FEDERAL DEPOSIT INSURANCE CORPORATION

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ADVISORY COMMITTEE ON ECONOMIC INCLUSION

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THURSDAY, NOVEMBER 2, 2023

The Advisory Committee convened at 9:00 a.m. EDT in the Federal Deposit Insurance Corporation Board Room at 550 17th Street N.W., Washington, D.C., Martin J. Gruenberg, Chairman, presiding.

PRESENT:

STEVEN ANTONAKES, Executive Vice President for Enterprise Risk Management, Eastern Bank
MARLA BILONICK, President and CEO, National Association for Latino Community Asset Builders
RAPHAEL BOSTIC, President and CEO, Federal Reserve Bank of Atlanta
MICHAEL CALHOUN, President, Center for Responsible Lending
NAOMI CAMPER, Chief Policy Officer, American Bankers Association
THOMAS FOLEY, Executive Director, National Disability Institute
KENNETH KELLY, Chairman and CEO, First Independence Corporation and First Independence Bank
MARGARET LIBBY, CEO and Founder, MyPath
BRANDEE McHALE, Head of Community Investing and Development, Citi President, Citi Foundation
JONATHAN MINTZ, President and CEO, Cities for Financial Empowerment Fund
MARIETTA RODRIGUEZ, President and CEO, NeighborWorks America
SUSAN WEINSTOCK, President and CEO, Consumer

Federation of America

ALSO PRESENT:

MARTIN J. GRUENBERG, Director, Federal Deposit Insurance Corporation, Chairman
TRAVIS HILL, Director, Federal Deposit Insurance Corporation, Vice Chairman
MICHAEL J. HSU, Acting Comptroller of the Currency
ELIZABETH ORTIZ, Deputy Director, Division of Depositor and Consumer Protection for Community Affairs, FDIC
ZOYA ALEEM, Senior Analyst, Abt Associates
CHECK BEVAN, Product Management Executive, Bank of America
DR. LIANNE FISMAN, Science and Research Senior Director, Qualitative Mixed Methods, Abt Associates
PAMELA FREEMAN, Senior Examination Specialist, Division of Depositor and Consumer Protection, FDIC
ALEX HOROWITZ, Project Director, Housing Policy Initiative, The Pew Charitable Trust
JONATHAN MILLER, Deputy Director, Division of Depositor and Consumer Protection, FDIC
TIFFANY PACK, Product Group Manager, Standby Cash, Huntington National Bank
KRISTOPHER RENGERT, Senior Consumer Researcher, Division of Depositor and Consumer Protection, FDIC
MELANIE STERN, Vice President, Community Reinvestment Act Officer, and Director of Consumer Lending, Spring Bank
JESSICA THURMAN, Chief, Division of Depositor and Consumer Protection, FDIC
SARAH WOLFF, Senior Associate, Abt Associates
MONTRICE G. YAKIMOV, Acting Associate Director, Division of Depositor and Consumer Protection, FDIC

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9:06 a.m.

CHAIRMAN GRUENBERG: Well, good morning, everybody. I always enjoy seeing this group, if I may say, but maybe particularly so today. I think we've got a terrific program planned for you all and we really are looking forward to your feedback and reaction to our presentation.

Let me begin, if I may, by welcoming a new member of our Advisory Committee, Marietta Rodriguez, who's the President and CEO of NeighborWorks America. And I have the privilege of serving on the board of NeighborWorks, and Marietta is a terrific leader and I know will add great value to the work of this Committee.

So welcome, Marietta.

MS. RODRIGUEZ: Thank you for having me.

CHAIRMAN GRUENBERG: Glad to -- turnabout is fair play. Glad to see you in our -

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(Laughter.)

CHAIRMAN GRUENBERG: -- board room for a change.

We've got a terrific agenda for today. We actually finalized the CRA rule.

(Applause.)

CHAIRMAN GRUENBERG: I know some people had their doubts --

(Laughter.)

CHAIRMAN GRUENBERG: -- including me. This took a long time, but in this case I really do believe the outcome was worth it. This is a landmark rulemaking, easily the most important since the 1995 revision, but in some ways the most important since the enactment of the Community Reinvestment Act in 1977. And the core provision of this rulemaking; we're going to obviously go through it in some detail, was to adapt CRA to the changing nature of the banking industry in the United States and the fact that

an increasing proportion of lending is done outside of the traditional branch-based assessment areas.

And if CRA was not adapted to that evolution of the banking business in the United States, over time CRA would become increasingly irrelevant and an increasing proportion of lending by banks in the United States would not be held accountable to a CRA evaluation ensuring that all the communities in the service area of a bank where they're doing significant lending are being served.

And this rulemaking will also add significant rigor to the CRA review process by requiring establishing data and benchmarks for the CRA evaluation. Put those two things together and you really have in many ways a transformational change to CRA. And we're going to talk about that in some length this morning. We very much welcome your feedback on it.

In addition, we have on the agenda a

presentation on the FDIC's Economic Inclusion Strategic Plan, which we'll very much welcome your feedback on. This afternoon we'll have a roundtable discussion with each of you and welcome your wisdom on current events and the outlook and your thoughts and conclude the day with an interesting panel of banks that are offering small-dollar loans on what appear to be a responsible and affordable basis for bank customers. So it's a rich program. I very much look forward to it.

And if I may, let me ask Comptroller Hsu, who's with us here this morning, to offer any thoughts.

MR. HSU: Thanks so much, Chairman Gruenberg. It's great to be here. Great to see everyone again.

Just to echo something that Marty said, I think the passage of CRA, the timing is very important because there are some head winds now on some of the things that we all care about.

Two being, One is I think the memories of some of the George Floyd, pandemic, impacts of the -- and my concern is always that sometimes these efforts, where there's a lot of consensus around everyone kind of joining hands and digging in on a lot of the issues that we're focused on here – good memories can fade and people kind of go back to a business-as-usual, which is something that we all constantly need to guard against.

And then the second is that in this economic environment it's getting tougher and tougher I think for folks who are vulnerable. And we're starting to see that in some of the data. And so I think it puts extra impetus and emphasis on some of the things we're focused on. I think the timing of CRA with this really helps put a -- kind of inject a shot of excitement.

Like Marty, I didn't know -- I'm still grappling with the reality that we got this thing done and -- which is fantastic. I think it's really going to be a game changer and it opens up

a lot of opportunities. And especially with the growth in ideas, I think, like we're going to talk about later on today, there are a lot of good ideas on the table. And to marry that with some of the CRA opportunities is very exciting. So looking forward to the conversation.

CHAIRMAN GRUENBERG: Thank you, Mike.

Let me mention before I turn it over to Liz Ortiz, of particular interest to this Committee, among the many things in the CRA rule, it will give explicit CRA credit for low-cost transaction accounts. And the credit will be not simply to a bank for offering low-cost transaction accounts consistent for example with the Bank On certified accounts, but also demonstrated consumer usage of the accounts, which will be an important accountability measure to evaluate not simply whether a bank is offering it on the website, but whether it's offering it in a way that the customers of the bank are actually able to utilize it. So we think it's

really an important step forward among a lot of other things as we are about to hear.

So let me turn it over to Liz Ortiz, our Deputy Director in our Division of Depositor and Consumer Protection for Community Affairs. I think I actually got that right.

MS. ORTIZ: Yes, perfect.

CHAIRMAN GRUENBERG: And, Liz, it's all yours.

MS. ORTIZ: All right. Thank you. Before I hand it over to Jonathan for the first panel I need to read a brief statement.

Today we expect to be joined by at least three members of the FDIC Board of Directors; perhaps not all three at the same time, but just in case, the Government in the Sunshine Act imposes notice and access requirements whenever a quorum of the FDIC's Board of Directors meets to conduct or determine agency business. This meeting is not held for such purposes and does not constitute a meeting

under the act.

The Board members present will only engage in general or preliminary discussions that do not relate to specific proposals for action pending before the FDIC. Any specific issues for official Board resolution will remain open for full consideration by the Board following the conclusion of this meeting. If you have any questions, I or the general counsel will be glad to answer them.

And with that, I turn you over to Jonathan Miller.

MR. MILLER: Thank you. And I want to thank Liz for setting the Board meeting -- this coming meeting for this date. We were going to delay the rulemaking further, but we couldn't disappoint Liz.

(Laughter.)

MR. MILLER: So thank you, Liz, for doing that.

So really this is coming home for me

in a certain way. This is a great committee and I played a role in nurturing it for a few years and handed it -- put it into good hands with Liz. So happy to be here. I'm particularly happy to be here to discuss the final CRA rule. I'll turn it over to my great colleagues to discuss the CRA rule.

So I will just say briefly -- the bios are in your packets a little bit more fulsome, but Pam Freeman is a former chief for CRA and Fair Lending Compliance in our Exams Branch, and she really helped me run the team, the FDIC team, in developing the rule. Kris Rengert is a senior consumer researcher. He led our data analysis efforts, which were quite significant in this rule, and did a great job doing that. And then Jessica Thurman is currently a chief for CRA and Fair Lending in our Exams Branch and was a key contributor to the development and finalization of this rule.

So with that, let's go to the next

slide, please. Well, we can go to the slide after this, the timeline is that it's now done.

(Laughter.)

MR. MILLER: And actually before I leave, I should also say these three fine people are part of a larger amazing team we had here at the FDIC. And the FDIC team was one of three amazing teams including the staff of the OCC, that was just incredible, and the Federal Reserve Board as well, including one of Raphael Bostic's staffers on loan to the Federal Reserve Board and others. It was just a terrific group of people.

So let me start with the objectives of the rule. They sort of speak for themselves, but I'll say a few things about it. So first, the final rule encourages banks to expand access to credit investment and banking services in LMI communities. That is LMI communities both urban and rural. We do this for example, as the Chairman said, by expanding the geographic area in which we evaluate a bank's retail lending and

by expanding the geographies where community development activities are counted.

The second element, second key element, adapting to changes in the banking industry. Again, as the Chairman noted, the business of banking has changed remarkably since 1995 when the internet was barely born. We now know from our unbanked survey that the majority of people interact with their banks either through mobile devices or online. Now the retail lending assessment areas and outside retail lending areas, we're going to follow where the -- follow the banks in their expanded -- where they do business.

Third, we provide greater clarity and consistency in the application of CRA regulations. Again, as the Chairman said, we've developed much more rigorous benchmarks, performance thresholds, and the like. Those will be transparent to the bank, they will be transparent to the examiner, and they'll be

transparent to the public. So each agency will see how the other agencies are operating, and we expect that will lead to considerably more consistency.

And finally, the rule is not a one-size-fits-all rule. It's really tailored based on the bank size and the business model of the bank. That was important to us. So for example, there will be no new reporting requirements or data collection requirements for small or intermediate banks. That tailoring I think was an important goal for us going in and I think we've achieved that.

So with that, I'm going to hand it over to Pam and we'll start getting into a little bit more of the details.

MS. FREEMAN: Thank you, Jonathan. It really is a pleasure for us to be here today and present to you this final rule.

So the next few slides illustrate the basic framework of the evaluation, both of the

current rule and the new rule. In the current rule we do evaluate institutions based on the size. So large bank exam procedures include the three separate tests. The lending test, which includes a retail lending segment and the community development lending. Then you have the investment test and the service test.

Intermediate small banks are evaluated under the small bank lending test and a community development test. And then small banks are evaluated under the small bank lending test and they can get optional consideration for investments and services.

And now the new evaluation framework. This chart summarizes that and it shows that all banks -- apart from those evaluated under the optional Strategic Plan. We continue to have different performance tests for the different size banks, but we also take into account the business models, as Jonathan mentioned.

We retain the basic structure of the

current regulation with the three bank size categories, but we bumped up the thresholds at which a bank moves from one category to the next, and we retain the limited purpose designation which consolidates the former wholesale and limited purposed designations. And we have retained the strategic plan option.

So small banks, currently the threshold for small banks is less than 376 million in total assets, and that changes with the new rule to less than 600 million. This will result in over 600 banks currently defined as intermediate small banks being redesignated as small.

Intermediate banks. Currently the threshold is 376 million to less than 1.503 billion in assets. And we renamed the category intermediate banks and increase the range to 600 million to less than 2 billion. This results in about 130 banks currently considered large being redesignated as intermediate.

And currently institutions for large banks are at least 1.503 billion, and that's going to 2 billion.

So the most significant changes; let's start with those. That's for large banks. There are going to be four performance tests that they're subject to, and that's the retail lending test, the retail services and products test, the community development financing test, and the community development services test. Each test focuses on the activities that advance financial inclusion in low and moderate-income communities and to low and moderate-income individuals.

Intermediate banks are going to be evaluated under the new retail lending test and the community development test currently applicable to those institutions unless the bank opts to be evaluated under the community development financing test.

And then small banks will continue to be evaluated under the existing small bank

performance standards unless the bank opts into the new retail lending test.

And thenthen limited purpose banks will be evaluated under the community development financing test for limited purpose banks, and that's a modified version of the community development financing test.

And as I mentioned, banks will continue to have a strategic plan option subject to approval by the bank regulators.

With that, I'm going to turn it over to Kris.

MR. RENGERT: Thank you, Pam.

So assessment areas are the primary areas in which banks are assessed on their CRA performance. Under the existing regulation banks are evaluated and their assessment areas are delineated where they have a main office, branches, and deposit-taking ATMs. Our goal was to maintain a focus on evaluating banks where they have branches, but also to take into account

the growing use of mobile and online banking.

The final rule retains the requirement to designate assessment areas around main offices and branches, as well as deposit-taking remote service facilities, which includes ATMs. These are called facility-based assessment areas, or FBAAs. Large banks and limited purpose banks that would be considered large are required to delineate facility-based assessment areas consisting of one or more contiguous counties within an MSA or one or more contiguous counties within the non-metropolitan areas of a state.

For intermediate and small banks however the rule provides these banks with greater flexibility and allows them to delineate partial county FBAAs consistent with current practice and recognizing their smaller service areas. Also, like today, FBAA delineation must not reflect discrimination or arbitrary exclusion of LMI tracts.

Next slide, please. The final rule

includes two provisions to evaluate retail lending outside of FBAAs. First, the final rule requires large banks to delineate retail lending assessment areas, or RLAAs, where a bank has concentrations of closed-end home mortgage and/or small business lending outside of its facility-based assessment areas.

A large bank delineates retail lending assess areas in geographic areas where it has originated at least 150 home mortgage loans, closed-end home mortgage loans, or at least 400 small business loans for two consecutive years. These geographic areas include MSAs, or non-metropolitan area of a state, excluding counties that are part of the bank's FBAAs.

If a bank does more than 80 percent of its retail lending; and for this retail lending includes open and closed-end mortgage, multifamily, auto, small business, and small farm loans. If it does more than 80 percent of this lending inside of its FBAAs, it is exempt from

establishing RLAAs. This is one way of recognizing the importance of branches. Intermediate and small banks are not required to delineate retail lending assessment areas.

Second, the agencies evaluate the remaining lending outside of a large bank's FBAAs and RLAAs in an area described as the outside retail lending area, or ORLA. New acronyms. For intermediate banks and small banks that opt into the retail lending test lending in ORLAs is evaluated when more than 50 percent of their retail lending is outside of their facility-based assessment areas. Other intermediate banks and small banks that opt into the retail lending test have the option to be evaluated in their outside retail lending areas.

Additionally, as noted on this slide, the final rule clarifies the areas where a bank is evaluated on their community development performance. To provide greater certainly the agencies will consider all community development

qualifying activities regardless of location. This will create many CD, lending, investment, and service opportunities in rural areas and other underserved areas. CD loans, investments, and services conducted outside of facility-based assessment areas are considered at the state, multistate, MSA, and at the institution levels as applicable.

And with that, I'll hand it back to Pam.

MS. FREEMAN: All right. So I'll talk a little more about community development. So we feel like the final rule responds to stakeholder feedback about improving transparency and clarity regarding community development activities that are eligible for CRA credit.

One key part of the final rule's highlight is the establishment of clearer standards for what constitutes community development activities that would build upon the current rule. This includes looking at the

majority standard which generally considers whether a majority of the beneficiaries, dollars, or housing units go to any one of the enumerated community development categories. In cases where there's less than a majority or it's hard to determine majority if a bank can still get full credit for activities that have the express bona fide intent of community development.

Banks will also get credit for activities associated with low-income housing tax credits or those that are conducted in conjunction with minority depository institutions, women depository institutions, low-income credit unions, and Treasury-certified CDFIs. Finally, similar to the current rule partial or pro rata consideration is provided for mixed-income rental housing that provides affordable units in conjunction with a government plan.

For additional clarity the agencies are going to maintain a publicly illustrative

list of qualified community development activities. In addition, the agencies are going to develop a process where banks can confirm the eligibility of a community development activity in advance. So these will really help add for certainty, consistency, and clarity.

So this slide demonstrates under the current regulation that community development activities fall into four categories. So that's affordable housing for low-income individuals, community services for low-income individuals, economic development by providing financing for small businesses or small farms, and activities that revitalize or stabilize low and moderate-income geographies, designated disasters areas, and distressed or underserved non-metropolitan middle-income geographies.

Now this slide provides the 11 categories of community development activities. The new definitions clarify and expand on the current definitions and they also codify current

guidance. So I want to highlight a few of the provisions included in these definitions.

First, to provide clear standards the agencies retain the affordable housing in recognition of the importance of promoting affordable housing for low and moderate-income individuals. But this includes a new provision for defining naturally occurring affordable housing. It recognizes the importance to communities of multifamily rental housing that does not involve a government plan.

Second, the rule replaces the current revitalization and stabilization activities component of the current definition with six new place-based categories of community development. So four of the place-based categories focus on low and moderate-income areas in distressed or underserved non-metropolitan middle-income census tracts.

One of the place-based definitions is for disaster preparedness and weather resiliency

covering activities to help individuals and communities prepare for and adapt to and withstand natural disasters, weather-related disasters, or weather-related risk.

Another place-based definition is for activities in native land areas. This provision in this category -- the provisions in this category reflect the unique economic, credit, and financial service needs of Native and Tribal communities.

All of the place-based categories that specify eligible activities may not involuntarily displace or exclude low and moderate-income residents in the targeted census tracts.

Third, the final rule includes a specific category for investments, loans, and other activities taken in cooperation with MDIs, WDIs, low-income credit unions, and CDFIs.

So the agencies established a set of impact and responsiveness factors that inform the qualitative review for the community development

financing and community development services test. These factors include but are not limited to the specific factors delineated in the regulation and presented on this slide.

Some examples of these factors in the final rule are activities that serve persistent poverty counties or those that serve geographies with low levels of community development financing and activities that benefit or serve particular low-income individuals' families and households.

And with that, I'm going to turn it over to Jessica.

MS. THURMAN: Thanks, Pam.

So now that we've talked about the what and the where, we can talk about how we're going to evaluate banks under the new final rule.

So I'm going to go over -- in the next few slides we'll talk about the four performance tests that are in the final rule. The first test is the retail lending test. So the retail lending

test includes metrics, benchmarks, and performance thresholds. And the purpose of that is to make sure that we are providing transparency and predictability in the CRA evaluation.

So the product lines that we are planning to evaluate under the retail lending test are closed-end home mortgage loans, small business loans, and small farm loans, and in cases where auto loans make up a majority of a bank's lending, we'll also look at auto lending. And of course any bank can opt into having their auto lending reviewed under the retail lending test.

Go to the next slide.

MR. KELLY: Quick question. Majority. Does that mean over 50 percent --?

MS. THURMAN: Yes.

MR. KELLY: -- of their lending?

MS. THURMAN: Yes. Originations.

So if we kind of delve a little bit

deeper into the retail lending test -- so the final rule establishes a set of retail lending metrics and benchmarks to evaluate a bank's lending to low and moderate-income individuals, small businesses and small farms, and in LMI census tracts. So the metrics apply both in the assessment areas that were described by Kris and then also in the outside retail lending area, or what we call ORLAs.

So we look at two different variations under the retail lending tests. The first thing we look at is the retail lending volume screen. And so this evaluates the bank's volume of retail lending in their assessment area and compares that to the deposit base in each of those areas. And then we take that metric and compare it to what other banks who operate in that facility-based assessment area. We look at what other banks are doing in that assessment area to figure -- to determine the volume screen.

Separately we look at distribution

metrics. And I think that most people are very familiar about what the distribution metrics look like. They look very similar to what we do today in the current rule.

