly receiving income, that's a really important piece of information. If you are regularly paying your bills on time, if you're paying your rent on time, if you're making utility payments on time, that's evidence of your credit worthiness. That's not captured by traditional credit scores. So, there are lots of initiatives now to move that into the mainstream system. We're very supportive of that here at the Fed. I think it's the right thing to do. We've issued guidance back in 2020 on small business, sorry, small dollar lending, for the same reason. These kinds of approaches are safe for the financial institution to offer and fair for them to offer, and we want to be supportive of that kind of activity. So, I do think cash flow underwriting, alternative data, if managed appropriately, can expand access to credit for quite a number of people. And we've seen evidence of that already.

EVELYN STARK. One of the interesting things that we saw when we talked to customers, like I said, they really recommended this product. They really appreciated that their banks had offered them. They were not sure why the bank offered them the loan. They knew that they had been depositing there for, you know, years or months. But they were not always clearwhen we asked them, did they pull your credit score, they said, hmm, probably. I don't know. So, I do think that the ambiguity is something that can be improved upon, especially if you don't have a mental model that your bank actually wants to lend you money. Not understanding the criteria that they're using to approve you, you know, can lead to the choice, which is no choice, I choose not to even apply, because I'm pretty sure it's not going to happen. So, this is one area that we thought wasgoing to be useful to increase eligibility and increase more people joining into small dollar loans. If you know that you can't have any overdrafts for three to six months, if you know that you have to do direct deposit, these things can actually help you get access to credit. So, we're fans of that as well. I'd be interested in hearing your thoughts on BNPL. So, it has some of the nice aspects of small dollar loans. It breaks a bigger purchase down into smaller pieces. But obviously there's some concerns. We heard about them quite a bit in the earlier panel. What are your thoughts on this? It's innovative, it's new.

GOVERNOR BARR. Well, you know, I think buy now pay later is an important innovation that can help customers get access to the goods and services they need, and can help them spread those payments over time, so it has an important financial inclusion aspect to it. And, if managed carefully, can be a way of safely and fairly offering a financial product. The concerns are that sometimes people misjudge their own ability or misunderstand their ability to make payments. They may not understand what happens if they make a late payment. They may not understand what happens if they can't pay in full over the four payments or six payments. And that can lead to the same kinds of problems that we've seen, for example, with payday loans. So, you can get caught in a debt trap. You can get caught , paying excessively high fees or interest rates, even when you thought the initial set of payments were going to be free. And we've seen a significant growth in buy now pay later. It's now used by about 15% of retail consumers in our study. And default rates have gone up, delinquency rates, rather, have gone up to 25%, which is really a sign of concern for me that the product is not being offered in a way that consumers fully understand the risk. So, it is a growing area of concern, and I think one that we should all be paying attention to.

EVELYN STARK. From the behavioral side, it's completely leaning into present bias, right? I'm at the cash register, I'm online, I can get this right now even though I can't actually afford it. And then it has very unclear consequences. Am I stacking them?

GOVERNOR BARR. You can use the example of BNPLing my burrito. You don't want to do that.

EVELYN STARK. I can just imagine when you get your payment, and you're like, wait, I had $100 worth of burritos last month. Yeah, I think that those are some of, making those consequences more salient upfront, more make them pop. How many of these do I have? How much am I going to owe? And how am I going to make that happen? But there are other interventions that are also pretty seamless and clean that I think you think are going to be much more positive. And I think you just talked about FedNow before.

GOVERNOR BARR. Yeah, I mean, there are lots of technological innovations that one could cite in this space. I think technology can be an important way of expanding access to credit, and access to banking services. But I will just highlight one that we're involved with here at the Fed, which is FedNow. And we don't offer direct services to consumers or to businesses but we are offering FedNow as a service to banks and to credit unions. And banks and credit unions can sign up for FedNow and then offer that to their customers, to households and businesses. And the private sector can develop innovative applications to sit on top of FedNow to make sure that FedNow is reaching the broadest number of individuals it can. And having access to this technology enables banks to offer services to their customers that would help particularly low and moderate income customers, small business customers, who need control over their funds. They need to be able to get their funds quickly when they're owed and they need to be able to pay in the time that makes sense for them in the flow of funds that they have. And instant payments can offer that service. What it really takes, though, is this is not just going to happen in a way that helps low and moderate income consumers on its own. Banks and other parts of the private sector and consumer groups and community groups need to act on this, design the products and services with intentionality at the outset, saying, hey, it would be good for us to develop a product and services that actually meets the needs of low and moderate income consumers. That's why we're going to design it this way, building on the FedNow infrastructure. So, I think if we see banks and credit unions doing that, that will significantly advance financial inclusion, potentially for millions of households.