So we look at both geographic distribution and borrower distribution. So for geographic distribution we look at what banks are doing in low and moderate-income census tracts for each of the product lines. And then for borrower profile, for that borrower distribution we look at how they're serving small businesses and how they're serving low and moderate-income borrowers. So I think it's important to note that the metrics approach is really tailored to local opportunities and economic conditions in each of the bank's assessment areas.

Go to the next slide. So as we start to think about what performance looks like in the retail lending tests -- so the final rule establishes lending distribution performance ranges for each of the rating categories from

outstanding down to substantial non-compliance. And the performance ranges are tailored to each geographic area, be it the FBAA, the RLAA, or the ORLA. I hope you all remember what each of those acronyms meant.

(Laughter.)

MS. THURMAN: And then we use thresholds to establish these performance ranges. And when we talk about thresholds, thresholds are based on a set of local data that we use such as community benchmarks and the market benchmarks. So community benchmarks are based on demographic data such as the percent of low-income families in a certain assessment area and market benchmarks are based on the aggregate performance of other reporting lenders in the assessment area. So that's what we talk about when we're looking at what we call thresholds.

And so really the goal of the retail lending test; and I think we have achieved this goal, is to provide banks with greater certainty

about what their CRA performance should look like. We tailor expectations into the unique conditions of the different market areas that the banks operate in and then we automatically adjust performance thresholds over time in a way that reflects changes in both business cycles and the economic conditions in those assessment areas.

So as a whole the test removes some of that uncertainty that we've had in the past regarding what an evaluation should look like. It adds a bit of rigor to the test as well and it brings the evaluation from behind -- what banks say were behind that curtain before. We bring it to the forefront.

Go to the next slide. We'll talk about the second test, which is a bit near and dear to my heart -- is the retail services and products test. And so the purpose of this test was to really modernize the way we look at retail products and services in the current rule. We really want to add an explicit focus to the

potential for financial inclusion for LMI borrowers, small businesses, and small farms.

And so we add specific measures for both -- for the evaluation including availability and usage. So if you take a look a little bit closer at that chart, we incorporate some benchmarks into the test primarily for the retail banking services, but it does remain a primarily qualitative test.

So the test has two prongs. It has retail banking services and retail banking products. So for all large banks we look at retail banking services, we look at branch availability and services, and we also look at remote service facility availability.

For large banks over 10 billion we also look at another aspect of retail banking services, which is digital delivery systems and other delivery systems. But I think it is important to note that if we have a bank -- what we consider digital banks or a bank that does not

operate branches, and they are under the 10 billion and they're a large bank, we will also evaluate them for digital delivery systems and other delivery systems.

So the second prong is their retail banking products. And in that test for all large banks we look at responsive credit products and programs. And for example, those can be the special purpose credit programs. And then we also -- for those large banks over 10 billion we also look at the availability and usage of responsive deposit products. And a good example of that is our Bank On certified accounts. Any low-cost transaction account could be considered a responsive deposit product.

So we think it's very important to note that for the retail banking products -- those can only contribute positively to the retail services and products test conclusion. So we look at retail banking products and at an institution level. We look at digital delivery

systems and other delivery systems at the institution level, but for the retail banking services tied to branch availability and remote service facility we evaluate a bank at their assessment area level, their FBAAs.

Next slide. So the third test that we evaluate banks under will be the community development financing test. And for this test we use metrics and benchmarks to standardize the review of community development loans and investments, but this also remains a qualitative test as well. And we also use the impact and responsiveness factors that Pam talked about earlier to evaluate how responsive these activities are in the bank's assessment areas and broader.

So we evaluate community development loans and investments in facility-based assessment areas, but then also in the broader level as applicable in the multistate MSAs, states, and at the institution level. So banks

can receive credit for qualifying activities anywhere in these areas. And I think most importantly banks can receive consideration at the institution level for any community activities that they do.

So for the various metrics we combine community development loans and investments together and then we measure that dollar volume against the volume relative to deposits. And I think it's an important aspect to note that now that we combine community development loans and investments that this allows banks to engage in activities that really speak to their expertise and that is -- what is most needed for financing that project. So banks no longer have to think about should it be a loan or investment because of the separation in the test. We bring it together which allows them to make a -- to determine what works best for them and also what works best that project.

And so in addition we also not only

look at originations, purchases, and increases, but we also look at prior activities that remain on the bank's balance sheet. And so we do this in order to emphasize the importance of long-term capital in these community development financing activities.

So last but maybe not least is the community development services test. And so the community development services test evaluates the extent to which a large bank is providing community development services in their FBAAs and then also in their multistate MSAs, and also at the institution level.

Community development services test is a pretty much qualitative test. We're not asking for a lot of data collection. We really just ask the bank to provide us any relevant information that they can to demonstrate how they're serving their community through community development services. And this could be through total number of hours or number of services

performed during the relevant time period. We also evaluate the impact and responsiveness of these services as well.

I'm going to pass it onto Kris now to talk about ratings.

MR. RENGERT: All right. Thank you, Jessica.

So the next several slides are going to -- we're going to talk about ratings. The final rule provides greater transparency and consistency on assigning ratings for a bank's overall performance with ratings grounded in the bank's performance in its local communities.

Under the methodology in the final rule each performance test results in a performance score and a conclusion. So each conclusion would have a score associated with it; for instance, a high sat would be a 7; outstanding would be a 10, and at the state, multistate MSA, and institution level. These performance scores are then combined using a weighted average

approach with the value resulting from this calculation translated into the rating for the respective state, multistate MSA, or institution.

With respect to conclusions the agencies maintain the current five categories of outstanding, high satisfactory, low satisfactory, needs to improve, and substantial non-compliance. For ratings the agencies assign one of the statutory ratings of outstanding, satisfactory, needs to improve, or substantial non-compliance.

Next slide, please. So for large banks the agencies determine a bank's state, multistate MSA, and institution rating by combining the bank's performance scores across all four performance tests. The agencies maintain the emphasis on retail lending and community development financing by giving these tests the heaviest weights. The final rule provides a weight of 40 percent each for the retail lending test and the community development

financing test, while the retail services and products test and the community development services test performance scores account for 10 percent each.

In addition to the weighting approach the rule requires that as applicable for each state and multistate MSA, and at the institution level the retail lending test conclusion for a large and intermediate bank needs to be at least low satisfactory in order for the bank's overall rating to be satisfactory or higher.

Next slide, please. So just a few things on this -- for intermediate banks the agencies weight both the retail lending test and the applicable community development test at 50 percent each consistent with current requirements. However, as I mentioned, an intermediate bank needs to receive at least a low satisfactory on the retail lending test in order to receive an overall satisfactory at the corresponding state, multistate MSA, or

institution level. The agencies are not applying the current requirement that an intermediate bank must receive a satisfactory rating in the intermediate bank community development evaluation.

Small banks are evaluated using the status quo small bank lending test so their rating continues to be based on lending test performance. Small banks have the option to submit retail services and community development investments and services for consideration to elevate a satisfactory rating to an outstanding rating, however they could receive an outstanding rating based solely on their retail lending performance.

Next slide. Now near and dear to my heart, we turn to data collection and reporting, which is covered in the next two slides.

The agencies recognize the importance of using existing data sources where possible and of tailoring data requirements. Under the final

rule small and intermediate banks do not have any new data requirements for the required performance tests.

For large banks with assets over 10 billion the agencies establish new reporting requirements for deposits data which include the volume of deposit is in the bank aggregated at the county level based on the location of the depositor. These data will be used in calculations in the retail lending and community development financing tests and as part of the weighting calculation for aggregating performance scores.

The FDIC's summary of deposits data which distributes a bank's deposits across its branches, as opposed to counties, will be used for banks with assets of $10 billion or less, although individual banks may choose to voluntarily collect, maintain, and report their deposits data based on depositor location. Large banks and limited purpose banks that meet the

asset size threshold for large banks are required to report the delineation of FBAAs and RLAAs, if applicable.

Next slide, please. For retail lending the final rule mostly relies on similar retail lending data to what is used today. Two notable additions to data requirements are for small business and small farm loans large banks will add flags for loans to businesses and farms with gross annual revenues of $250,000 or less and with gross annual revenues between $250,000 and 1 million to the small business and small farm loan data they collect and report today.

Large banks for which automobile loans constitute the majority of their retail lending originations or which opt to have their automobile lending evaluated under the retail lending test are required to collect and maintain data on their automobile loans including income level and census tract for each loan. We expect this requirement to impact very few large banks.

The final rule requires all large banks and similarly sized limited purpose banks to collect, maintain, and report community development financing data. The community development financing data is necessary to construct community development financing metrics and benchmarks used to consistently evaluate the dollar amount of a bank's community development lending and investments.

The agencies also require that large banks collect and maintain community development services data in a prescribed format or a format of their own choosing. Regarding retail services and products, large banks are required to collect and maintain data to support the final rule's branch analysis and remote service facilities analysis, again in a prescribed format.

In addition, large banks with assets over $10 billion and other large banks that do not maintain branches have new data requirements for digital and other delivery systems. This

facilitates a review of the largest banks and digital bank's performance regarding their digital and other delivery systems. Also large banks with assets over $10 billion are required to collect and maintain data on deposit products like low-cost bank accounts that are responsive to the needs of low and moderate-income individuals and communities.

While not required large banks that are at or below the $10 billion threshold need to collect and maintain the corresponding data if they want the agencies to consider their digital and other delivery systems or responsive deposit products.

Hand it back to Pam.

MS. FREEMAN: All right. Thank you.

So when is all of this effective and applicable? You're probably wondering. So although the date -- the effective date of the final rule is April 1st, 2024, the applicability date for the majority of the provisions is

January 1st, 2026. So that includes the new definitions, the new tests, the data collection and maintenance requirements, and the appendices that explain all the tests. So that's January 1st, 2026.

The reporting of the data will be effective in '27. Usually the reporting date is April 1st. So generally we're thinking banks will start being examined under this in 2028, but that's general.

And just a few nuances of applicability. We've already had questions about strategic plans and we've said in the rule that strategic plans that are effective as of January 1st, 2026 will remain effective until their expiration date.

And then as far as limited purpose banks we've been asked am I going to have to ask for redesignation? And the answer is no. Those banks that are considered wholesale or limited purpose now will remain limited purpose, but as

we do today we will continue to evaluate the effective -- are they still -- is that designation still applicable, especially under the revised definition that will be effective January 1st, 2026.

And with that I'd like to thank you for your time and attention and open it up for questions.

Or you just comprehended everything we said?

(Laughter.)

MS. FREEMAN: I'm sure. I'm sure you have no questions.

MR. KELLY: Pam, it was well-stated. I do have a question. I ask about the 50 percent rule on auto lending. Can someone help me with a little bit of a history there, the number of banks that might even fall into that category and would that be considered a risk being in that space?

MS. FREEMAN: So it's hard for us to

know exactly how many will be subject to that because it's based on the number of originations and we don't have that data readily available. All we have is the call report data to look at now, which is just outstanding balances. It's not originations. But we don't expect it to be a large number of institutions.

MR. KELLY: That's what I was thinking.

MS. FREEMAN: And does anyone have anything to add to that?

MR. MILLER: Any bank can opt in to get the auto lending evaluated as well.

MR. KELLY: Okay. Thank you.

MR. MINTZ: I have two questions. First, how relieved are you all that --

(Laughter.)

MS. FREEMAN: Super relieved.

MR. MINTZ: Congratulations and thank you for all of this incredible work.

I'll limit myself really to one

serious question, which is when you talk about the data that banks can assemble and present to examiners about their responsiveness to your new and incredibly wonderful retail services product test, what kind of data are you all anticipating and what guidance might you give us? And parenthetically, is the kind of data that you may be familiar with that's being collected by the Federal Reserve and their Bank On national data hub in the ballpark? And if so, in what ways?

MS. FREEMAN: Right. So we do hope that that data will help banks provide the data that we've requested. And we've specifically prescribed that it would be the number of responsive deposit accounts that are both opened and closed during a certain year in the evaluation period by low, moderate, middle, and upper-income geographies. So we're interested to know where they're opened and closed specifically, but in the aggregate.

MR. MINTZ: So I have a follow-up.

MS. FREEMAN: Absolutely.

MR. MINTZ: That's what we do up here. We lie. One of the things that we have been talking about with our partners when you look at the rate of accounts that are closed is that some of those accounts are closed involuntarily -- very few -- some of those accounts are closed because somebody exits the banking system, and some of those accounts are closed because the customer moves into a different product at the same institution. Is that kind of nuance something that you think examiners would take into account?

MS. FREEMAN: Absolutely. So we have another provision that -- optionally a bank can collect and maintain and give us any information that shows availability and usage of these accounts, but if a bank was able to show that, well, they were originally in this account and we were able to move them into these other accounts, that's very valuable data. So really we have a

couple pieces of prescribed data, but then it's whatever the bank can give us to show availability and usage. Thank you.

MS. CAMPER: Can I ask a follow-up question on the responsive products? So I'm looking at slide 15 that Jessica went through and it appears that only large banks with assets over $10 billion can get credit for responsive deposit products. Or is that not the case? Because the column just above it says responsive credit products, not deposit products for banks over 2 billion.

MS. THURMAN: Yes, so we evaluate banks with assets over $10 billion. We also evaluate them for responsive deposit products. Any bank can opt into the retail services and products test and be evaluated under any of the factors in the retail services and products test.

MS. FREEMAN: So it's a required evaluation for those --

MS. CAMPER: I see.

MS. FREEMAN: -- over 10, those large banks 2 to 10 can absolutely give us data to consider. And then even smaller banks can ask for additional consideration.

MS. CAMPER: Okay. And the reason that I ask is part of what we're doing is encouraging banks of all sizes to offer responsive --

MS. FREEMAN: Absolutely. Yes.

MS. CAMPER: -- deposit products and one question they have is CRA credit available?

MS. FREEMAN: Yes.

MS. THURMAN: Yes.

MS. CAMPER: So I just want to make sure we have accurate --

MS. FREEMAN: For any bank it's available, yes.

MS. CAMPER: Thank you.

MS. FREEMAN: Thank you.

MS. McHALE: I'd like to ask two questions. One is a clarifying one around

community development activities. I just want to -- I may have heard this wrong. Community development activities that occur outside of the facility-based assessment area: financing activities, disaster, resiliency, supportive CDFIs, MDIs, those will count?

MS. FREEMAN: All community development activities will receive consideration.

MS. McHALE: Okay.

MS. FREEMAN: It's just where will it receive consideration?

MS. McHALE: Yes.

MS. FREEMAN: Will it be at the assessment area levels, state level, at the institution level.

MS. McHALE: I think I just want to highlight and say how incredibly important that is, because in a moment where there is so much volatility and uncertainly -- but also we're at a time where we need so much innovation in the

community development field that to be able to invest in things, to test, to learn, and then to help replicate and scale in other places is fantastic.

The other clarifying question was the list. It's like the golden list. When would that be available? I'm sorry that I'm --

MS. FREEMAN: Oh, the illustrative list? Yes.

(Laughter.)

MS. McHALE: The illustrative list. Thank you. When do you think that would be -- will be available?

MS. FREEMAN: Definitely by January 1st, 2026.

MS. McHALE: Okay.

MS. FREEMAN: No later than.

MS. McHALE: Okay. So the reason why I'm so interested in the illustrative list it's just I -- this may not be something we can -- something I think we all have to think about,

which is it's the -- now we have the what and it's the how do we begin to prepare, how do we shift the how, how do we work? And it's on both sides. It's a real shift both on the examination side, on the institution side.

And so I would just put out that one thing that we -- and certainly our trade associations I think are already ahead of us on this, but really doing some deep dives to really begin to understand the details, because while it may seem to those that are practitioners, not in a financial institution, that some of those dates are very far off. It actually will be here before we know it.

MS. FREEMAN: Right. We do realize that.

MS. McHALE: Yes. So I just -- if there are opportunities for collective learning, to do deep dives into these areas that would be really welcome.

MS. FREEMAN: So would you find that

list helpful prior to January 1st, 2026?

CHAIRMAN GRUENBERG: Careful now.

(Laughter.)

MS. FREEMAN: I know. I'm putting it on myself.

MS. McHALE: I personally would. I personally would. And then just one other small clarifying question. It sounds -- maybe again I heard this the wrong way -- under the community development currently, under the community development investment test it's -- there are -- investment activities also include financial institutions' charitable activities. And while it's a very small percentage, again a very important way to drive innovation. Does that move over now to the services test?

MS. FREEMAN: No. So donations and grants are still an investment.

MS. McHALE: Okay.

MS. FREEMAN: But we realize it's the -- typically they're smaller dollar and they're

not compared to a large investment. They may not -- so we did add an impact and responsiveness review factor for them.

MS. McHALE: Great.

MS. FREEMAN: So actual monetary donations are still investments.

MS. McHALE: Thank you.

MS. FREEMAN: Yes, thank you.

MR. ANTONAKES: Good morning. So first and foremost I'd like to congratulate the panel and all the agencies for the outstanding work here. Having started my career as a CRA examiner, I take a personal degree of satisfaction with this work. Also as I joked with others last night, having been battered and bruised during interagency deliberations through the years, no small task to finalize a rule of this length and complexity. So really congratulates all around.

Really pleased to see more explicit call-out of fair lending activities, racial

equity activities, also alignment with the CFPB's 1071 definitions. I think that will be exceptionally helpful throughout.

I have one question on the asset threshold designations, and as was well-discussed, tailoring in terms of data collection requirements within that space. And this may well be within the 1,500 pages. I haven't committed it yet to memory, but I'm working on it.

Could you discuss a little bit examiner intention around tailoring within that swath of $2 billion to $2 trillion institutions in terms of exam scope or perhaps exam frequency?

And as a larger bank on the smaller end we're subject to continuous supervision for risk management. Do you envision a process where the largest banks would ever be subjected to continuous supervision on the CRA fair lending, just because I can't imagine how long it would take to conduct an institution exam of that

scope?

MR. MILLER: So it's probably early for us to speculate on sort of that -- the answer to that question, I mean I will say in response to you, Steve and Brandee, your question. So we adopted the -- the Board met on Tuesday at 4:00 to -- a week ago Tuesday at 4:00. I will say there were some activities of the members -- by the members of the team that evening. And then on Thursday when our heads cleared a little bit, we got together and started to talk about -- on just and FDIC basis started talking about --

MR. ANTONAKES: It's nice that you gave them a 10-hour break.

MR. MILLER: I know.

(Laughter.)

MR. MILLER: -- implementation. I mean, because there is -- and on the list -- and we actually have really helpful resources. We have a division that we call Corporate University, which is really skilled in developing

training and outreach materials, both externally and to our own examiners. And we have a mountain to climb with regards to training our examiners as well. And there are going to be multiple work streams going on and on an interagency basis. Because consistency was such a driving force in the rulemaking, we want to make sure that there's consistent implementation.

So I will say we're on it. I mean, it's very clear in our minds that we need to do outreach to the industry, that we need to do outreach to the non-profit and consumer community and civil rights groups, and to our own examiners just to make them -- and I think in fact this presentation will be -- is a good start, is like our first start at this, and we'll build on it. And then we'll sort of go progressively from making people aware of the framework like we have tried to do here and to digging in deeper and to understanding -- to set up a process for how we're going to take the applications for the -- pre-

approval applications from banks and so forth.

So we have it all squarely ahead of us and we have actually started to -- and I give again my team enormous credit. And so we'll -- maybe we'll come back in a year or two and let you know -- and we'll have all your answers.

MR. ANTONAKES: Very fair, Jonathan. Thank you.

MS. RODRIGUEZ: Thank you. I just also want to echo congratulations. We really appreciate the engagement of the FDIC and all of the regulating agencies on your partnership and engagement in forming this final regulation.

Just to follow up a little bit, Jonathan, on what you were saying, as you look forward to these dates of implementation and examination how would you -- what roles and how would you expect community development organizations such as NeighborWorks organizations to lean in and help with the implementation? What roles would you like to

play to help get this understanding and deep-seated into the community?

MR. MILLER: So it's a great question. And I have a little bit of the same answer that I just gave to Steve.

PARTICIPANT: (Off microphone.)

MS. ORTIZ: What's the answer?

(Laughter.)

MR. ANTONAKES: They already know. They've reviewed the 1,500-page reg.

MR. MILLER: All right. So a number of people have already approached us about having the opportunity to explain a little bit about what they do, to our examiners, for example, to help them understand better, what to be looking for and so forth. And I think we will -- those are valuable offers and we'll sort of keep it in mind as we put together our work plan for training for our examiners and outreach and all the rest of it.

MS. RODRIGUEZ: No, please do, because

we're allies. We want this to be successful. We're very invested in the outcome here.

MR. MILLER: And I would just say throughout the rule -- I mean the more groups like NHS, NeighborWorks groups and other groups can work with banks and come to us with ideas, the more effective that kind of application is likely to be.

MS. RODRIGUEZ: That's helpful. Thank you.

MR. HSU: Maybe just to reiterate, like at the OCC we're going through a very similar -- you almost described exactly what happened (laughter), a similar 10-year -- or 10-hour grace period. And then immediately just thinking towards implementation. And I just got briefed on this yesterday. Pretty aggressive plan in terms of -- because there are lots of pieces to keep track of. And at the OCC the range of institutions that we have to do CRA for is quite wide, right, I think, Steven, to your point.

So highly encouraging. Just reach out early and often. I think this is the time to start engaging with us to say hey, here's how we're thinking about things, because that feedback becomes really, really important as we are putting this together in terms of like now moving towards implementation for which -- and it provides a lot of energy, too. I wouldn't underestimate that part of it saying hey, there's real interest in kind of getting in there and getting this done, because I think that's why we do this. And it is energizing to folks to feel that.

MS. BILONICK: Hi. Sorry. This is an awkward microphone, or maybe I shouldn't -- I don't know which one is my mic. So I don't know if this is on. Can you hear me? I'll just hold it.

So I had two questions. One, you mentioned the racial equity lens in the 1071 definitions. My understanding was that there is

not a race or ethnicity lens to these assessments. Is that correct? It's an income and geography lens apart from Native communities?

MR. MILLER: For the assessments, that's right. But we do have a provision which we think is important and will have a lot of impact. We do have a provision which requires the agencies to publish on an assessment-area basis, the HMDA data related to race, income, ethnicity, applications and approvals by assessment area, by income, by race, ethnicity, and the other factors. So that will be publicly available for all assessment areas for all large banks.

MS. BILONICK: And would that eventually include 1071 data assuming that it is enacted and collected?

MS. FREEMAN: That is not in the rule at this point.

MS. BILONICK: Okay.

MS. FREEMAN: Okay. Yes, we really

can't do that at this point because of the -- it's not effective. And we don't know what the CFPB is going to do, publicly, so we didn't want to say.

MS. BILONICK: Totally makes sense. My second question was I like that you flagged the zero to 250K and 250K to a million for small businesses. And I was wondering if there were target percentages that you were looking for in either of those categories and/or if either were weighted, like if the zero to 250K had a heavier weight than 250 to a million?

MS. FREEMAN: Our weighting is --

MR. RENGERT: They are not given any overall differential weight, but the weighting -- so the distribution analysis would look at a bank's loans to the lower end of the zero to 250 distinctly and compare it to community benchmarks and market benchmarks, and then separately look at loans to small businesses or small farms, 250 to a million, and look at community and market

benchmarks.

The weighting that might then happen then is when rolling up the results of those distinct distribution tests and that would be driven by the demographics of the area in which we -- in which the --

MS. BILONICK: And could those be achieved through investments into CDFIs or community lenders or is it strictly what's being done directly by the banks?

MR. RENGERT: It's strictly their retail lending, the retail lending test.

MS. BILONICK: And I just wanted to say also I worked with small businesses my whole career until my current role and those thresholds are absolutely right. I know like every business that we worked with was certainly under a million and mostly under 250K. So those were -- whoever came up with that, bravo.

MR. MILLER: Can I -- just one other thing related to the first question you asked

Marla? So we do -- we asked a question in the NPR and got pretty universal support for the idea of including special purchase credit programs, SPCPs, a credit given -- banks credit for them in the retail services and products test. And special purpose credit programs are part of the fair lending laws, ECOA the Equal Credit Opportunity Act, which allows special consideration for loans to certain groups that have been previously disadvantaged and those -- so those will get credit and without regard to income.

MS. CAMPER: Hi. I want to follow up on Steve's question about implementation and threshold, so I'm glad that the small business thresholds feel right. I would say that our member banks, the $2 billion banks don't see themselves in the same cohort as the $2 trillion banks. So I think there was some awareness and concern that large banks, again, I don't think a $2 billion bank necessarily self-identifies as a

large bank in the same way.

So Steve had asked, I think, in terms of implementation, is there I think an awareness or will there be an awareness among examiners about those are really different in kind or was that something that you thought through when you created those thresholds, especially where a lot of other regulations thresholds might be $10 billion or $50 billion or now in some areas $100 billion?

MR. MILLER: So I guess I would say we're looking at it from the other side of the telescope or whatever the right analogy is. We raised -- so today, a large bank is $1.5 billion and above. As a result of this rule, it will now be $2 billion and above and some 600, I think was the number, 600 and something banks that are currently considered to be large will be considered intermediate.

And I will say, you know, we get comment letters from the range of stakeholders,

and we heard -- we had comments raising concerns about communities where you had banks that were previously large banks and were subject to the investment and CD investment tests and a more rigorous CD test thanthan intermediate banks that, you know, those banks will no longer be measured in the same way for community development.

So rule writing is balancing of interests -- so, now we did add, there are at $10 billion there are additional data requirements and retail -- for both retail and deposit and retail services and products in terms of accounts and so forth. So we do think we calibrate and tailor that somewhat. I think what -- how then to get to the other part of the question we haven't -- we'll get to the examiner training. We understand that concern, but for the basic business that the banks are doing, the retail -- the tests are achievable.

MS. CAMPER: Okay, great. And then

just one more and that was not a -- just really to get an understanding of how you were thinking about that.

MR. MILLER: Yes.

MS. CAMPER: And then on the implementation and the speed of training, I would say there is already a lot of energy. We have a webinar schedule tomorrow and we have -- I don't know if I can say the number, several thousand people already signed up to -- yes, it's very scary because I'm on it and there will be lots of people looking.

But the level of interest and anxiety about getting a jump on 2026 does feel sort of around the corner, especially where you have that '24 number poked in there. So the sooner the details come out, I think banks are really eager to get a jump on implementation. So thank you for that. Thanks.

MR. CALHOUN: First of all, congratulations, and thank you for all the hard

work on this. I mean it's a remarkable accomplishment.

So a detailed question and then a broader one, a follow up on the question about the list of illustrative presumed compliant activities. I think that is a hugely important part of the rule, often overlooked, although much discussion of this in all of this here, but in some ways, it can be as impactful or more than a lot of what was up here.

Many of us were very deeply concerned about that list in the prior CRA rule that was withdrawn. That list covered, I think, three full pages of fine print in the federal register and was accompanied by wildly loose definitions like benefitting LMI communities could mean predominantly or partially. And predominantly was above 50 percent. Partially was anything below 50 percent, so I think that goes down to like .1 percent.

And so I think that is a huge part of

the rule yet, quite frankly, to be written and will drive a lot of activity. We fully support the greater certainty on the rule.

So my question is first is mainly about process. What will be the process for developing and updating that list and it will be -- will there be opportunities for nonprofit organizations such as the number of the ones up here to comment and have input on that. So that's that one.

And then the other one is a shorter question, but just the big picture, in addition to more certainty, I think the goal was to have greater quality and quantity of CRA lending and just how do you see the rule advancing that goal?

MS. FREEMAN: So as regarding the process for the list, obviously we haven't worked out the details yet, but that's an ever-evolving list. So it's not like we're going to come out with a list whatever date in the next couple of years and then that's it. It will constantly be

evolving and we will constantly be adding and sometimes taking activities off. And we've even addressed that in the preamble, if we took something by some chance, it would still -- still be effective --

MR. CALHOUN: Retroactive.

MS. FREEMAN: Yes, right. So it will be evolving. I do think input and as we get requests for pre-approval of an activity, that yes, this does qualify, we would consider adding that to the list. It depends. We don't want to add something so specific that it would not lend itself to any other bank. But as far as like the examples you give, you gave, regarding the OCC's past list, so we have a majority standard in this rule. So I think we'll be able to incorporate that. It won't be -- it will be long. It will be long to be useful, it will be long. But hopefully, we'll organize it in a way that will be very useful to the banks and the public.

MR. CALHOUN: So I'll let it go, but

we have concerns that a prior challenge with the CRA rule and there are numerous reports that showed this that a lot of displacing, gentrifying activities were given CRA credit. And we were very concerned that the prior illustrative list double downed on that and so that's an example of a place where it can override all of this very positive language in places in the rule itself if the illustrative list is sort of a per se safe harbor.

MS. FREEMAN: So we -- that's why we incorporated, that low and moderate income residents could not be involuntarily displaced. That was very important.

MR. CALHOUN: And then the big picture part?

MR. MILLER: I would recommend you read the chairman's statement at the adoption of the rule. I mean we expand the areas in which a bank is evaluated. I think that's going to be really, really important. We're expanding the

areas in which banks can get credit for community development. I think that's going to be really important, especially for addressing some of the problems with credit deserts. And we have benchmarks and performance standards that are much more rigorous and I think will result in banks working to achieve more -- higher grades or at least doing more to achieve the grades they want.

MS. LIBBY: Okay. So I will echo the congratulations that others have said or shared. And I think building on this discussion I'm curious. I know there were a lot of groups that were interested in seeing how race and ethnicity might be included and so knowing that it isn't being sort of factored in on an individual level, I am just curious if you see it having a role in sort of how assessment areas are being defined and if it had something to do with the way that you're looking at those on a more granular basis. I'm just curious how and whether that might play

there to satisfy some of those questions and concerns.

MS. FREEMAN: So we kept in the rule that assessment areas that cannot arbitrarily discriminate, cannot arbitrarily, you know, redline. So we kept that in the rule and we feel like that's still critical. But our fair lending program here at the FDIC, as well as the other agencies, is very rigorous. Thank you, Jessica.

So even though they're separate regulations, they still are married in some way, so we will take into account discriminatory lending practices in our exams. We have and we will continue to do so.

MR. MILLER: Do you want to talk about assessment areas, too, the full counties?

MS. FREEMAN: Yes, for large banks, we're incorporating the requirement that they have full counties and we do think that will help so that they can't carve out certain areas. So that was our reasoning there. We still think

some smaller banks could possibly because they might not be able to serve an entire large county. But large banks, we feel like a full county is reasonable.

MS. LIBBY: Thank you.

MS. RODRIGUEZ: I have sort of a weedy question so if there's time. On page 13, under the retail lending test and the volume screen, the outline that a bank's volume will be evaluated and compared to other banks with branches in that assessment area.

I guess my question is will be like for like? Or will it be any bank in that assessment area regardless of size or -- yes, I guess that's my question.

MR. RENGERT: So it's an aggregate. The comparison is all banks that have reported lending, relevant reported lending that have a branch in that area. So it's the direction -- the answer to your question, it's not like for like. It's reporting lenders with a branch in

that assessment area.

MS. RODRIGUEZ: Because we will find that smaller banks can be a little bit more nimble and provide some more targeted practices. So that could be very beneficial in that regard.

MR. MILLER: Any other questions? So when you're finished with the rule, feel free to ask more questions.

(Laughter.)

Thank you very much. We enjoyed the opportunity. Thank you.

(Applause.)

MS. ORTIZ: I think that's the first time I've ever heard applause for a panel at the ComE-IN. Jonathan packed the room with several of his friends.

Another first for ComE-IN is I think we're actually running ahead of schedule, but I think we'll still come back at 10:45 as we had planned. Okay, great. So I'll see you all at 10:45. Thank you.

(Whereupon, the above-entitled matter went off the record at 10:24 a.m. and resumed at 10:47 a.m.)

MS. ORTIZ: Welcome back, everyone. You know, I think this next panel is perfectly positioned to pick up where the last one left off where we were talking about the importance of outreach to not only financial institutions but to community-based organizations and have their input as we think about the opportunity to implement the new CRA rule. I feel like I should just say you're speaking my language as the Deputy Director for Consumer and Community Affairs. And so this next panel is really going to talk about where we are headed with the next iteration of our economic inclusion strategic plan and I think you'll see a lot of really helpful connections with your work and with the panel that just preceded us.

And with that, I'll turn it over to Montrice.

MS. YAKIMOV: Thanks, Liz. Good morning, Chairman Gruenberg, and esteemed members of our Committee on Economic Inclusion. I am really happy to introduce this next panel which will share information gained through a robust process the FDIC is following to update our economic inclusion strategic plan. And I'll sometimes refer to that as just plan for sake of brevity.

Because the plan covers a multi-year period and establishes a flexible blueprint for our work in community affairs programs, the 2024 plan is a critical document and it continues a long standing FDIC practice in place for many years to issue economic inclusion strategic plans to guide our work. This practice actually began in 2006 with ComE-IN, developed a plan to organize and guide its work. The FDIC subsequently issued two multi-year plans in 2014 and again in 2019 and both proved really valuable in focusing our programs to expand access to

financial products and services for mainstream institutions. We've been focused on expanding access to transaction and savings accounts, small dollar loans and consumer credit, responsible and sustainable mortgage loans, and small business loans.

The FDIC has also leveraged our economic inclusion strategic plan to focus our efforts on promoting financial education as a means to expand financial empowerment and economic inclusion.

I kind of need a booster seat here. These chairs aren't built for short people.

(Laughter.)

So to update our current 2019 plan, the FDIC engaged Abt Associates to complete a comprehensive data review that we refer to as an environmental scan. Data gathered included information such as current challenges to economic inclusion and approaches that appear to hold promise for advancing economic inclusion.

Our consulting team interviewed internal and external stakeholders, with structured research questions. They conducted nearly 30 interviews and listening sessions, including about 60 internal and external stakeholders and that included every member of the ComE-IN and we sincerely want to thank you all for the input and engagement on your parts.

Our consultants also completed a robust literature review which included more than 80 sources. These efforts were vital because we really want our updated economic inclusion strategic plan to be rooted in data and research including insights gained related to broad changes impacting the financial services industry, particularly those changes that have been in effect since our 2019 plan was issued.

So today our panel will walk you through the research they completed and they'll also describe how the FDIC is thinking about updating our economic inclusion strategic plan.

We'll then move to a discussion and we truly look forward to your input, thoughts, and perspectives.

And with that, I'd like to introduce our speakers for today's panel: Zoya Aleem, Dr. Lianne Fisman, and Sarah Wolff in that order. Zoya is a Senior Analyst. Lianne serves in the capacity of Senior Director for Science and Research. And Sarah is a Senior Associate. And I should say my name is Montrice Goddard Yakimov and I'm the Acting Associate Director for Community Affairs.

Zoya, please get us started.

MS. ALEEM: Thank you, Montrice, with introductions. Good morning to everyone and thank you for the opportunity to join you today. My colleagues and I are very excited to share with you what we've learned.

Before we start, I'm going to provide a quick overview of what we will talk about for the next 45 minutes. First, I'll provide an

overview of the research that Abt engaged in to build out the plan. Second, we will share some of our key findings which include insights about the prior plan, as well as opportunities and challenges for the next plan. Lastly, we will talk about how this research informs the organization and content of the emerging economic inclusion strategic plan. After the presentation, we'll open the floor up for discussion.

To start with, I'll give you a quick overview of the research that Abt engaged in. Abt conducted a literature review, as well as stakeholder interviews and listening sessions. As the slide indicates, we reviewed about 80 sources to answer 7 research questions. The sources included relevant FDIC internal and external documents, Executive Orders, and other relevant literature that emerged during the process. The team also spoke to 57 stakeholders. We collected input from FDIC staff and other

stakeholders including staff from financial institutions, nonprofit organizations, and federal agencies beyond the FDIC. We also spoke with researchers from a range of institutions including think tanks and universities.

For reference, this slide shows a list of the seven research questions that guided the literature review. The first question examined the prior plan and the progress made since its implementation. The second question investigated the barriers to banking households and successful strategies to date. The third question looked for evidence of the Community Reinvestment Act's impact on the behavior of banks. The fourth question addressed the effectiveness of financial education and its role in banking households. The fifth explored practices, strategies, and products that have helped low and moderate income households, that is, LMI households build savings. The six question examined small dollar loan pilots. And the seventh and last question

looked at practices and strategies beyond account opening that banks and non-banks are using to help under-served consumers.

Now we're going to shift gears and talk about some of our key findings. I specifically am going to share what we've learned about the perceived role of the plan, as well as views on the opportunity areas for the 2019 plan. Then my colleagues will go on to discuss additional key findings.

So we asked stakeholders what they thought was the role of the economic inclusion strategic plan. And a common theme that emerged among internal staff was that the plan should serve as a tool for internal coordination and provide staff with a sense of how their economic inclusion work fits into FDIC's other roles and initiatives.

Second, some stakeholders thought that the plan should serve as a tool for communicating to external audiences and signaling

to consumers that economic inclusion is an area of interest to the FDIC. We also heard from senior staff at other federal agencies that the plan should be used to communicate with and possibly inspire other federal agencies about the FDIC's economic inclusion work.

Third, others thought the plan should serve as a tool to engage partners, such as banks, CBOs, other federal agencies, as well as state and local government in working towards economic inclusion goals in the plan. As you see at the bottom, there's a red box that highlights another theme that we heard quite consistently from the FDIC staff and that was a need for the plan to have flexibility built into it. Interviewees often cited the success of the bankable moments campaign and emphasized how important it was to be able -- how helpful it was to be able to pivot to leverage the economic stimulus payments to encourage people to open safe and affordable accounts.

We also asked stakeholders about their views on the opportunity areas from the 2019 plan. As a reminder, the 2019 plan was organized as a ladder as shown here with five rungs called opportunity areas. Each rung represented a product or point of connection between the consumer and the financial institution. This ladder shows support financial education and capability as the bottom rung and strengthen access to financial services for small businesses as the top rung.

This slide summarizes insights from stakeholders by opportunity area. I will start with the bottom rung, for the first opportunity area, and work my way up to the top of the ladder. Financial education for opportunity area one. We heard a range of insights about this area, but most consistently we heard that while financial education is an important core strength for the FDIC, it shouldn't be necessarily a stand-alone area and is most effective when paired with a

program or an effort.

Opportunity area two, insured transaction accounts. Many stakeholders thought that affordable insured accounts are the foundation of economic inclusion. Many stakeholders also wanted the FDIC to expand their focus and think beyond account opening for the next plan. They saw other opportunities within the area of transaction and savings accounts such as making bank accounts work better for people.

Number three, consumer credit. Many stakeholders thought that this area is important for economic stability. But they also recognized that this is a challenging area for the FDIC to make progress with banks given market pressures and realities.

Number four, mortgage lending. This is another area where stakeholders wanted to see more done, yet understood the challenges posed by market realities. For example, high housing prices and elevated interest rates have made

housing less affordable and the share of mortgages made by non-bank lenders has significantly surpassed the share originated by bank lenders. Given these market realities, interviewees suggested that the FDIC expand their focus to include other wealth-building approaches or on addressing affordable housing more generally.

Lastly, number five, small business lending. We've heard slightly different responses about this particular area. Some stakeholders described challenges posed by -- faced by consumers, getting small business loans from banks. And for them, that justified attention to the issue in the next plan. By contrast, other stakeholders did not talk about this opportunity area very much and some questioned how important it is given that a smaller segment of the population goes on to become a business owner.

Now I'm going to hand the mic off to

my colleague Lianne, who will go on to discuss additional key findings.

DR. FISMAN: Thanks, Zoya, and thank you for having us. I'm going to switch the slide, and then I'm going to start off by sharing some of the things that we heard from interviewees about their vision for the rule and content of the plan.

And so I'll start with one of the issues that we spoke to interviewees about was whether the plan should address the needs of particular demographic groups that we know from the FDIC household survey and other data are disproportionately un- and underbanked.

And I don't think I need to say this to anyone here, but for example, we know that Black households are more than five times as likely to be unbanked as White households.

We know that Hispanic households are more than four times as likely to be unbanked than White households. We know that working-age

households with a disability are also four times as likely to be unbanked as households without a disability.

So the question is how did the folks we spoke to think about how we should talk about these disparities in the plan. Most interviewees did agree or said that they thought that the plan should have a goal of closing the racial wealth gap. But there was a real split in how folks wanted that to be addressed in the actual plan itself.