EVELYN STARK. Can I ask you, this is off some of the topics that we've been talking about, but we talked about this at lunch and a little bit earlier. There's lots of reasons that we want to spend money but there's not as many easy opportunities to save money. There's no saving store in the mall.

GOVERNOR BARR. I like that idea.

EVELYN STARK. So do I. But you're making me think that with FedNow, is there a way to use that also to do kind of an instant savings? So, when I think about my first products, I was a kid, and I had a Christmas club. I don't know if anybody remembers those. But $5 a week. It was huge. And are there ways that we could use this also innovate in the saving space, not just the credit space?

GOVERNOR BARR. Yes, you know, again, these are not direct services the Fed provides. But using the FedNow infrastructure, banks and credit unions and other technology providers could use instant payments to increase savings. So, instant payments could go in to be divided into a transaction account and a savings account, or instant savings, instant payments could come in and be immediately direct deposited into an investment account. So, there are definitely ways of using the technology with the private sector innovating on top of it to let people see instantly that they can add to their savings.

EVELYN STARK. Great. I'm going to, I'm going to remember that one. Thank you. One of the other things that we talked a lot about in the last session was trust. And behavioral science and trust go together quite well, I think. So, I would love to hear your thoughts on how we can build greater trust.

GOVERNOR BARR. Well, trust is absolutely essential, let me just say, not just as a matter for financial inclusion, but for the whole financial system. The whole financial system at bottom is built on trust. It's a set of relationships that depend on trust. And even our most basic kind of safe assets in the financial system rely on there being trust in those assets and in the central bank of the United States. So, trust is foundational for the whole financial system. Trust is also really important for financial inclusion. We do know that a number of households that are unbanked, for example, cite lack of trust in banks as an important reason for them not being involved in the banking system. I mentioned that coalitions around the country can help banks overcome that trust gap by bringing people into the system. Banks can help overcome that trust gap by offering products and services that meet the needs of low and moderate income customers. So, if you are offering a product and service that's likely to lead to delinquency or likely to lead to insufficient fund fees or overdrafts on a regular basis, you're not going to incur the trust of households to participate in the financial system. So, hidden fees, hidden costs are things that undermine trust and being transparent and open is a way of increasing trust. I will say I have concerns that given the cuts that are happening to the Consumer Financial Protection Bureau, that customer trust in the banking system will decline, because there's likely to be more problems for consumers in the banking system. So, all these things matter for financial inclusion. We need customers to have good products and services that meet their needs, we need customers to have financial education that they need in the time that they need it, and we need sound consumer protection to make sure the system is operating in a safe and fair way for everybody.

EVELYN STARK. When we talk to customers, I mean, they just nailed exactly what you're saying, this idea of hidden fees. They may know that there is a fee, insufficient funds fee and overdraft fee but it came up at the worst time for them and they want to know that their bank is actually trying to help them, not trying to get them when they got the insufficient funds fee. So, you know, I think there are a lot of interesting places that we can look at building trust within the current system, and also helping customers. So, I think I'm going a long way around saying a couple other things that we've been looking at are things like these small dollar loans, for example. Right now, the default, when you overdraft your account is an overdraft, right? What if the default was a small dollar loan if you are eligible for a small dollar loan? You would have a set repayment, you wouldn't have to pay the whole amount back tomorrow, you would know the interest rate. And those kinds of things. And then the other thing that we heard from people who got small dollar loans was how much more they trusted their bank, because their bank trusted them. The fact that they said, you know, I've been giving this bank my paycheck every month for, every two weeks for the last three years, this is the first time they gave me, they trusted me on this. And trust is a two way relationship. It's not one way. So, I think sometimes banks or credit unions, you know, they just, they are trustworthy, right? They are not going to lose your paycheck. But that other side of the relationship, building it both ways, I think is something that we've seen builds that sense of trust. And the bankers that we have talked to that are offering small dollar loans, they tell us that they feel more part of their community. And so it's this very nice virtual circle that the trust gets built, and then it broadens out. So, not that it's all about small dollar loans, although apparently I seem to like them a lot.

GOVERNOR BARR. We have seen, I mean, there has been a significant increase in the offerings of small dollar loans in the last five years. So, it's really, I think, you know, people were not sure whether it would take off and how it would perform. And what we're seeing in the data is that small dollar lending has increased quite a bit. It's performing quite well. Costs have been coming down. And I do think it's something to be encouraged by.