On the one hand, as shown in the light blue box on the slide, some said that being explicit about subpopulations, particularly racial subgroups, would be the right thing to do. And these folks indicated that explicit language would help the FDIC stay really focused, kind of keep their eye on the ball and focus on closing the gaps uncovered in the household survey.

This viewpoint is illustrated in that first quote I think pretty nicely. Doing the

right things means targeting the people who are left out. Another person said that race-based policies caused the inequalities, so race-based policies need to be part of the solution.

On the other hand, as shown in the orange box on the bottom of the slide, some interviewees saw risks to naming subpopulations, or just simply didn't think the plan needed to be explicit to allow the FDIC to respond to specific challenges, racially or demographic challenges.

And these individuals advocated for broader language and strategies that were sort of more broadly encompassing.

Moving on to the framework of the plan, we asked interviewees, as Zoya mentioned, to reflect on the economic inclusion framework from the last plan, it's that ladder.

And just to remind you, that framework was built around five opportunity areas that really focused on bank products. So there was financial education products, bank accounts,

consumer credit products, mortgages, and small business loans.

Many of the interviewees stressed that these five economic inclusion opportunity areas, or opportunity areas, have served as a useful and productive organizing principle for the FDIC's economic inclusion efforts to date.

In fact, some folks we talked to did not want to see them change at all. One of my favorite quotes was that somebody described them as a beautiful string of pearls.

But other interviewees indicated that they liked the opportunity areas, but they thought they could be rethought. That the ladder was not sort of a good conceptualization. As shown in the orange box, there were folks who wanted to see the opportunity areas laid out more as a menu. Or another person suggested the idea of Legos.

And I think that's in recognition of the fact that different people need different

things from the banking system at different times. That it's not this linear relationship.

In addition to these views, we did hear substantial support for thinking about ways that we could reconceptualize opportunity areas in the plan. Specifically support moving away from opportunity areas that focus on bank products. This view I think is captured pretty well by the quote in the green that I won't be so bold as to read, I'll let you read it yourself.

But these individuals thought the FDIC should consider reframing the opportunity areas to emphasize consumer and community outcomes versus bank products. So looking at the outcomes that the plan seeks to foster. And the next slide will provide a little more detail on what folks were thinking about when they talked to us about that.

So this slide, as I said, highlights some of the themes that we heard related to reconceptualizing the opportunity areas. As I

said, they kind of centered around organizing the opportunity areas around outcomes. Some of the key themes that emerged from these interviews that we found really compelling are listed on this slide.

First, in the blue box, a focus on consumer outcome, specifically you can see the person quoted here suggested that the outcome areas look -- the opportunity areas focus on the outcome we want to people to have based on their relationships with banks.

Another idea, shown in the orange box, is to focus opportunity areas on the challenges that consumers face. And these folks suggested opportunities be built -- be more person-centered around the inclusion barriers that we need to solve.

And finally, as shown in the purple box, some folks suggested a framework built around values, and this kind of framework would elevate values-oriented concepts like equity as

sort of the framing principle.

Now I'm going to really switch gears and talk about some of the highlights from the environmental scan, which you know was interviews and a literature review.

With respect to the state of -- current state of economic inclusion in the United States, these insights have really informed sort of the opportunity areas as they've emerged in our research. So I'll start with some highlights about consumers.

They're shown in the blue box, just to orient you. You have very colorful slides. We know that the share of unbanked households has been in steady decline.

The 2021 household survey indicates that only 4.5% of U.S. households are unbanked. And this is the lowest rate of unbanked households recorded since the survey started in 2009.

So while this decline is very

promising and exciting, the household survey also highlights continued disparities across demographic groups.

As I noted previously, households of color are much more likely to be unbanked than their White counterparts. And furthermore, folks with lower incomes, disabilities, and lower educational attainment are also more likely to be unbanked.

Second, our research elevated important events in the financial services sector, which are in the purple box. The first, probably something everyone here is very familiar with, recent bank failures highlighted the value of deposit insurance for consumers, and relatedly the importance of making sure that consumers understand this insurance and how important it is.

Another important trend in the financial service marketplace is the growing role of non-bank financial service providers. This

has been fueled at least in part by the rapid growth in technology.

Some Fintech products, I think we all know, have some of the same functionality as traditional savings and checking accounts. They have the ability to receive and store money. But of course they're not necessarily as safe and secure as insured depository accounts.

Another important trend related to non-bank providers relates to mortgage lending. And Zoya mentioned the share of non -- the share of mortgages made by non-bank lenders has really shockingly increased and been -- surpasses those made by banks.

And to illustrate just how kind of extreme this trend is, I would say consider that in June 2023, non-bank lenders made 79% of all mortgages purchased by government-sponsored entities. And for government-backed loans, like FHA and VA loans, was at 93%.

And you know, this is a really

important trend for us to think about since these government-backed loans are disproportionately used by first-time homebuyers, non-White borrowers, and lower income borrowers. So I think those are some pretty staggering numbers.

Our research pointed to some other trends in the housing market that are also relevant to economic inclusion and actually as excited to hear about them in a CRA presentation as well.

So to begin with, the demand for affordable housing in much of the U.S. far outweighs the supply. So high -- and high rental costs limit opportunities for folks to build their savings and you know, gain financial stability.

In terms of home ownership, which you know, Zoya also alluded to, is a key wealth-building activity. There's a whole host of challenges facing consumers right now, high -- rising mortgage prices, and also difficulty

saving for a down payment due to non-mortgage debt and that includes student loans.

And I'm calling that out because that -- those challenges are really compounded for households of color, who tend to be disproportionately by all kinds of non-mortgage debt in comparison to White, their White counterparts.

To end on a positive note on this slide, the fourth economic inclusion trend that our research highlighted is shown in orange, and it relates to the prior panel as well. It is the development of new rules for banks around community development.

And most notable and very celebrated in the last hour is the new CRA rule, which as we heard expands access to credit, investment, and basic banking services in low and moderate income communities.

Our literature review also highlighted some important external forces, to

some degree beyond our control, that might inhibit progress toward economic inclusion that, again, we just wanted to keep in mind as we were thinking about the opportunity areas and objectives for the strategy.

The first of these factors is inflation. And again, I'm sort of preaching to the choir here, but from the second quarter of 2021 through the first quarter of 2023, the U.S. experienced a very high period -- a period of high inflation. And how it relates to economic inclusion is it made it really difficult for some consumers to meet day-to-day expenses, but also to manage unexpected expenses.

A second factor, again, I heard it mentioned a little bit in the CRA presentation, is climate change. Climate change poses a whole variety of potential financial risks to consumers and communities, including extreme weather events, which obviously can cause damaged property and property loss, ultimately straining

households' financial security.

A third factor that is relevant to making progress on economic inclusion, are government actions. And as we discussed, government actions like the new CRA rule have the potential to enhance consumer economic inclusion. But of course there are always other future actions that can inhibit the FDIC's ability to meet its economic inclusion objectives.

And finally, as alluded to on the last slide, emerging technologies present both potential benefits and challenges for consumer economic inclusion. On the one hand, advances in the digital space offer opportunities for banks to serve a broader set of consumers, improve services, have lower operating costs and enhance customer experience generally.

On the other hand, emerging technologies also present risks to banks, particularly around data security. In addition, new technologies has really supported this growth

of non-bank financial service providers.

And they are offering low-cost and convenient services that I think do meet the needs of low and moderate income consumers. But they don't come with the same sort of set of -- the same level of safety and security as insured accounts.

Along with sort of our literature review that looked at broad market challenges, we also talked to our interviewees and looked at the literature to think about the challenges that consumers face on their journey toward economic inclusion. And by far the most common barrier that our interviewees raised was trust.

And I think as the quotes on this slide pretty clearly illustrate, the conversations about trust were often kind of enmeshed with conversations about other barriers, like such as transparency.

For example, both these quotes on this slide in the orange and green box kind of -- they

both deal with trust and transparency. So they talk about sort of being burned by bank fees in the past and losing their trust in the banking system.

The red box at the bottom of the slide indicates that trust as a core barrier for consumers is really aligned with what we saw in the literature. It consistently rises to the top as one of the main barriers for folks engaging with the banking system.

In addition to trust, we heard about a whole range of other challenges that consumers, especially low and moderate income consumers, face to gaining economic inclusion. The themes that we heard from our interviewees aligned with the research on these topics and included all of the things that I think you would all expect.

Social factors like racial bias were mentioned, and also features of bank products. Again, that lack of transparency, fees, lack of access to physical banking facilities, and then

the mismatch of products that don't quite meet the needs of consumers.

I think all of the challenges that are on this slide and that we've talked about disproportionately impact low and moderate income consumers. The quote in the purple box I think really captures the disparate impacts of how these challenges fall out pretty well.

The researcher we talked to said it's important to acknowledge the cost of bank accounts being a hurdle for consumers and individuals with low incomes. And I like this part, fines increased disproportionately for those with the fewest means to pay.

Similarly, the quote about mismatched products in that bottom blue box underscores the reality that low and moderate income consumers have fewer viable choices in the current banking marketplace than their higher income peers. This person said, majormajor barriers are a lack of products that meet people's needs. The banking

system has done well at serving higher income and moderate income households.

And the red box at the bottom of the slide suggests from -- comes from the literature, and that sort of elevated some additional challenges that we've been thinking about, including ID and address requirements, prior negative banking history, and language barriers for consumers.

Now I'll turn to some of the challenges that banks face in terms of taking action to promote economic inclusion.

Interviewees suggested that lack of profitability, probably an obvious one of working with low and moderate income consumers, or at least the perception of lack of profitability, is the main challenge that banks face or cite in terms of engaging these consumers in a really meaningful way.

The quote in the green bubble from a financial services professional that we

interviewed is illustrative I think of this challenge. He said, aa real challenge from the bank side is that it's hard to make the numbers work and serve them, as in low income consumers, and not lose money.

The red box at the bottom of the slide kind of summarizes the additional challenges for banks include assessing the creditworthiness of low and moderate income consumers.

Other challenges that came up, Interviewees suggested that another reason banks are hesitant to engage in economic inclusion activities is because they're worried about compliance, and that these concerns inhibit them from using new technologies or processes that might better serve low and moderate income consumers.

And the quote in the blue box captures this dilemma, which is that many banks -- many on the bank side do recognize that there are products and services that could better meet the

needs of low and moderate income consumers, but they're hesitant to develop them or take them up because they have real fear of running afoul of regulation.

As the red box at the bottom of the slide indicates, the literature actually highlights some specific examples of compliance barriers that banks cite in sort of inhibiting them from serving low and moderate income consumers, including the Bank Secrecy Act.

And finally, on the bank challenges theme, we heard pretty consistently that banks might have internal or infrastructure challenges that prevent them from adopting some of these new technologies that might better serve low and moderate income consumers.

So as indicated in the blue bubble, it's really about legacy systems. The legacy systems of some banks present challenges. They don't often allow banks to securely use, for example, new ID verification systems.

And a related barrier is the cost of implementing new technologies. There's a quote in the orange bubble that sort of captures that banks and in particular small banks don't have the resources to capitalize on these innovations that we see I think largely in, well, to some degree in the fintech sector.

And finally, as shown in the red box on this slide, another limitation to the uptake of new banking technologies are the risks. And we heard this a lot from FDIC staff, including the data security risks that often come with digital solutions.

So at this point, I am going to pass the presentation to Sarah, who will talk about the opportunities for economic inclusion that came out of our research and how this research might inform the new economic inclusion strategic plan.

MS. WOLFF: Thanks, Liane. I'm a real optimist, so I'm excited to share some of what we

learned about the tools and strategies that banks can use to address some of the challenges that we just went through.

Starting with the banks. We identified three types of tools and strategies that banks can use to advance economic inclusion. The first is developing products and making product changes to better meet the needs of underserved consumers.

The second is developing partnerships with other organizations that work with these communities. And the third is different approaches to marketing and communication and otherwise engage directly with these communities.

I'm going to talk a bit more about each of those on the next few slides. So as we heard earlier, our research identified a mismatch between the products that banks offer and the products that un- and underbanked consumers need.

It follows, then, that banks can better serve these consumers by making changes to

their products and developing new ones.

We identified quite a few examples in our interviews and review of the literature of some products. In some cases, these are products that banks are offering, and in other cases they were products and ideas that came from nonprofits or other companies.

In addition to specific product ideas, we heard that banks can increase economic inclusion through the way that they develop products, by engaging with the community and product development, and evaluating their products and sharing what they learned with others.

Also we heard that they can use technology to bring down the costs and enable different ways of providing products and services.

Interviewees also suggested that banks should build partnerships with community groups to further foster economic inclusion.

Partnerships can help banks provide services, such as financial education or technical assistance. Partnerships can also help banks get the word out in the community by bringing messages through trusted voices.

Banks can also provide capital to community-based lenders to fund loans or provide services that banks do not offer. One suggestion was for banks to provide capital to minority depository institutions or CDFIs, enabling those organizations to expand their reach.

Some of those we interviewed emphasized that banks could show up differently in the community. One area is in the design and accessibility of bank branches, which are particularly important because they're the face of the bank in the community.

In addition to more accessible communications, one person mentioned the need for general communication to help everyone understand that banks can be for them.

Finally, some people suggested that banks need to engage more with the community to learn from the community and use what they learned then to guide them about how to better serve that community.

We heard a lot of specific examples in our research about ways banks have successfully fostered economic inclusion. These included examples of account and loan products, as well as broader examples of partnership and outreach activities.

For example, one researcher described a creative savings product that automatically rolls funds over into a savings account once the balance reaches a certain level. Multiple people mentioned small-dollar loan programs at large banks and others, like the ones we're probably hear about later this afternoon.

Another person talked about how one bank had replaced staff that had been organized around products, replaced that sort of structure

with a community outreach manager structure at some branches.

In addition to what banks can do, we talked with folks about what the FDIC can do. And four general themes rose to the top. First, the FDIC can conduct research. Second, build partnerships directly and as an intermediary between community groups and banks.

Third, provide support and guidance to banks. And fourth, enforce compliance with relevant laws, including the Community Reinvestment Act.

So a little bit more about the research. Many of the people we talked to underscored the value of FDIC's research to helping understand who is excluded from the banking system, why, and in sharing insights about how things can be done differently.

The value of the FDIC's household survey came up many times. There were also suggestions of additional research that the FDIC

could conduct that would be impactful. For example, by analyzing the banking experiences of specific subgroups, such as women-owned businesses.

Partnerships are another tool the FDIC could continue to employ. People we talked to talked about the partnerships at the national level, like the successful partnership between Bank On and the IRS, as well as local and regional level partnerships.

They also saw a role for the FDIC in facilitating partnerships between community organizations and banks.

In addition to research and partnership development, interviewees thought that the FDIC should support banks to develop new products and services to meet community needs.

They wanted to see the FDIC give support to specific types of new products, such as special purpose credit programs or small-dollar loan pilots. And perhaps even develop

toolkits and provide support to get new products developed and implemented.

Finally, many of those we talked with reflected that the FDIC already has a number of strong tools that can be used to foster economic inclusion, namely, the Community Reinvestment Act, which we have recently heard a lot about. They specifically mentioned that strong enforcement and collaboration with banks around the CRA is important for fostering economic inclusion.

So now I'd like to share more about how what we learned through the research has influenced the development of the emerging 2024 plan. I'm going to talk about some general insights that affect the plan, the structure of the plan, and then we'll look at two examples.

So the findings we just discussed suggested shifts in the content and the structure of the FDIC's next economic inclusion strategic plan. As shown first in purple, the FDIC's prior

plan had been organized according to bank products and services that could be leveraged to foster economic inclusion.

However, as we have discussed before, stakeholders suggested that the next plan could be focused around desired outcomes for consumers and their community.

Second, in blue, our research highlighted disparities in access to safe and affordable financial products across subpopulations. These findings emphasize the importance of paying particular attention to these economic inclusion disparities and in targeting strategies to reach those groups.

Third, in orange, the prior plan conceptualized financial education as its own rung of the ladder, but our research suggest embedding financial education within each of the opportunity areas. This can be done through strategies that provide financial education when a consumer is making a financial decision, such

as when they're opening a bank account or considering buying a home.

The literature suggests that these may be more effective times to provide financial education than generalized financial education classes. The choice also signals that financial education is integral to all of the FDIC's efforts to advance economic inclusion, and not just a standalone program or product.

Finally, shown in green, our findings suggest that the next plan explicitly focus on enhancing community development outcomes in addition to individual level outcomes, with a particular emphasis on low and moderate income communities.

Here are four potential outcome-focused opportunity areas, which reflect how we're thinking about conceptualizing the areas for the next plan.

The first area, in blue, create foundational banking relationships, reflects the

insight that consumers need both to access bank accounts and to use those bank accounts to achieve economic inclusion.

The second area, in orange, build household financial stability, reflects the insight that households need to access products and services from banks to help them manage their day-to-day finances and to build savings.

The next area, in purple, achieve a secure financial future, reflects the insight that wealth-building is important for economic inclusion. This area encompasses multiple pathways through which consumers can build wealth, including by achieving and sustaining home ownership and business ownership.

The final area, live in strong communities, reflects the insight that community development merits attention in the plan. This area describes an outcome at the community level, whereas the other areas describe outcomes at the individual or household level.

In addition to conceptual shifts, feedback from the OIG, the GAO, and a review of other federal agency plans and guidance about strategic planning suggests that the next plan have a more explicit outcomes-oriented framework for each of the opportunity areas.

A proposed framework that could achieve those objectives is shown here. This framework includes a clearly stated objective, monitoring measures, which are macro-level data points that the FDIC can track periodically to see if the needle is moving in the right direction.

Strategies that the FDIC will pursue that are designed to help achieve the objective in the plan and that reflect that FDIC's strengths, and key performance indicators, which are measures that the FDIC can track to track its contribution to achieving each objective.

Now we're going to look at two examples of how this framework could be applied

to the emerging opportunity areas. So this is an example of how the proposed structure we just discussed could apply to one of those areas. There's a lot of details, so I'm going to go through them clearly and slowly.

First, as we discussed earlier, the opportunity area will be -- is conceptualized around economic inclusion outcome. In this case, it is create foundational banking relationships to establish an on-ramp to the U.S. financial system, setting the stage for future financial success.

In this area, FDIC's objective could be to increase the share of households who establish and sustain bank accounts using them as their primary means to receive income, make payments, and keep their money safe.

One monitoring measure that could be used to track progress in this area is the share of U.S. households who are unbanked, which is data that the FDIC collects in the household

survey.

The FDIC would pursue multiple strategies to achieve the objective. An example is -- example of one is listed here in green, develop partnerships with relevant agencies and other organizations to connect individuals to safe and affordable accounts, leveraging program-specific bankable moments that capitalize on consumers' interest in receiving payments.

Finally, the FDIC would track multiple key performance indicators to monitor their progress and contribution to achieving the objective. An example of one such indicator is listed in the slide on blue. This example has two components.

The first is a measure of the things that the FDIC will do. In this case, it is the number of presentations made to banks, trade groups, community networks, and other stakeholders about promising approaches that expand account access and sustained use of

banking services.

The KPI has a second component that tracks the outcome of that activity, and that is that attendees report finding the information useful.

Here is another example for a different emerging opportunity area, build household financial stability. Help households build a savings cushion and increase access to consumer credit to better manage ongoing and emergency expenses.

For this area, FDIC's objective would be to increase the share of households that have access to and benefit from banking products and services to manage fluctuations in income and expenses, financial shocks, and emergencies.

One monitoring measure in this area could be the share of adults who say they can cover a $400 expense using cash or cash equivalents, which is data that the Federal Reserve tracks in the survey of household

economic decision making.

As before, the FDIC would pursue multiple strategies and track multiple performance indicators to monitor its progress and contributions to achieving this objective, such as the examples listed here.

So now I'm going to turn this back over to Montrice, who will be opening things up for questions, conversation, and discussion. But before I do, I do want to take a moment to thank the FDIC team and for this committee for having us here today and for your great collaboration through this effort.

MS. YAKIMOV: Thank you, Sarah, Liane, and Zoya. And we know that was a lot of hopefully you think good information. And so while the ComE-IN members may be formulating your thoughts about questions, I want to pose an initial question to our Abt Associates team.

And so -- collective questions, anyone can respond. What do you think, in your view, of

the FDIC kind of contemplating this shift from the product-focused framework in our economic inclusion strategy to more of an outcome-focused framework?

MS. WOLFF: Sure, I'll start. So you know, one thing I think that the outcomes framework opens up -- opens up an opportunity for the FDIC to engage with some different stakeholders that may not have sort of seen themselves or seen partnerships between the FDIC and their organization as it related to the bank products.

So for example, there might be -- there might be groups who see themselves more aligned with building household financial stability than they would have seen themselves aligned with offering consumer credit.

So there's sort of a broadening of the tent that's possible through this different framework.

DR. FISMAN: I guess I also think that

the outcomes framework will ensure that the FDIC stays focused sort of on strategies that really are about the advancement of economic inclusion for consumers and communities. So you know, we're still thinking about bank products, but we're thinking about it from a consumer side.

And so I think thinking about the consumer side means that we are more likely to reach those outcomes that I think everyone here would like to see. And then you know, I'm a researcher by training, so I'm always interested in monitoring and evaluation.

And I do think that monitoring those particular outcomes, particularly using KPIs, will allow the FDIC to see if they are, if the strategies they're employing are the right strategies.

And if they're not the right strategies, if they're not the right strategies that are moving consumers and communities in the direction that we want them to be moving, they'll

be able to sort of iterate and switch things up as they go. I think that's another advantage versus thinking more about bank products.

And I'm sorry, do you have anything to add?

MS. YAKIMOV: Thank you all. It's been great for us to work with researchers to try to make sure that as we move forward, we're focusing on the right things. And outcomes certainly something that we're striving for.

So let me pause there and just turn to the committee. Has this presentation prompted any questions? So great. Thanks, Susan.

MS. WEINSTOCK: Hi, is this on? Okay, maybe I just need to move it closer to my face.

This is great. As I think most people around this table know, CFA, part of CFA is America Saves. And that is a whole campaign around getting folks to save and we work with a lot of banks and a lot of other organizations to promote savings through employers and all

different ways to do it.

And what we're really -- our theme is really to try to build what we call financial empowerment so that people can make the decisions. So the idea of outcomes, I think that's great.

My one question to you is, and this sort of ties into another question I had, was I didn't see, and maybe I missed it, the timeframe of the research.

Because I'm wondering about things that are beyond the FDIC's control, like Covid or very high inflation. Like we saw higher savings during Covid, and I think now we're seeing it go down and we're seeing consumer credit debt go up.

So I guess my question is, is that, you know, the outcome idea is terrific, but how do you account for things beyond the FDIC's control that are obviously going to affect unbanked and banked and indebtedness, consumer indebtedness and things like that?

MS. YAKIMOV: So I'll start, and then I'll ask Liz and others to, including our research team, to weigh in. You know, one of the things that we have built into our emerging plan is monitoring measures.

So the KPIs are, the approach, the intent behind that is to be able to measure the impact of the specific interventions, the specific programs that we would kind of mobilize against once the plan is finalized.

But the broad monitoring measures, we're looking to see those macro environmental factors, those factors that fall outside the FDIC's ability to influence, it will give us a sense of, you know, scale. Here's what we're able to contribute to the reach of our programs, as opposed to those broader factors that are important to consider as well.

So it hopefully with those two tools built into our approach, we'll be able to get perspective and insight with respect to those

factors that fall outside our control.

MR. BOSTIC: If I could jump in on this. So first of all, very great work. Very interesting. I was in one of the interview things, and it was just a super conversation. You guys really pushed us to do amazing things.

On this question, I think there's always a challenge because, you know, we do the macro economy, and there are huge forces that can swamp any kind of effort. So you know, we have a similar type of, we did a strategic plan. One of our things is improving overall resilience.

And we had a whole conversation about this, that you know, Covid happens, or you know, a hurricane comes through a community and all those efforts go away. So we tried to have a mix of metrics, things that were actually the endpoint. But also things that were directly tied to what we could control as well.

So you could recognize that you could do all the right things, but that all these other

things happen that prevent the ultimate outcome you'd want to get to occur. So you don't beat yourself up over those things. You try to be clear that when you -- you should beat yourself up if things you control you don't do. But that's a different thing.

So I did have a question, which was this -- actually, maybe it's not a question. It will be a comment that I'll finish in a question. So this question, this issue of products versus outcomes, it goes both ways, right.

So the thing with products is that -- and you can talk about a small business loan all you want, but if you don't have the metrics in place to make sure that the goal is to get more of them to people who wouldn't get them otherwise and all that kind of stuff, you can kind of miss the point.

Going by outcomes, though, there's a risk, and we've been sensitive to this, that it looks like you're going beyond your

organization's purview and remit. Because there are just -- it's clear what the FDIC can do on a loan product, right.

When you're talking about, what strengthening a community, that's a huge thing. And people could definitely ask, so is that -- how does that fit to FDIC mission and their authorities and all those sorts of things.

So how do you balance those? And if you're going to go to this outcome thing, what kind of guardrails are you going to put in place to make it clear that we understand we're the FDIC and not HUD or Agriculture or whoever it might be?

MS. YAKIMOV: It's a great, great question and something that we've been thinking about a lot. So our director likes to say in the Division of Depositor and Consumer Protection we do two main things. We protect and we connect. And where Community Affairs lives is really that connection process.

So imagine a series of objectives and approaches that would engage the FDIC within our unique ability, our capacity, our mission, partnering with a HUD or an SBA, other federal agencies that have programs with shared goals to expand economic inclusion.

And so imagine an engagement to help small entrepreneurs and small business owners better access small business loans through awareness of loan guarantee programs and technical assistance.

And so that's really how we plan to stay within our mission but engaging in other agencies. And that's -- those are examples of federal agencies, but there are also community-based organizations with which we collaborate and coordinate. Working together, those -- there are points of intersection where we have shared goals but allow us to maintain our focus. Good question.

MS. McHALE: So I'd like to jump in

on this, if I can, and offer a -- I was excited to see the strong communities framework embedded here, but I actually started to connect it as you were all talking. You also brought up the issue of trust.

And I actually think that it's yes, I agree 100%. It's hard to be everything to everybody, and this concept of strong communities, actually started to hear it as part of what makes a strong community is a sense of a community's stronger trust in financial institutions in communities.

And there's a connection here. And the FDIC playing a role. One is, I personally think the FDIC itself is one of the best brands we, best, well known brands that we have in this country. It's like the Good Housekeeping seal of approval. You see the FDIC, consumers feel a sense that they're protected.

And so really working to help, again, continue to educate how financial institutions

work that builds trust in the financial system in your local community, which then in turn supports more engagement and the product usage.

So I do think that the two go hand in hand, and we should think about refining that concept of stronger communities as I had written it down as strong community trust in financial institutions.

And the last thing I'll just say here is I think -- I do believe, and I think what you didn't say but what I heard was that products without usage is not our north star.

And I would just encourage us to think about setting a North Star that's a long-term objective, but then setting some shorter-term milestones that help to know if we're organizing ourselves and using that as a framework to get to that North Star.

I would love to see us reach the north stars we're all shooting for in our careers and in our lifetimes, and it's going to take -- it'll

happen in steps and stages.

MS. YAKIMOV: Just said to Liz, we need to write that down, that was --

MS. ORTIZ: And so I did.

MS. McHALE: That's very good, because I don't think I could say it again.

MR. MINTZ: Three -- two little things and one larger thing. First of all, on the issue -- two issues that were raised before. One was about the things you can't control for.

And I have to really point out, and to your question, Susan, about timing, you know, a lot of those things you can't control for create opportunities that the FDIC grabs, like what happened with the stimulus payments and that bankable moment watershed.

And so I wouldn't write that off. I actually, because I'm inspired by how all you have not written that off. And so I just want to throw that in there on that issue.

The other issue around -- I thought

you raised a really interesting question around the FDIC remit and how this squares with that. And I would say that I think that, you know, this focus on outcomes is mired in how we use our connections to banks and community organizations to achieve those outcomes.

So I, for me, it doesn't ring that bell of concern. It feels grounded in the muscles that you all have. And so I'm excited about that and excited about an outcome-based approach to inspiring that.

The main point that I want to make, which I will make quickly, is that I think that an outcome focus as you're proposing, contemplating, I think it also helps inspire and empower the big swings that the FDIC takes.

I know so much is going on here, but when I think about from my vantage point in our partnerships with you all, when I think about the really measurable, impactful things you've done, the household survey and what people learn and

take away from that survey, the safe account pilot and all that that's inspired.

And again, the IRS bankable moment extravaganza of an opportunity, when I think about those big swings, I work backward from there and I say what is it that empowered the FDIC team to be able to, I'm sorry to use this expression, lean in and make those big swings happen.

Because those big swings are extraordinary, and the FDIC team is, you know, incredibly good at doing them. So I think that if an outcomes-based focus inspires that kind of runway, I'm all for it.

MS. BILONICK: Marietta and I are coordinated, and when we want to ask questions, I thank you for giving me the mic.

So more of a comment than anything else, but I was really struck, similar to Brandee's observation around sort of trust being the core issue, the rigidity of the banking

industry and kind of the doing it the same way.

You know, some of the comments that you made around not being able to integrate software because it would just kind of throw everything off. And so then innovation isn't able to occur. Which, and by innovation I mean innovation that would result in inclusion.

But I thought particularly about kind of the staffing structure of banks and how they don't really permit for true engagement in communities.

I know some banks are experimenting with, you know, like there's a community manager model where staff sort are salaried staff. They don't have lending targets, they don't have commission. They're just, you know, kind of pulling on overhead.

But I think sort of the inherent structure of banks and just even just the organizational structure, how they're organized, what the staffing structure is, prohibits deep

engagement in the community, which then prohibits informed product design, prohibits the development of trust.

And I don't know how much of an appetite there is. It doesn't really benefit the bottom line, or it could long term, definitely the long game could benefit if you had super responsive products that had a big uptake in communities. There would be a bottom line benefit.

But it just, I kind of wanted to share that observation because I felt like there was a thread throughout about this kind of rigidity that prohibits deep penetration in communities. So just throwing it out there.

MS. ORTIZ: Thanks. Naomi, do you want to jump in on that?

MS. CAMPER: Yeah, I want to just --

MS. ORTIZ: Okay, and then Marietta's with you.

MS. CAMPER: Respond. So you know, in

some sense I think -- I assume the rigidity that you were talking about in terms of systems has to do with many community banks being reliant on core service providers who are few in number and large in their influence.

And so I think there may be some instances where banks are less nimble than we would like because of some issues and some are speaking of things beyond their control. I think it's important to understand that.

And then obviously there are 4700 banks and they I think have a wide variety of operating models that help them engage or not engage.

But the way that these core service providers, the big three that have the vast majority of influence looms very, very large in the industry, especially among our smaller banks. And it is their rigidity, not, you know, the banks'. So just clarifying that, thank you.

MS. RODRIGUEZ: The focus to center on

outcomes really I think rings true. I think it will help build greater connection and muscle into the communities. I think that's -- I think centering on that is really insightful.

I do want to talk about this issue of trust, because I think it rings true with what we're hearing from folks on the ground in multiple ways. One, how financial institutions show up in communities, particularly low to moderate income communities. Just what their presence looks like matters in developing trust.

And that's, and I don't know, it could be through staffing and how to structure. It could be what they choose to sponsor and what they choose not to -- there's a variety of ways financial institutions are present in communities. And it can either foster or unintentionally undermine trust in that community.

So that, I think that'd be the first thing. I think the notion of having really, a

whole myriad of a menu of safe financial products that are under-utilized I think is a challenge for all of us.

And as we think about what the outcomes we want, particularly for those that are underbanked, I would just encourage the FDIC to think through the tactics and strategies to get deeper penetration in the community that doesn't also inadvertently undermine trust.

So I'll give you an example. So we had a pilot about how to report rent payments on someone's credit report so they could start to build credit. And there was one strategy that we would just enroll everyone, and then if people didn't want to be involved, they would opt out.

That really undermined trust because people didn't have a choice. And we have to remember that all consumers are coming into a financial institution with a set of experiences that may not have been great.

And so the least, if we narrow their

choices, that ultimately undermines the trust in that relationship, and you're already starting in a bad -- whether it's conscious or not.

So I like the outcome-based. I think the devil will be in the detail on how you implement strategies and tactics that don't undermine this trust matter. Because it's very real.

Good point, Marietta.

Margaret?

MS. LIBBY: Yeah, thanks. So building on the idea of trust, well, before I do that, I'll say I love the idea of focusing on outcomes, because it does give people, and also just having them kind of roll up into a north star. But I think it organizes people with a focus, right, and a direction.

And it seems if the outcomes do focus on things that have to be achieved through partnerships, you're sort of baking that idea into the way that the FDIC is going about the

work, which I think does really build on the strengths of, you know, some of the things that you were talking about, Jonathan.

I think the piece around communities and strong communities and trust, I do think is really important, and especially I guess I would say the idea of partnerships with community-based organizations is critical.

And I think you used an example about like a radio host who had a lot of relationships visibility and trust. And I think finding those kinds of, whether it's a radio personality, a community organization, and I know the FDIC has done a number of this kind of engagement with communities.

But that is, in our experience, essential to get young people interested in banking. Because, you know, when you were talking about some of the cultural differences, or I guess I'm talking about that, you were talking about, right, trust and branches and sort

of what happens there. Our young people talk about the cultural differences of just older people, younger people, the feel of bank branches and sort of welcoming, not welcoming.

And I think they're clearly doing a lot of different, or using a lot of different approaches to banking. And so I think the importance of having the right messengers is important, and those are I think often community groups.

And I guess I wanted to underscore an issue that came up I think at our last meeting around building, you know, toward these kinds of outcomes and knowing that these sorts of partnerships are essential to fostering the trust. I think identifying how to support those community groups to be playing these significant roles is important.

So I think considering resources and how the FDIC is going about a set of activities that would sort of require that kind of support

from these sort of anchor institutions I think is something to consider to make sure that they're, you know, getting the support they need to engage in this kind of work.

But yeah, really excited about the direction and a lot of gratitude for the work that you've done.

MS. ORTIZ: Okay, Brandee?

MS. McHALE: Thanks, this will be quick. I actually want to bring us full circle.

And Susan, you stopped a little short of where I thought you were going, but I want to just say in the world that we live in of scarce resources combined with lack of consensus, sometimes what I find is the best way to have a path forward is to really try to focus.

And I would really like to just connect this idea of outcomes, trust. And maybe one way to do that, and aligning with the incredible brand that the FDIC has, with savings. And that really doubling down on how, and that is

so critical to strong communities.

It kind of is the -- can knit together a lot of these pieces and is really foundational, that the more households feel empowered to save, they have savings, it creates resiliency and creates then -- and that their savings is protected. It's just reinforcing, and I just think really foundational.

MS. YAKIMOV: Great, thank you, Brandee.

MS. WEINSTOCK: And if I could just say one more thing about that to add onto that. We need to make sure like the safe accounts always have an option to have a savings account that goes with it.

I was surprised to learn recently about a bank that is offering a no-overdraft account, which is wonderful and people are taking it. And I said does it link to a savings account, and they said our 1980s systems don't talk together, so it's hard for us to do that.

And it just sort of deflated the idea that they had this great new account, they're pushing it out, but they can't add a, just like a sidecar savings piece to it because their systems don't talk to each other.

So I'm not blaming the bank for that, it's just you got to figure out to get past that, and maybe there's things we can do.

MS. LIBBY: And if I could just add one thought. You know, we've really been thinking about the messaging around savings, because I think you're right, Brandee, that it's a powerful concept.

But also, with the struggles people are having financially right now, we've heard people sort of shut down around the idea of saving because it feels like, wait, what. Like I am hustling to sort of get through the day, get through the week.

And so the idea, you know, it's very aspirational, or it's met with a little bit of a,

it can be a tough thing to contemplate in these -- in this moment. So I think figuring out ways to message that in the right way is really important.

Because it is a powerful concept, it's sort of what we're trying to get people to. But I think the messaging is really important, especially in this moment.

MR. MINTZ: I'll delay lunch by ten seconds more just to add one of things that we've learned is that, and I think this really dovetails with what you're all saying, is that people with -- who are living closer to the margin and making it work view their primary checking account as their savings vehicle.

You know, they're keeping money in that account, and they're not spending it in that account. It's in the account, it hasn't gotten spent. It's very much sort of like a beta savings kind of approach. I'm not sure if that's the right term exactly.

And I think that that really dovetails with your point about the FDIC brand and talking about a safe place to be able to manage your money in a way that contemplates savings in the early ways that people contemplate savings.

MS. ORTIZ: All right. Well, thank you, Panel, thank you, Committee. Normally I would motion to the chairman and ask him if it's okay for everyone to break and go to lunch, but I feel really empowered right now, and so I'm going to say it's okay for us to break and go to lunch.

I'm also going to tell the chairman that this panel received a standing ovation.

(Whereupon, the above-entitled matter went off the record at 12:03 p.m. and resumed at 1:21 p.m.)

MS. ORTIZ: All right. Welcome back, everyone. We're going to kick off the afternoon with the member's round table. Ms. Marietta Rodriguez, you are our newest member, you have

the honor of kicking us off.

MS. RODRIGUEZ: It feels a little unfair and a little like --

(Laughter.)

MS. RODRIGUEZ: Committee hazing.

CHAIRMAN GRUENBERG: No pressure, Marietta, but it's an indoctrination sort of.

MS. RODRIGUEZ: Great --

CHAIRMAN GRUENBERG: Why don't you stand up while you deliver --?

(Laughter.)

MS. RODRIGUEZ: So, I will say that from -- the comments I make obviously are reflecting what I'm hearing from the NeighborWorks network. We have 247 locally-based non-profits throughout the country, we have one in every state, including the District of Columbia, and we have four organizations that work on the island of Puerto Rico. And I would say, similar to what we heard and what you're all experiencing, the headwinds of this work are

strong and growing stronger every day.

Three big themes, two major headwinds and maybe a tailwind, I think time will tell. But the first one is, there's still a lot of work to be done on creating pathways to affordable homeownership and rental, because the inventory challenges are so incredibly severe. And while so many of our organizations develop both, rental and homeownership units, the access to capital is challenging -- the interest rate environment is even more challenging. So, the need for subsidy, and the investment stacks that groups have to put together just to get a deal started, are growing in complexity and sophistication. And then, you have to do compliance on all of those layers of financing.

And as a result, for the developers in our network, their requirement from their CFO, perspective, their asset managers, their mortgage lenders, these non-profits are growing in sophistication by leaps and bounds. And the

ability -- we talked about this a little bit at lunch -- to attract and retain skilled staff in this environment is a challenge, and a major headwind, particularly on the real estate development side.

But, despite all of that, they are doing some incredible work. We are getting units in the ground, we are creating homeowners even in this environment. What I would encourage is deeper and more robust partnerships with financial institutions. The need for down payment assistance is greater today than it ever has been, so how can we take special purpose credit programs and other tools like that to a greater scale is something that we're desperate to do, to try to meet the demand for those people who want to pursue homeownership. Particularly for communities of color.

I think the second major headwind, if I was going to put it in a theme, would be around the work of our housing counseling network and

our financial coaches. Both do separate things. So housing counselors, just to lay the groundwork, help people for -- individual interventions -- to become a homeowner, maybe even in a crisis intervention. Where a financial coach really meets the customer where they are, and helps them decide where they want to go and supports them along that journey. That's an important distinction.

And what we're hearing, very much like what we heard this morning, was this issue of trust, where consumers have a great deal of trust for community groups and non-profits in their community. But, when there is a handoff to a partner who's providing a product or a service that can sometimes sever that trust or impact that trust. And so, thinking through how we offer safe financial products to consumers, not in a referable way -- not in just a referral but in an invitation, having them choose the service rather than sort of forcing them on that.

I would also say the second theme in the housing counselor and coaching space is having enough to meet the demand, and having enough housing counselors and coaches that reflect the community for which they're serving. Particularly where communities are doing business or functioning in other languages other than English. What we're finding is, housing counselors and coaches who are bilingual or multilingual are burdened, not only to see customers and manage a pipeline, but they're also burdened in that organization to translate documents and do other things. And it's really hard to pay those staff and retain them, and the burden that they're carrying is really tough.

Related to that, which was a complete surprise to me in some ways, is -- a couple of weeks ago we hosted a webinar for housing -- for financial coaches that was entitled Trauma-informed Financial Coaching. And it was not in an effort to create clinicians of our financial

coaches, but rather help them understand that when customers come to them, clients come to them, they're coming with a set of experiences that may not be so great. I mentioned this a little earlier, that we've lived through a pandemic, maybe an economic meltdown, maybe a job loss.