EVELYN STARK. Absolutely. And the banks that we've talked to were generally surprised that the tech costs were much lower than they had anticipated, and that the past due and delinquencies were much lower than they had earlier anticipated. So, yeah, I think there's some positives all the way around. So, if I'm thinking, here we are at the second annual financial inclusion meeting, right, let's go ahead five years and we're at the seventh annual financial inclusion meeting. What are the issues?

GOVERNOR BARR. The team here at the Fed are very good planners, so they have already started working on the seventh annual. Never fear.

EVELYN STARK. Well, maybe we should ask them what the title of the seventh event is. What do you think, you know, if you could wave your magic wand, what do you think is going to be different in five years for inclusion?

GOVERNOR BARR. Well, one of the things that I've learned doing monetary policy for the last three years is it's much easier to predict the past than it is the future. So, I'll be, you know, cautious in my approach, but I do think that we are going to see, we have the opportunity to see greater use of technology in serving low and moderate income households, more products and services that meet the financial services needs of low and moderate income households, the role of artificial intelligence in serving households and businesses is certainly going to grow, so we're going to see much more of that in financial services. And that could help bring down costs, which might also expand access. So, that's the potential positive vision. But it doesn't have to be that way. There are lots of ways that it could go wrong. And so I think one of our tasks as people working in this field is to also think about the downside risks, tthink about ways in which consumers might actually be worse off in five years, and try and guard against those risks today.

So, taking advantage of the opportunities and guarding against the downside risks I think are also important.

EVELYN STARK. And I have to say we're probably the only panel where we didn't mention AI until the end.

GOVERNOR BARR. I think I've given five speeches on it in the last three months, so maybe it's a little bit on the brain.

EVELYN STARK. On AI, can you tell me how you think about tech and touch? So, AI, we have heard a lot about the Agentic AI, and, you know, it may be telling us, here's the best account, here's what you should be doing, here's what you should be doing. So, do we just lose people? Or where is the touch really going to be maybe more important with AI?

GOVERNOR BARR. Well, you know, I do think that artificial intelligence is likely to drop costs dramatically. And part of the way I drop costs dramatically is by automating things. And that can, again, expand access to credit and expand access to banking and to financial services in a positive way. But there's always going to be the need for more personal connections. Some of those have to do with the trust factor that you mentioned of bringing people into the system. Some of those factors are about truly being able to make judgments about loans to a business in your community. I've talked to lots of community bankers around the country, and to small businessowners over the course of my career. And so many of those stories are about a banker trusting a businessman and a businessman trusting a banker. Their kids play together on the soccer team. Or they know each other from church. Or they've seen the hard work that somebody wants to be a businessowner is doing as a janitor for 20 years and then wants to run a janitor company. So, that knowledge, that personal knowledge and connection and trust is really critical. We see it in community development financial institutions and in minority depository institutions. Part of what the service they're offering is demonstrating that if you know your community and know its needs, you can serve them profitably and safely and fairly through the work that you do. And once MDIs and CDFIs show the way, mainstream banks often coming behind are like, oh, yeah, okay, now I see it. I can do that too. And CDFIs, and MDIs can work on the next big problem to address. So, I do think that that human connection, that institutional knowledge will always matter. But it's possible that technology will expand access and reduce costs in ways that are very productive.

EVELYN STARK. Fantastic. That's, I think the tech and touch is so important. And when I talk to our credit unions and CDFIs, they really, they see the connection, because they can outsource some of the more mundane work on the tech side, so that they have more one on one time. So, tech, I understand that there are going to be empathetic robots. I'm a little doubtful. But on finance, we do need human empathy. We need to, we need to have the opportunity to sit next to somebody and say is this a good idea. And we want to make sure that those staff are available, because they're not doing a mundane task.

GOVERNOR BARR. I will say, I mean, AIs don't demonstrate what we think of as empathy from the sort of heart inside out. But AIs have become quite good at mimicking empathy in ways that humans like. So, it may be that AI is also part of making connections to a broader group of people who might not have access to the human empathy that they need. So, I wouldn't, I wouldn't discount the fact that AI can help with empathy too.

EVELYN STARK. All right, I love it. Do we have any closing remarks?

GOVERNOR BARR. Well, just, I want to again thank Eric and his team and Art and his team for the amazing work that was done organizing this conference. Really grateful to all the staff who have been working on it. And to all of you who are participating in the room and watching online, because the work that you're doing all around the country is making a huge difference to expanding access to financial services for low income people and low income communities. And that's just wonderful work, important work for the whole country.

EVELYN STARK. Governor Barr.

GOVERNOR BARR. Thank you all. [Applause]