There are all these things that are influencing the economic behavior and decisions of these consumers. And being able to step back and understand that the trauma that they've lived through is really changing the way financial coaching is being delivered, I think in a more positive way. And we're seeing a lot more positive outcomes as a result of that. But, it was a webinar that was way over subscribed, people stayed longer than the scheduled time. So, there's clearly a demand there and we're trying to figure out how to meet that more, but it's grounded, again, in this issue of trust.

And then, I think if there is a

tailwind -- I mean, I think there is some things that are happening to be excited, certainly the prospect of the implementation of the new CRA regulation is one. This is a headwind, perhaps, and a tailwind, but how climate resiliency is impacting the way communities are providing services and products, certainly. We are hearing particularly from our multi-family organizations who provide multi-family housing, the insurance issues related to climate is huge and they're really challenged to maintain insurance, and maintain these properties. They're working on such thin margins anyway, any increases they can't increase the -- pass that on to their tenants. So, that's a challenge.

But the headwind here -- or the tailwind rather, here I think is, there is a lot of money being put out in climate resiliency through the Department of Energy and EPA. And I think that community groups working in housing could be a very strong partner and implementers

for some of this work. It's a lot of money. But, we're sort of blind to the EPA and they don't know us in this realm. And so, we need to make ourselves known, and how we can partner on the ground to help move the needle on some of these issues that are that really crippling some organizations, and crippling, obviously, some communities.

So, those are the themes. I hope that was the expectation. So, I'll pass it along.

MS. ORTIZ: That was a perfect example, a model for others -- Jonathan. No, not you. It's just, she's a model for you --

(Laughter.)

MR. MINTZ: Ow. Wow. Liz, I think you're --

(Simultaneous speaking.)

MS. ORTIZ: Just a little bit of payback for the Sunshine Act.

MR. ANTONAKES: I cede my seven minutes to Jonathan.

(Laughter.)

MR. ANTONAKES: Good afternoon, Chairman Gruenberg, fellow members of the Committee, the professional staff at the FDIC. Thank you for hosting this important meeting. It's an honor to be here. In recognition of the number of Committee members yet to speak, I will try to be brief whilst building off of Marietta's first theme.

One of the greatest obstacles to economic inclusion efforts in Massachusetts remains the ongoing affordable housing crisis. Current home values, local zoning ordinances, a lack of affordable housing stock, rising interest rates are creating significant barriers for first-time home buyers and minority home buyers. And it's threatening the future prosperity of the state, with growing numbers of young people facing no real prospect to purchase a home and instead paying exorbitant rents.

As reported recently in the Boston

Globe, historically the average home purchase price in Massachusetts has been three times the median income. Now, that's a stretch but potentially manageable. Currently, the average home purchase price in Massachusetts is eight times median income. As further evidence that this crisis it's not limited to Massachusetts, according to the National Association of Realtors the nationwide age of the median first-time home buyer has increased from 29 to 36 since 1981.

It's well documented that homeownership helps spur wealth creation. The inability to provide affordable home ownership opportunities will retard other efforts to improve economic mobility. A different challenge is the growing surplus of office space in urban communities throughout the United States, resulting from the significant changes in work habits and space needs since the onset of COVID-19. Greater remote work has also impacted a host of small businesses that support these workers,

growing office and storefront vacancies will also reduce tax rolls in municipalities.

Having previously worked in Washington for five years, it is striking to me during these visits to see how much the city has changed since the pandemic, and the significant reduction in foot traffic. The Biden Administration recently released a guidebook to available federal resources, to promote commercial to residential conversions. The city of Boston has launched a pilot program to further encourage these conversions, and I know there's been efforts in New York and Chicago to try to focus on this challenge.

These are welcome developments but, as you all know, further resources, including perhaps broader tax subsidies and other incentives, will be needed as these efforts to become feasible. As the conversions are exceptionally expensive due to changes in plumbing, electricity, office floor plans,

windows, building code requirements, etcetera. Nevertheless, seemingly there is an opportunity to think bold here, in an effort to both, manage increasing office vacancies and potentially address the ongoing horrible housing crisis. Thank you.

MS. ORTIZ: I'm going to just ask you to hold the mic, please.

MS. BILONICK: I don't know if it's on.

MR. BOSTIC: It looks like it's on.

MS. BILONICK: Does it sound like it's on? I don't know.

MS. ORTIZ: Does it sound like it's on.

MS. BILONICK: Hello? No. All right.

(Simultaneous speaking.)

MS. BILONICK: Talk about leaning in. So -- he said it first but then I -- recalling your joke, Jonathan.

So, again, Marla Bilonick, not to be confused with ORLA, the new acronym that we've

all learned today.

(Laughter.)

MS. BILONICK: I had to do it. So, I'm going to be speaking on behalf of a little bit of a different perspective. I've come, you know, other times that I've been here sort of speaking more about the Latino community, but today my remarks are more about Latino-serving organizations, economic development organizations, and CDFIs, and sort of what we're looking at right now.

So, a couple of things we've obviously been keenly awaiting, the finalization of the CRA rule. So, we're very excited to hear the updates today that we got, and look forward to learning more and to diving into that 1,500 page document. But, of course this is very important for our industry, especially for NALCAB as the largest convener of Latino CDFIs in the U.S.

We also are keenly watching 1071 and hoping that this will come to fruition. CFPB

Director Rohit Chopra was with us on Monday, speaking to our staff and board about many issues, including immigrant-related financial predatory behaviors. But we, you know, sort of pressed on him the urgency of 1071. And I know there's a lot surrounding that, with regard to even just the CFPB's sustainability as an organization. But, that's top of mind for us.

We're also very, very patiently awaiting the revised certification process for CDFIs, to become certified. I am the Chair of the Community Development Advisory Board to the CDFI Fund, and we are told that it will come out this fall. Which could be as late as December 22, which is the last day of fall, so any day now or by December 22. But, that is very important to us, because we actually have active programming around pushing through more aspiring CDFIs to become certified as CDFIs. You may or may not be aware that there are approximately 1,400 CDFIs, and less than 200 Latino-led CDFIs.

And knowing who CDFI's serve, that's a big disconnect.

Another issue that we're really, really following is the once in a lifetime investments, the federal investments that are coming through, and sort of how our membership, how our member organizations can tap into those. And how the communities, where there will be large infusions of funding. How that either, doesn't decimate the communities that they're coming to and/or how the community members' businesses, organizations actually benefit from that.

And I like to think of it as, you know, areas that are in drought. When massive water comes through it doesn't necessarily immediately soak into the soil, it kind of can just rush through and rush over. And so, we're really trying everything that we can to kind of understand how to get ahead of that flood of funding, so that our communities benefit and

actually obtain the economic vitality that these investments will create. And specifically, those are around the EPA's Greenhouse Gas Reduction Fund for which NALCAB was part of the Community Builders of Color Coalition's Justice Climate Fund application that was submitted.

We also are looking at the tech hubs that were announced last week, and sort of how those will or will not benefit our communities -- and we're really hopeful that they will. CHIPS funding that's going to come down, and then also the Digital Equity funding that's going to come from NTIA. Those are all huge, billions of dollars of investment.

And not -- I don't want to say not coincidentally -- but these are not areas that our communities are very versed in working in. We have been focused on the immediate needs of our community, whether that be housing, small business development, jobs. While there's no doubting that the climate challenges are here

today, front and center, I think our industry sort of viewed it as a longer term challenge. And now it's, you know, it's here, and so we really need to ramp up and get up to speed.

And I would say, you know, for the technology investments as well, it's -- you know, we haven't done a lot there. And so, we quickly have to become green lenders, experts in broadband, figure out how to get our businesses greened, and, you know, just figure out how to work in these spaces where we don't have as much experience.

The last thing I'll say is just, we are very concerned with the Supreme Court's ruling around affirmative action. We actually have a member that has been sued for discriminatory practices, for having implemented a COVID loan program for minority and/or women-owned businesses. And so, this is very real, like, we have this example, and I'm sure it is the first of, unfortunately, probably many that

will come. And so, it's something that we're really watching, you know. And I'll just share personally that, we were in a conversation with a foundation that asked us not to use the word Latino in our application, which would be impossible because it's in our organization name, so, you know.

But, this is emblematic of sort of what may have been buried before and is now rising to the surface. So, it's something that we're very concerned about both, for kind of the turn in society as well as how it could affect our membership, and our work. So, hate to end on that note but that is sort of the list of our priorities of challenges that we're facing.

MR. BOSTIC: So, good afternoon, everyone. It's good to be here and get to see you all.

I wanted to start with inflation and, you know, I talk about inflation probably more than just about everybody else in the country

these days. But inflation is high and it is a drag on all Americans, but especially those who are closest to precariousness. And we hosted a -- we, the Federal Reserve, hosted a Fed Listens series where we go around the country and we ask people sort of how are you doing. And we have a dual mandate of inflation and full employment, and we ask which is worse, and inflation always comes up worse.

And so, our focus on inflation is front and center, and hopefully we will continue making progress in getting inflation back down to our two percent target. Because, if we get there, that creates a foundation for everything else to happen. For people to have jobs and for people to be more secure in what they're doing.

And I actually gave a speech in New York at The New School for Social Research on October 19, it was a Schwartz lecture. And I talked a bit there about how the Fed's approach to monetary policy has been informed by things

that have happened over the last ten years, as well as these Fed Listens issues.

And I think we are much more sensitive to inflation's role, but we're also sensitive that the economy can evolve in ways that the models would suggest inflation would increase in and it won't. So, through the late 2010s we saw record employment continue, and every model said inflation was right around the corner, and it never came. And it sort of helped us think hard about what our policies should look like, and how we should go moving forward.

Have to celebrate CRA, you know. Getting to a place, for me, I think uncertainty for banks has been a barrier to full engagement in the community. And I'm hopeful that CRA will go a long way towards making it clear that we need banks to do a wide range of things. Banks on the ground have a good sense about what those things could be, and we don't want any uncertainty to stop them from doing those things.

That would be a great thing. And I know the folks here in this building have worked really hard on this, I had some staff doing this as well and it's been very good.

We have been -- at the Atlanta Fed, we've been thinking a lot about payments inclusion because, as technology has evolved the modes of payment have shifted in ways that might leave certain people behind. And so, we stood up special committee on payments inclusion, Mark Pearce here was part of that. And we had our final, I guess -- it's not clear it's going to be the final -- but technically, for the charter of that committee, we had our final meeting and conference over the summer.

It was really good from a research perspective, and the final report should be coming out in the next couple of weeks, I'm hopeful. It has a bunch of recommendations for next steps to continue the conversation. So, we make sure that payments aren't a barrier to

people engaging in the financial system, using financial transactions.

We did a lot on education at the Federal Reserve, and in our bank. We have a long history of training trainers, particularly in the high school level, about economics, personal finance and the like. We're continuing to ramp -- COVID was hard on this -- and so, we're trying to get that back going again to try to move things forward. One area where we have created some really nice partnerships is with state councils for economic education, they do a lot. And we have been able to sort of propagate some of our things through them, to get our tools out into, like, regular people's hands. Which is, you know, the goal is to get to regular people, and that's a good thing.

And then, the last thing I would say on this also. We have what we call a Fed Education Fellows program, we are building curriculum for fifth-graders and eighth-graders

in this space. Because, it's my view that we need to increase the pool of people who think they can contribute and be good in this stuff. I think too many people are getting bad reinforcement early on, and it really causes them to not want to view this as something that's worthwhile. So, we have to change that cycle.

And the last thing I would say, and this is -- Naomi, you may talk about this a bit. I have been getting increasing reports of growth in fraud in finance and banking, and this is a barrier to financial inclusion. The disruption that happens is hard for someone with resources, if it happens to someone without resources it can be incredibly disruptive and difficult.

So, I know the ABA has an initiative on this. And I think all of us need to lift this up and increase the awareness of this, to make sure that people understand that -- so, I think, Liz, you didn't say this, someone else said this -- but about protect and connect. This is the

protect part, this is -- and it's old style, this is check fraud type stuff, it's stuff that we thought we didn't do anymore, we didn't see anymore. So, this is one I think we really need to lift up.

Let me just also say, it has been such a privilege to be on this committee. I want to thank the FDIC for inviting me, and all of you for helping to make this an incredibly rich and learning experience.

MR. CALHOUN: Perhaps I should give all of my time and let Raphael continue. I would learn a lot from it.

Just following up on what he said on fraud, at a recent event with a major bank, they said over 90 percent of their online account opening applications were fraudulent, and they're almost all bots. They're not even people, but that is the level. It is not a cottage industry. It is a major industry sector of pushing fraud and not to be forgotten.

So, these comments go back to some of the economic inclusion, and I did not want to stand in the way of folks and lunch, so I saved it for now, and I'll try and be real quick. The first one was, you know, we talked how much it's about trust, and I really do think most people, you know, particularly with finances, don't want to be an expert. They want to go to a place that they're trusted, where they trust the people and that they are treated well.

And I think the evidence is strong that that is frequently not the experience for Black and brown people who go into banks. There are numerous studies, whether you look at comparative small businesses that go into banks. The National Community Reinvestment Coalition has been testing on that.

Another group recently did a test on housing, and this is the complaint I get from many, many people is every Black applicant who went in was referred to an FHA loan even when a

significant percentage of them qualified for much cheaper GSE loans. So, I mean, these are not -- you see that with other services.

There have been high-profile examples, but they aren't just anecdotes by any means, and somehow that's got to be part of the COA enforcement or just the message with banks. If you want -- if we're going to advance inclusion, people got to feel like it's a place they're going to get treated fairly, and too often that doesn't happen.

It goes down to everything. You talk about, you know, tying it to the FDIC insurance. How do you do that? Who are the messengers? You know, it's striking that you look at Black households are five times as much to be underbanked. They're 2X times as likely to buy crypto, so somebody knows how to market and we could pull some things out of their playbook.

The second thing there would be the products that are there and they really today

still really reinforce racial disparities and the racial wealth gap, and one I've spoken about before is you look at -- if you go into banks, and this is virtually universal, the only product they offer to tap your home equity is a HELOC. Most of them, it's very hard to find standalone second mortgage products, and most banks have a cut off, a minimum credit score of 680.

The majority of Black homeowners in this country are probably below 680, particularly when you look at the FHA population. So, you're cutting off home equity loans to the majority of Black homeowners, and that is somehow okay for a federally subsidized banking system. I just don't understand why that is not an outrage.

And particularly in these times, and we've published on this, the only alternative for folks is they are going and getting cash out refis where they're refinancing their entire mortgage, bumping the mortgage rate up by 300, 400 basis points to get the cash out, and we've got a

calculator. If you want to be depressed, go on our website.

It's costing the average, and this is for looking at what the actual transactions are, the average homeowner over a seven-year period is losing close to $50,000 compared to if they were given a second loan at 13 percent interest. And, you know, again, how do we have a federally subsidized banking system where that -- and this is, you know, 10,000-plus households every month. This is not, you know, a drop there.

We'll hear later today, it's encouraging about this small dollar lending. I think that's a positive step there. And then a related one that is here, and this is inclusiveness all around, it's what I call the scarlet D.

And we are all schooled. You know, I've run lending programs at Self-Help Credit Unions, you know, been in charge of compliance, and you want to avoid delinquencies and defaults,

but delinquencies are often equated with defaults. And, you know, at Self-Help, we were almost shut down in our first ten years because we did home lending to LMI households, and we were running ongoing delinquency levels in the high single digits, and the regulators, these were credit union regulators, were freaked out.

And really we fought with them to keep the program live, but we showed over time that those people would cure because they needed a place to live. This is the one that made the most economic sense. It's not like you give up your house. You've got to move, come up with a new security deposit. You know, these were not the strategic defaulters out there.

And we just have to recognize that increasingly, the new bank customers, the new homeowners are coming to the table with much less family and individual wealth. They're in jobs that are much more subject to financial disruptions.

And we have to build products that recognize that rather than the idea that, yes, you want people to work hard to stay on the payments on time and avoid avoidable delinquencies, but we also have to serve people who will have delinquencies but will cure, and not treat them as we tended to do, for example, in the 2008 crisis. If you were behind on your payment, you were a bad person, and if you weren't, we gave you a HARP loan and cut your interest rate by several hundred basis points.

And then finally, related to this, and this is a place -- this may seem like a little non sequitur, but it is, is a place where I think the FDIC can add, is something missing in our field is RCTs, random controlled trials, of what really works and what does not. And so, right now, we're in the midst of this sort of reassessment of credit in the mortgage field, but in others as well, of a tradeoff between equity versus liquidity.

So, in the mortgage area where it's been more pronounced, do you want a ten percent down payment or even a five percent down payment if it leaves the borrower with no credit reserves at the time they're moving into a house when most people have increased expenses? There is a lot of evidence and there are a lot of folks in industry who are moving in this direction of finding the right place.

We're running a program, and we were talking about this at lunch, where we will do up to 100 percent LTV and we like to give big down payment grants, but that money usually runs out early in the year, and we're giving $2,000 reserve fund grants that is kept in a separate account if they have a financial emergency. We've talked with other folks. We want somebody to take that to scale, and does that work? And then what -- you know, in a diverse group of communities?

And I'll just give you an example.

This cuts across lots of policy areas. There have been -- and as an economist here, you've seen a zillion studies, and one of them was just in the international area, we were talking about it also at lunch, was there was a raging debate. Literally, this has gone on for decades, is should you give essential supplies to people or should you charge them at least a nominal sum?

If you give them fishing nets, if you give them a way, will they turn them into party fixtures or something? And the debate raged, and raged, and raged. Well, they actually finally ran a controlled study and got an answer that pretty much everyone accepts.

I'll make you read the study to see which it was, but it's the same here. You know, how do we, even on small dollar accounts, what are the things that really do work? I mean, they're not easy to do.

I don't want to trivialize how hard they are to do and how expensive, but given how

important the answers are, we ought to be more supportive of that kind of research rather than just make philosophical arguments about how we think people are going to operate. But finally, kudos with everyone else for the CRA rule, a monumental achievement and all of the accolades are well deserved.

MS. CAMPER: Great, thank you, and thank you for teeing up the issue of fraud and setting it in the context of LMI communities having less resilience and greater impact when fraud happens.

In the banking industry, you're right. We're just seeing an explosion of everything from literally like blue post office theft with checks, right, the very sort of most mechanical kind of fraud, to extremely high-tech fraud that, you know, I think we're all dealing with in the cyber area. And so, we are spending a lot of time trying to figure out solutions to that, and our solutions range from the very sort of low-

tech to much more sophisticated, so let me start with the low-tech.

One of the things that we've heard from customers is when they do have check fraud happen to them, and it could be that they put literally the check in the mail and somebody check washes it, how hard it is for them to get provisional credit from their institutions, and part of what's happening is that there's lack of communication between the financial institutions that are the receiving and originating.

We've put something incredibly simple, I'm almost embarrassed to say how simple it is, into place, where banks opt into our check fraud directory. We've created templates for the information that's required and it literally just tells Bank A who's the contact at Bank B, and then we have some time standards, and reports are that this has cleared up and sped up the processing and remedy incredibly, so something as simple as making sure you have the right contact

information for the right person at Bank A and Bank B.

And so, we have, just in the first few weeks of this, we had well over 1,500 banks opt in, and we know there are only 4,700 banks, so we're quickly reaching scale on something that is very low-tech and very effective, and so we hope that that is going to bear fruit for customers who experience fraud.

We also, and this is what Raphael was responding to, part two, we have relaunched ABA's Banks Never Ask That campaign, and this is really trying to get direct to consumers to be aware of all of these phishing scams and phone scams. Your bank will never ask you this question. They will never ask you for your password. They will never ask you for your account number, all of these things that, mom, are you listening? Banks will never ask you that.

So, we have relaunched it. It uses a lot of humor. It is now bilingual. For the first

time ever, we have the resources in Spanish and in English. It is completely free. Anybody who wants to use it can white label it. They can put their name on it. It's all open source.

And so, what we've found is because it uses humor and it uses some fun visuals that it's really -- people are responding to it, and so we hope that that starts to break through so that people just don't fall prey to these horrible schemes.

The final thing in the fraud bucket that I want to spotlight is ABA has, for many years, created a role for ourselves in bringing different people together to combat elder financial exploitation, and that continues. You know, my personal opinion is if there is a hell, people who exploit elder adults belong there.

So, we are putting together an elder financial exploitation summit for the spring, and that's something where we are happy to partner with anybody who can gain the trust of the

community that's at greatest risk.

Speaking of gaining trust, I think the banking industry understands that establishing trust is key and we continue to work in that in many ways. We have really spent a lot of time with developing a DE&I function to help our banks make sure that they are reflective of the communities they serve.

We are also trying to do a better job coordinating with our own members who are CDFIs and MDIs, and there are dedicated trade associations, the National Bankers Association, the Community Development Bankers Association, who is in the room, hello, and so, ABA, we were lucky enough, some of you met him last night, to hire a vice president whose entire job it is to focus on the needs of CDFI and MDI members, working in close coordination and partnership with those trade associations. So, that's something.

We've had our second MDI summit.

There's obviously so much opportunity with the ECIP money and other things out there, so that's a great focus of ours, to make sure that the entire banking industry is learning from peers who have really cracked the code for establishing trust in communities.

The last thing I want to talk about is just, it's not the purview of this committee, but just an awareness level for what banks are worried about, and it rolls out to how they serve communities. One is you've heard me talk ad nauseam, because I just can't stop, about ABA's commitment to Bank On accounts and making sure that banks are offering bank accounts, banks are offering accounts that meet the Bank On national standards.

And one of the things that I've emphasized is the reason we've been so successful in getting banks to adopt those accounts is because the way that the standards were so brilliantly developed allows for a small monthly

fee and other revenue-generating activities that even if the accounts are not highly lucrative, they are sustainable in the sense that they're not money losers.

Just for situational awareness, the Federal Reserve just proposed a rule on Reg I(I), which would cut, proposes close to a 30 percent cut in debit interchange revenue. Debit interchange for many banks accounts to 30, 40 percent of the revenue that powers their Bank On accounts, so just an awareness that that is going to be factored into the economics of these accounts.

Obviously, it's very encouraging that the CRA rule is going to have incentives to offer some of these accounts. The financial economics may change once this rule is finalized, so just an awareness of that.

And then just finally, congratulations on issuing a 1,500-page rule. That's fantastic. I'm sure there's lots to read.

It can be overwhelming for banks that, you know, don't have lots of staff, so we look forward to getting more guidance and helping educate the banks, but just recognizing that that's just one rule among so many others that the regulators have put forward, and being aware that banks are people too and they are, you know, up late at night worried about how to get things right so that we can help all communities, but I'll stop there, and thank you. Over to you, Ken.

MR. KELLY: Good afternoon. Thank you again, Chairman Gruenberg, for your leadership and inviting us to the table. This is a friendly reminder that I'm in a room where I'm not the smartest person in the room. Great to be with my peers, and listening to them, and hearing the things, but I'm grounded back into what the mission of this agency is, and that's providing stability and public confidence in the financial system.

Core to the mission was being talked

about, and trust, and so your leadership during this last financial turbulence back in March, it shouldn't be left on us that that wasn't a lot about inclusion, because we know anytime there is turbulence or a crisis, people of color typically suffer the most, so, again, I want to thank you for your leadership in containing the instance that took place back in March.

Montrice mentioned that her director's statement was to protect and connect, and I'm going to describe some things that we've been a part of, associated with, protecting and connecting. Acting Comptroller Hsu mentioned this morning that momentum has a tendency to fade over time regarding the need for change.

His comment was reflective of George Floyd's murder and what we can attest to at the bank level, the partnership level, and the industry level, and some things I'm going to share in just a moment that hopefully that's not fading, and hopefully it inspires all of us to

leave here with the charge of making a difference where we have influence, so at the bank level again, partnership level, and industry level.

We have implemented a cross-section of lending products to hit the automotive, as you heard me probably drill into Jessica earlier about that because that's an area that we certainly need to have inclusion.

Secondly, I want to highlight we've had a Fortune 150 company to join us in our efforts in creating a loan guarantee program to support BIPOC communities in the Minneapolis market. We've been able to make our first loan there that this person did not qualify for, and that's a Fortune 150 company who came to help support making that happen.

As it relates to the Durbin Marshall opportunity around interchange, I want to talk about this because I would say directly related and/or indirectly related to George Floyd's murder, some positive things have happened. We

have a Mentor Bank prior to George Floyd's murder, and U.S. Bank, and with that relationship, we've been able to work with them, with a $6 billion-plus healthcare agency in generating income for our institution.

That was something that probably wouldn't have been thought about, you know, I would say years ago, but that's part of merchant services and it's given us an opportunity to participate in the financial system in a different way as an institution.

Secondly, I'd like to highlight, again, thank you, Chairman, for having us earlier last month to talk about the relationship with Bank of America and the National Football League. We shared that with that subcommittee and talked about the things that have been made possible there.

And my point is I'm creating opportunities for the peer members here to think about what are some of those opportunities in the

spheres that you participate in? That was a relationship with Bank of America, and now we have an association with the National Football League, which has also created some opportunities with some of the franchises, so I want to thank you again for that spotlight last month here with that particular subcommittee.

It's not short on me that if you go back to what took place with our institution in 2022, we were able to expand into the Minneapolis market because banks in that market said we are going to do something different as it relates to the murder of George Floyd, and so we got invited by Bank of America, Bremer Bank, Huntington Bank, Wells Fargo, and U.S. Bank to look at establishing the first, or at this time the only, African American owned and controlled bank in the Minneapolis market.

I talk about that because it was not about just us getting there, because I can tell you that, yes, we are short on some of our

business goals as it relates to moving into that market, but some of the intangibles I want to talk about, I think, is extremely, extremely important.

One of them include an announcement that was made October 19 there in that market by Fox News, and this goes to something that you said just a moment ago, Mike, about products and how people have to trust people that they give their trust to, and let me read part of this, part of a newscast and article.

Next March, Summit Academy plans to begin a training program to help students break into a career in financial services. Quote, knowing that having somebody that you trust in financial services to go to when you have questions is a really big concern for the banking industry, in particular because they want to ensure that ultimately, the impact that they make on the community is having more people of color as homeowners, said Williams.

He's the leader of an organization called Summit Academy that does training in that market. They're going to stand up the first training program for people of color, and particularly also assisting African Americans in becoming mortgage lending officers.

So, those officers will have an opportunity to hopefully work at institutions like ours at First Independence, Bremer Bank, Bank of America, Huntington, Wells Fargo, along with U.S. Bank. I share that, again, because that's an opportunity where someone threw a pebble in the water and it's rippling across that industry.

Also, I need to make note of just this past week, GroundBreak, which is a multi-billion-dollar investment expected in that community there where George Floyd was murdered, is related to philanthropy, corporate, and financial institutions focused on four areas, home ownership, entrepreneurship, commercial

development, along with rental housing.

One of the things that should be noted, going back to the public relationship there, is the Minnesota legislature actually has allowed for $175 million in state funding for first generation home buyers in Minnesota. So, my point is all of these things have a cumulative impact, and we have the obligation, opportunity, and responsibility to touch them where we can.

At the industry level, I'd like to talk about the ABA and MBA. I'm one of a few who have probably had the option of being a director of both of those organizations, and as my dear colleague just mentioned, we've had now the second summit, which the first one happened earlier this year, the first time ever that a minority banking association, along with the ABA, which has been in business 148 years, had a focus on minority depository institutions, and so I want to thank Rob Nichols, the board, and Naomi for their leadership there, again breaking

barriers one at a time.

I have to begin my conclusion with thinking about this mantra, which I think is very true and is very telling of the people that sit around this table. Culture creates policies, and policies determine economics. A clear example of that exists on the conversations around this table regarding inclusion.

I think this agency is certainly one example of that. I would imagine to say if you go back two decades, we wouldn't be talking about inclusion at this table, but now we are. That's culture that's helping to shape changing policies like CRA, which is moving into economics.

So, to the points that were made earlier during the early discussion, let's keep score on some of these changes, Liz, some of the things we're talking about. There should be a tally of these opportunities so people can know that while it's probably not at the macro level like our leader over the Federal Reserve, it

certainly is happening one piece at a time, and so I think all of us should continue to contribute to that.

So, my hopes long after each of our terms are long served here is that we will look back at 2023 and have the opportunity to say that we made a difference sitting at this table in hopefully reshaping the culture as we think about money in this country, because it should be, and it is really, the oxygen of a capitalistic society, and all people should have that opportunity to breathe.

So, having said that, again, I want to conclude my comments by saying I'm grateful for being here with you and grateful for my peers here at this table, and hopefully we'll continue to make a big difference in our country. Thank you.

MS. ORTIZ: Okay, Margaret?

MS. LIBBY: Thank you. Okay, hard act to follow. So, I will say I think in starting

off my comments, which I will observe the time limit. I've noted my start time, Liz. I know I've gotten in trouble --

(Laughter.)

MS. LIBBY: -- that I wanted to share a little bit about -- you know, I think my comments today are going to focus more on 18 to 24-year-olds. I'm often talking about young people, but that sort of transitional age group rather than the under 18 population, which I'm sometimes talking about.

But we have been focusing a little bit more there and I think one of the things that I wanted to share, we've been doing this guaranteed income project with 18 to 24-year-olds who are Black identified and living in low-income communities within San Francisco and Oakland, and we've just gotten back some of the baseline data from this project where they're also being offered optional financial mentoring, so like a one-on-one engagement.

One quick sidebar there, as we look to source financial mentors and, you know, looking to find Black financial mentors so that we have that connection for the young people in the project, not easy to find, and so I think that's one of the things that we're looking at and I think is a great opportunity for partnerships is how do you build a pipeline of, and not just Black financial mentors, but also Black and brown, so that young people who are in this transitional period of life really can engage one-on-one around debt, around credit, around banking access, but with somebody who has a similar set of experiences that I think really changes the kinds of outcomes that can happen through a one-on-one financial mentoring relationship.

But one of the things that I wanted to share about this baseline data that we've just sort of looked at is that of the 300 young people in this pilot, just under 50 percent of them reported either severe anxiety or anxiety in

general, experiencing that on a regular basis in the last six months, and I think it's something that we hear a lot about, the sort of mental health challenges that this generation is experiencing.

And I think there are a number of reasons for that, but I think it's something to consider in looking at how we do the financial and economic inclusion work. And so, I think this idea of how to incorporate trauma-informed practices is really important because there is so much that young people are experiencing in this generation.

I think the other thing that was really striking, and this touches on something, Brandee, that you were sharing about last meeting, is that 90 percent of them were talking about food insecurity, that they had experienced food insecurity in the last three months, and so, you know, when you think of 90 percent, that's essentially all of these young people worrying

about food.

And so, I think, you know, certainly the guaranteed income is a help. It's $500 a month. It's 12 months, and so I think it's something, you know, as we think about this and engage with our internal youth leaders looking at strategies that go beyond just income supports, while they're vital, to make sure that people can take care of their basic needs, housing, food, and so on, I think that really looking at wealth building products.

So, I know with the strategic plan, there's sort of a shift away from thinking just about products, but I really do think that inside the focus areas and the way that outcomes are being defined, I think thinking about different ways of supporting wealth building and really thinking about what an on ramp to that needs to look like so that young people in this transition can really have the kinds of investments that they need to take or make the strides in their

education, lives, and goals, and also employment that will make a difference in their lives, the lives of the families that they'll have.

I think there's been so much back sliding for this population, the young people, in the pandemic economy. There's a lot of data to support that. I think I shared some of that last meeting, but it's, I think, just important in the context of the conversation about products to think about what that kind of investment can look like.

The other issue that has come up in the baseline data is around credit and debt, and, you know, the amount of debt that some of our participants are carrying is pretty significant for people of this age, right, but I think for those that have been able to access credit cards, they're carrying a fair amount of debt there. There is some student loan debt, but then for a number of them too, they're credit invisible and have a lot of questions about credit.

So, I think where the strategic plan focus around credit is showing up, I think, is just incredibly important for young people as they're starting out to really learn what it is, how to use it, and I think that importance of having a one-on-one relationship with somebody that you trust to really help you understand that and take those steps, I think, is really vital.

The last thing that I'll share, which I think sort of also was exciting to see how up in the plan was just the importance around multi-sector partnerships to really, I think, provide the comprehensive kinds of supports that young people need, and especially opportunity youth who are, you know, growing up in low-income communities.

And so, I think one of the things that we are embarking on is a partnership with the largest opportunity youth program or organization network in the country that's reaching many of the six million opportunities in the country, and

they're expressing a new interest in financial capability, which is exciting. There is some support for this group to engage in this kind of work.

So, I think whether it's networks like that or a lot of the guaranteed income projects that are springing up all over the country, I think there are a lot of places where banks are needed in order to really make sure that as young people, in that case of the Aspen Network, who are starting to take a step toward banking, building their credit, looking at, you know, some of these other financial capability and wealth building issues, that there are partnership opportunities there, but I think also with the guaranteed income projects as people are contemplating things like saving and credit building as they have a little bit more disposable income.

And I think the final thing that I wanted to mention in perhaps my final 30 seconds

is ChexSystems as something that is a barrier for this age group. And I know the Credit Builders Alliance has a platform that enables providers to really look inside what used to be, you know, sort of an impossible thing to look into, to see what kinds of reasons somebody is in ChexSystems and unable to open their first account.

And I think that platform and that newer opportunity, it's just in the last, you know, handful of years, I think is hugely important because what we've seen with young people is that once they're in, once they have a bad experience, it's very discouraging. It's sort of, yeah, it's the trust that we've been talking about.

I think they're much more likely to just stay out of banking, and so I think that platform which enables people to understand why they're there and start to build a pathway out, I think, is vital. And I will pause there, but just I really appreciate the strategic plan, and

the focus there, and especially around focusing on folks with an equity lens that have been having a harder time engaging with the banking sector, yes.

MS. ORTIZ: Okay, Brandee?

MS. McHALE: Yeah, I'm going to talk a little bit about banks and the racial wealth gap and pick up these two serious headwinds that we have, which is what we heard starting this morning, and Kenneth, you just sparked my memory. Memories fade, but we also have another really challenging headwind, which is that the efforts to be very intentional about addressing the racial wealth gap have now been pulled into the debate and fight against being intentional on the whole range of diversity, equity, and inclusion issues.

So, you know, I think that that, those two factors, just we have to be aware that that's the environment within which we're trying to do this work and, you know, I can't believe that

it's been three years. You know, the institution I represent, we are coming to the end in 30 days technically of the three-year billion dollar-plus commitment we made to help address the racial wealth gap.

And as we, you know, look back, I can say yes, we did all of the things that we said that we would do. We had them verified. We did a racial equity audit. And if asked the question, have we made an impact, when I think about the specific outcome metrics themselves, I would say well, we did a lot of things, but we haven't necessarily made an impact because this has to be a long-term play and we have to be in it on a long-term sustainable basis.

So, our point of view on this is that we are just getting started. Our work is not done in this space, and we're going to continue forward even in the face of incredible uncertainty and actually some fear about what that might bring to our doorstep, but even more

fear about what it will bring to our doorstep if we don't continue to do this.

But I want to be optimistic when I answer the impact question, and so what I wanted to just share today very quickly, I'll just take one moment, is that I want to encourage us to think about impact, and maybe this is some guidance also for the FDIC's strategic plan, the I in impact having three things that we continuously measure.

Innovation, are we doing things differently to try to address longstanding challenges? Are we integrating these efforts into the core business and not just thinking of this as a vertical, as a set of social impact initiatives, but is this actually integrated into the business and an economic imperative?

And then the other is influence. Are we continuing to stand up and influence others? But actually, I think for the financial institutions, it's are we willing to be

influenced ourselves?

So, if I look at those three Is as have we made an impact, I would say yeah, well, there's definitely an impact there and we are on a journey, and so as we -- and we've done lots of -- have been very transparent, have lots of reporting. We are about to -- this is a little sneak peek.

We are about to do a wrap-up of where we've been to date and then double down on that commitment specifically to do three things, which is to continue to deepen this model of business integration. It has been a privilege from the perch where I sit to be able to help lead this work at the institution.

It should not be led by the person with the title of head of community investing and development. It should be led by the business. So, we'll continue to integrate it into the business and build up specialized business units that focus on this work.

We will though -- there is a role for community investing to support innovation. We will continue that, and continue the commitment to collaboration and learning, both learning ourselves, sharing with others.

And then the fourth piece, which we really shouldn't forget, and I think has been very different about this work in the financial sector, has been a commitment to public reporting and being transparent about what we're doing and what we're learning. So, I know we are short on time, but more to come.

MS. ORTIZ: Thanks, Brandee.

MR. MINTZ: Like lightning, like lightning. We also spent ten hours of frivolity at the CFE Fund. For us, the ten hours was after the proposed rules came out, and we spent much of those ten hours pinching ourselves to believe that the innovations in that Reg were true.

And I just, can just try to chip away at my level of gratitude and respect for the

partnership and the way that it's evolved really on a long-term basis to your point about like taking a long view of this work. This work goes way back. It goes way back to an FDIC pilot, you know, before Bank On that, you know, I was but a child at the time.

(Laughter.)

MR. MINTZ: And I think that I want to just say a couple of things. One is that, Chairman, you and your superstar team's commitment to banking inclusion and to such a powerful focus around entry products, I think, not only is in and of itself important, obviously, but I think it recognizes that so much of the rest of financial stability requires realistic first steps.

And there are lots of us doing work around first steps like Margaret and her team, and many others here, but I think that entry level, safe, insured accounts, you know, are just proving again and again to be appealing, to be

addressing people's concerns. Trust issues were very much part of the focus around how we thought about this, and seeing this new watershed level of support from the FDIC and the other banking regulators around offering such intentional carrots to the financial services industry is amazing.

So, when we were done pinching ourselves, we got to work trying to figure out, while lighting candles, I don't know what that means really, I'm a Jew, but, you know, lighting candles to make sure that the rule came out as it basically would, and also really trying to figure out how to make the most of this upcoming set of carrots.

I will say a couple of things. I mean, of course, we appreciate the presentation that came earlier. It's going to make our job easier pushing out awareness to our 100-plus coalitions around the country so that they're aware of and can engage more of the financial institutions in

their communities who don't yet have a certified product, to bring even more of them in.

I also just want to throw out a couple of numbers that I think are helpful, that I appreciate David Rothstein on our team put together for us, that I think you might find interesting, and for us is kind of our hit list, which is an expression I shouldn't use, but -- so of the banks that are $10 billion and above that are consumer facing, we think there are 109, 70 of them have certified accounts so far. That's 64 percent. That's exciting and that's a lot, and many, many, many, many thanks to the ABA and others who have done such a great job of helping move that forward.

Of those that are in the $2-$10 billion range, our calculation is there are 322 consumer facing banks. We have 96 of them that are offering certified accounts so far. That's about 30 percent, not bad, but they're on our list.

And then of those in the $600 million to $2 billion, you know, we've got a lot more progress to make there, and I believe strongly that this gives -- it's not just that it gives us an opportunity. I think it gives these financial institutions an opportunity to be clear about what is valued by the community and by multiple sectors of the community, and by now in very, very clear terms, very clear terms, their regulators, and I think offering them the reliability of what kind of product meets those expectations, and we want to take advantage of our ability to offer them that gift.

So far, we have overall, by the way, just a quick update, we have 425 certified accounts representing over half the market. Another 30 are certified, but not yet publicly available, and then we've got dozens that we're in talks with.

The last thing I want to say as part of my lightning quick update is something that

came up in the earlier panel around the Bank On National Data Hub partnership that we have with the St. Louis Federal Reserve. From the beginning, the idea of generating the kind of apples to apples data that our banks are reporting into the BON Hub was in part so that they could look at and say wow, these accounts are doing great, but also in part so that they could turn around and hand them to their examiners.

And so, we look forward to, among many facets of our partnership with the FDIC and others, making sure that those bond hub structures facilitate banks getting the carrots that they deserve with these accounts. Thank you.

MS. ORTIZ: Thanks, John. All right, Susan?

MS. WEINSTOCK: Okay, I'm jumping right in. I know I'm standing between everybody and a break. So, I want to start with the

opportunities that -- first of all, let me just say we see the bank regulators, like, of course, the FDIC, as integral to financial inclusion.

We so value the FDIC data that examines the unbanked and the underbanked. It's critical. The data and reports that you publish and the detail you provide is critical to those of us who advocate for more policies to promote financial inclusion by providing the solid information that we use as foundational to our efforts.

We think the FDIC should be very proud of the new CRA rules. We also see this as an opportunity. We have praised the release of the modernized CRA, you know, and we still find deeply disinvested communities from Detroit to the Mississippi Delta, and we believe the new CRA is a great start to ensure that no community is left behind and we can better respond to ways that both banking and community development needs have evolved.

However, we do think the CRA falls short by only targeting lower income communities without recognizing race, yet we cannot resolve racial injustices by addressing just economic injustice alone.

Finally, we see many aspects of our program, America Saves, as an opportunity. We support individuals and families known as savers on their savings' journey directly through email, and text messages, and social media marketing, and additional educational opportunities like our Think Like A Saver podcast, town halls, and workshops.

Our 2024 -- we have an annual week that we really take this campaign to the next level. In 2024, it's going to be during -- America Saves Week will be during National Financial Capability Month, which is April 8 to 12, and then we're going to have Military Saves Week, which is from April 15 to 19, with the theme of saving for what matters most.

Now I'd like to raise some specific products that are of concern to us and that we think challenge inclusion. First, I have to talk about Buy Now, Pay Later. It seems to have many financial regulators' attention.

Interesting, the Financial Times had a piece about this just the other day. In Australia, the government announced in May that it would bring the products under consumer credit regulation.

In the UK, the Financial Conduct Authority has been studying this product, and they found that consumers who have used Buy Now, Pay Later products more than ten times in the past year were four times more likely to have missed paying a bill in three of the past six months, and they found that the growth in the product, usage of the product in the UK has really grown enormously.

Last month, CFA, along with our friends at the Center for Responsible Lending,

published a report about Buy Now, Pay Later in California, since that state has taken the lead, by requiring that major BNPL providers obtain state lending licenses and abide by state lending laws.

Key findings from our survey respondents who have used BNPL, 37 percent of them had incurred an overdraft fee in the last six months, 16 percent had been charged a late or rescheduling fee or other related fee by the BNPL provider or their bank within the past six months. Those with lower incomes were more likely than those with higher incomes to report using Buy Now, Pay Later credit because the purchase would not otherwise fit into their budget, and consumer understanding about how Buy Now, Pay Later functions and is regulated was very low.

The report emphasizes the necessity for enhanced regulatory frameworks to ensure the consumer protections, transparency in agreement

terms, and the establishment of standard practices for late payments and dispute resolutions.

We also continue to highly be concerned about overdraft as it hinders inclusion and may drive many vulnerable customers out of the banking system, and that's where we lose a lot of the trust that we were talking about earlier today. Reforming these practices is key.

I want to address a few additional challenges. We continue to be concerned about insurance providers' use of credit scores in determining auto insurance rates, which magnifies the barriers to insurance, and it particularly hurts those who are low income and communities of color who tend to have lower credit scores.

And as, from our -- we did a report over the summer. We published a report on this and we find no relationship between your credit score and your driving ability, and yet your rates certainly don't show -- show the opposite.

You can have a really perfect driving record and a terrible credit score, and you will pay more for auto insurance than somebody who has a terrible driving record and a perfect credit score. It makes no sense.

We'd also like to see banks address their Know Your Customer policies. Many banks use sort of a one-size-fits-all standard for approving bank account applications, and this creates a hurdle and financial incentive for banks to shy away from giving accounts to low dollar and low document households.

Traditionally, these systems created a flag on accounts without full documentation, and many banks have this profit mode of not to fully investigate unless they have integrated ID tech. They may have to spend $50 to $100 manually to verify what ultimately would be a low dollar account.

There's good reason to be cautious about opening the floodgates to bank accounts,

totally understand that. We know that money laundering, obviously, hurts people, but there's also reasons to encourage banks to look more deeply at using tech to make the process more nuanced in a place where there is some possibility the tech would help the situation. So, we'd like to see regulators continue to press banks to develop nuanced Know Your Customer and customer identification programs that will approve more under documented applicants.

So, I just wanted to thank you again. It's a pleasure to be with this esteemed group and I so appreciate being a part of it.

MS. ORTIZ: Thank you so much, Susan. Thank you, everybody, for an inspiring panel. Okay, I think that you all deserve a break. I'm thinking if you can commit to coming back at 2:50? So, don't be like my daughter and ask for, you know, something extra, 2:50, all right? That's the time and I'm sticking to it.

But in all seriousness, this really -

- when I listen to all of you, I know you inspire me. I hope you inspire folks that are listening not only to experiment, and take chances, and do things on a micro level, and show what is possible, but also, as we said earlier, maybe take some bigger swings when you see the chance to do that, because probably some bigger swings are needed to address some of the longstanding challenges that we heard people speak about at the first part of the roundtable. Thank you again, and I'll see you at 2:50.

(Whereupon, the above-entitled matter went off the record at 2:39 p.m. and resumed at 2:51 p.m.)

MS. ORTIZ: All right. Welcome back, everybody. Thank you very much. We are ready for our last panel of the day. But first let me welcome Vice Chairman Travis Hill to the meeting. Welcome, Travis.

David Friedman is our moderator for the panel on small dollar loans, today's finale.

No pressure.

MR. FRIEDMAN: Thanks very much, Liz, and glad to be here today and happy to be kicking off the last panel of the day on responsible bank small dollar lending.

This is another topic in which the FDIC has had a longstanding interest. And, in fact, small dollar lending was the focus of the inaugural meeting of the FDIC's Advisory Committee on Economic Inclusion back in 2007.

So responsibly offered small dollar loans can play an important role in helping customers meet their ongoing needs for credit due to cash flow imbalances, unexpected expenses or income shortfalls. And well-designed small dollar lending programs may also help to facilitate a customer's ability to demonstrate positive credit behavior and be able to access additional financial products.

We believe that banks are well suited to offer responsible small dollar loan products

and doing so can support broader efforts around economic inclusion.

Back in 2008, the FDIC launched a pilot program designed to illustrate how banks can profitably offer affordable small dollar loan products. And we subsequently released a report highlighting lessons learned.

A key finding was that most of the pilot bankers used their small dollar loan products as a cornerstone for building or retaining long-term banking relationships.

At the same time, one of the challenges that was identified was the cost associated with high touch models of small dollar lending. And the pilot flagged the potential for future development in emerging technologies and delivery channels to help reduce the cost and improve performance.

More recently back in 2020, the FDIC, along with the Federal Reserve, the OCC, and the NCUA issued inter-agency lending principles for

offering responsible small dollar loans. The principles highlighted key characteristics of responsible small dollar loans, including around affordability and appropriate underwriting that considers ability to repay, repayment terms, pricing and safeguards that minimize adverse customer outcomes, including around cycles of debt due to rollovers and re-borrowing and repayment outcomes in program structures that enhance a borrower's financial capabilities.

So while this has been an area that has been challenging in terms of economic inclusion, and we certainly heard a little bit about that this morning, there have also been a number of significant developments since that inaugural ComE-IN meeting and since the FDIC pilot and even since the interagency statement a few years ago from the increased use of digital and mobile banking to the proliferation of automated tools that may make it easier for banks to analyze account transaction data.

So we hope that today's panel will provide an overview of the current bank small dollar lending marketplace and highlight some promising approaches that we hope can help to inform other institutions considering opportunities in the space.

So we are joined today by Alex Horowitz, Project Director of the Housing Policy Initiative at The Pew Charitable Trust, Chuck Bevan, who is a product management executive at Bank of America, Tiffany Pack, who is the Product Group Manager of Standby Cash at Huntington National Bank and Melanie Stern, who is Vice President, Community Reinvestment Act Officer and Director of Community Lending at Spring Bank.

So each panelist is going to provide a short presentation and then we will have some brief discussion before opening it up to questions. So I will turn it over to Alex to kick things off.

MR. STERN: All right. Thank you,

David. And thank you, Committee, to the FDIC, for having me here. So I'm going to talk about bank small dollar loans. I'm not going to talk about housing policy despite the title. I'm still working on small loans, consumer finance.

So 2022, consumers spent over $20 billion in fees and interest alone on high cost non-depository credit, payday loans, title loans, pawn, rent-to-own, high cost installments. This is not principal. It's just fees and interest. I share this to talk about the scale of the problem and the magnitude of what's going on and the potential to reach people who need the most help.

This excludes late fees. It excludes overdraft fees, which also can be avoided sometimes with bank small dollar credit. But I wanted to put this out here for kind of not the total addressable market, but certainly an important piece of it because people are spending money to access small amounts of liquidity, but

doing it largely outside the banking system.

I also share this because these are bank customers. These are checking account customers. Every payday loan borrower by definition is banked, has a checking account, because that secures the loan. But overwhelmingly people who use these other kinds of credit also have a checking account down to 4-1/2 percent of households being unbanked, that means that people who use these loans, in part from the FDIC survey data, but also from administrative data, we can see these are overwhelmingly the underbanked and not unbanked folks. It makes it a lot easier to reach them than when they are not in the banking system at all.

So six of the largest eight banks, using branch account here, not deposits, are offering affordable small loans. The reasons that I put these six up here is because there have been terrific programs. David mentioned the

pilot that the FDIC did. Other program out there including those from CDFIs.

But this is real potential for scale. These six banks operate 23 percent of all bank branches in the U.S., and the share of underbanked Americans obviously is large. And to make a real dent and address the need for liquidity, it's going to require scale. So that means mass market solutions, and that's going to include larger providers. So I will focus on these six bank's products primarily today, but I will also cover some of the rest of the market.

Costs for bank small dollar loans are clocking in at 15 times lower or less compared to a typical payday loan. So borrowing $400 for three months at 15 percent per pay period, we're talking about $60 every two week so $360 in fees alone for that credit, $400 for three months. Our researchers found a typical borrower is indebted for five months of the year.

So how do the bank small dollar loans

compare? Versus $360 in fees, we're talking about $24 or less, an enormous difference. And remember, this is only for three months. Most people are using loans for longer than that.

So this alone is big cost savings, but I share this as a reference point because we often can fall back on APR or end up comparing these small loans to credit cards or other prime financial products or near prime financial products. But this is a more accurate reference point in terms of what people's other options are and what their alternatives are. That's why I compare this to a non-banked product that offers a similar amount of liquidity for a similar amount of time.

And although payday loans are sort of the most obvious reference point, that black refrigerator on the screen is a very kind of basic refrigerator, a price tag of $446 at a main stream retailer.

The same model available from a rent-

to-own chain, $1,624 for the exact same model refrigerator versus $446. Rent-to-own typically is a markup of 3-1/2 to 4x by the time it is paid off. So --

MR. CALHOUN: If I can add, having spent over a decade of my life looking at these, more often than not that's a huge refrigerator because they repo them so fast and resell them at the same price.

MR. HOROWITZ: Thank you, Mike. So comparing that alone to purchase that refrigerator at a mainstream retailer, using the pricing that's coming out from banks, we're talking about $41 or less to borrow that $446 for five months. From a rent-to-own provider, the financing compared to that $41, $1,978 if we're thinking about the purchase price being the same at a rent-to-own store versus a mainstream retailer.

So the opportunity here is much bigger than just kind of liquidity lending. And small

loans from banks can service purchase money loans and enable consumers to access lower prices for a laptop, for a refrigerator and be able to shop at a mainstream retailer that has much lower prices than a rent-to-own provider, and rent-to-owns in every state.

So we mostly think about consumer well-being, right? So affordability, price, the safeguards on a product, but we see the consumers in financial distress -- and we've done over 20 focus groups with them -- focus on speed. How fast can I get the money? Ease of access, is this easy? Is it complicated? Is there a lot of paperwork? Certainty of approval, is this a sure thing?

So for a product to be successful, it needs to meet consumers where they are, speed, ease of access, certainty of approval. To improve their financial well-being, affordability. How big is the payment? Does it fit into my budget? Price, how much does it cost?

What are the safeguards?

So the products that are from banks are meeting consumers where they area. That's why they are doing well. They are very, very fast, much faster than any non-bank lender.

They are easy to access. And if you can see it, you are very likely to be approved because banks are showing these products to customers who are likely to qualify for them.

These are the six products from the six large banks. I won't review all the details. Three are open end. Three are closed end. Four of the six have a loan size of $500 or smaller. Five of the six have a term of three or four months. You can see the pricing in the right-hand column. But it is low. All of these are at least 15x lower than the payday loan pricing I showed you on the slide before.

So if payday loan borrowers have not been going to banks, this is a survey we did with payday loan borrowers before banks were offering

these products and said, would you switch if your bank or credit union offered this loan? Eighty-one percent said they would. They would borrow there instead.

We told them projected pricing. And we had projected pricing that was somewhat higher than what has come out. And when we told them projected pricing that number went up from 81 to 90 percent.

So there is interest. There is uptake is people can qualify for these loans. If their depository institution offers it, they would like to get it. That means the place where they have a checking account, not going somewhere else.

So borrowers used the bank's small loans. We did some open-ended questions with them in that survey. What would it say to you about your bank if they started offering small loans? It would say that my bank cares about me more than a payday lender. They care about their customers and are reasonable. I would think that

they were interested in helping people who are going through hard times. That would be awesome. I would stop going to payday lenders.

There is real interest here. People aren't using expensive loans because they are happy to be using expensive loans. They are using expensive loans because they haven't had options to better ones.

The public is there. This is not just about borrowers. The public is there, too. We surveyed a representative sample of Americans earlier this year, asked about a $500 three month loan for $30. These six banks are all clocking in at that number or lower on the price. Eighty-two percent of the public viewed it as fair. Just 18 percent viewed it as unfair. And separately what's your view of the bank offering this loan? How does the bank offering this loan change your view if at all?

Fifty-five percent were positive, thirty-seven percent unchanged, seven percent

were negative. So not just the product itself, but what does it say about an institution if it offers a loan like this? Pretty good results.

The joint guidance is working. So the 2020 guidance that David referenced from the FDIC, OCC, Fed, and NCU is working well. It's helpful because it's clear, short. It is stable. And there hasn't been this level of regulatory certainty and comfort with where things are prior to really this guidance being out.

And we've heard from executives, trade associations, and vendors. We got a lot of questions about the guidance when it came out. Did it seem like it was stable? We recognized the career staff played a major role in creating this guidance. And it hasn't changed in three and a half years. And it is fueling growth in this market. We anticipate seeing several other top 25 banks join this market over into the next year. And as more banks come in, more consumers who have not had a good option before are gaining

access to affordable credit. That's a big deal.

To wrap up, to save millions of consumers billions of dollars while we think about issues like affordability and pricing a lot, and that is what helps people have better lives, what they are thinking about and focused on when they are in financial distress and facing car repossession, utility disconnection, eviction, is speed, access, and certainty of approval. Only products that meet those needs can compete because offering a lower price is not enough. Offering affordable payments is not enough. Offering consumer safeguards is not enough.

It has to meet consumers where they are and that is going to mean a digital first product. It is going to mean a very high degree of automation. And depository institutions can absolutely perform non-depositories on all three of these. And they are, the ones that have these products out, because they already know these

customers and have a much simpler process to get a loan. And customers don't have to travel to do it. And this is available 24/7.

Maximizing scale is what's most important here. Reaching consumers who will benefit the most. Getting as deep as possible in the credit box and increasing the number of institutions offering these loans because people can only get them at the place they have a checking account.

It's not something where they can go to another institution where they do not have a checking account because that relationship is absolutely crucial for the loan being successful because banks are lending to people who would not qualify and do not qualify for other products. So that relationship is absolutely essential that there is a checking account in place and regularity of deposits.

If we do all that, the fact that payments are affordable, they are only a small

share of each paycheck, the prices are fair, and there are safeguards in place that will improve consumer well-being. And that is happening for consumers who have access to these products today. Thank you.

MR. BEVAN: All right. You're a hard act to follow. That was great. Thank you, everyone, for your time today. I really appreciate it.

Balance Assist, a small dollar loan product is designed to be affordable, transparent, simple, and conveniently accessible to our clients when they are having difficulty making ends meet.

I would like to offer this scenario when I talk to people about Balance Assist to help them understand. Imagine this, a client in a grocery checkout line suddenly realizes as they are checking out that they don't have enough money in their checking account to pay for their groceries.

They can take out their mobile phone, log into Bank of America's app, apply for the loan, and if approved, have the funds disbursed in time to pay for those groceries before the clerk is done checking out the groceries.

So we've had tremendous success with the product to date. The last time I had the privilege of talking to the FDIC about Balance Assist in July, we were on the cusp of reaching 1 million loans disbursed, and I am happy to report we are now at 1.1 million loans disbursed, another 150,000 or so additional loans disbursed in just those few months.

All of that amounts to $500 million in additional liquidity for clients who need to make ends meet disbursed to date since we launched nationally in March of 2021.

So what I would like to do is talk a little bit about how the product is designed, eligibility, and then we'll talk about the client experience journey.

So Balance Assist offers clients up to a $500 loan in $100 increments. It's only a flat fee of $5. There is no other fee for this loan. There are no late fees. There are no other fees to speak of.

The loan is repaid in just three equal monthly payments. The client can set up automatic payments in the application to make that an easier process.

It's entirely digital in that all of our marketing, the research the client does on their own, the application disbursement, even adverse action for decline letters is done digitally to keep this all in one place and directly in the hands of the client.

And then the account that receives the proceeds after they're approved and the proceeds are disbursed, that account is set to decline all overdrafts setting, which means that if they attempt to make a purchase and don't have enough funds, their transaction will be declined. And

that's to help the client because these clients are in financial distress very often. We don't want them to become overextended and make a difficult situation even worse.

Let's see here. I'd like to go to the next page. Here we go. Okay. So let's talk a little bit about eligibility criteria. So we require that the Balance Assist borrower has at least 12 months of a checking relationship with us. And we actually see that the average tenure of our Balance Assist clients is much longer than that.

They have to have an open checking account that's not safe balance and have a positive balance in all of their checking accounts. So you can't use the Balance Assist loan to pay us back for an overdraft.

They have to have regular monthly inflows, which are very reasonable for a client that has a full-time job and many clients that even work part-time could meet our income

requirements. And they can't have an open Balance Assist loan and get another one. They also can't have more than six Balance Assist loans in a rolling 12 month period.

And this actually a change we made to the product after launch as the guidance from the FDIC and other regulators indicates we don't want to create a system of dependency on these loans. And so originally we had a 30 day cooling off period so you couldn't borrow a second Balance Assist loan right away after you paid off your first one. You have to wait 30 days.

What we found was that clients were applying in large numbers in that 30 day period. They had a need for additional liquidity immediately after repaying the Balance Assist loans. And furthermore, we found that many of them were actually going to payday lenders to get that liquidity.

And so in order to be there for our clients when they needed the liquidity, we got

rid of that rule and then to reduce dependency on the loan, capped the number of loans that a client can have over the course of 12 months.

And if you do the math, you're like, well, why is it 6 loans in 12 months. I thought it's a three month term. It should be 4 loans in 12 months. A lot of clients do repay their Balance Assist loans early. Okay? And then they come back for additional liquidity.

And then we have credit bureau criteria that we use on top of our eligibility criteria. We rely heavily on our internal criteria. And in fact if a client does not have a credit score at all, we do require additional tenure of two and a half years, and they have to meet all of our internal O&S eligibility criteria, but we will still approve a client without a credit score.

Let's talk a little bit about the client experience for marketing through repayment. I guess the clicker is tired. It's

probably running out of batteries after a long day.

Okay. So marketing. Rather than pushing the product at a sales format, we are trying to raise awareness of our product among eligible clients. We target clients monthly in a variety of digital channels to raise awareness. But email is the most effective. Every time we drop email, we see a large inflow of applications.

Most of our marketing is very terse. So we drive the marketing into a landing page, basically a web page for the product to give them a lot more information about the product before they make a decision. And then that will in turn take them to the application.

All of our marketing, including that landing page and the application itself is available in English and Spanish.

As for the application, it's very brief. And we talked about the grocery store

example. There are really only four fields in the application. All the other data we need on our client to process the application, we already have because they have logged into their online banking account. We have access to their profile or their history with us.

And if they are approved, we present the amount they are approved for. They can accept that amount or they can actually choose a lower amount and consent to the terms.

And then if they are declined, they will be notified right there that they couldn't approve their application, and they will be notified that an adverse action notice would be provided the next day electronically to them.

When approved, the client then -- and after they've accepted their terms, they select a checking account into which we will place the funds. And they can set up autopay, which is optional. It's very popular though. The majority of clients do select to have their

payments automatically made. And the funds are available in minutes.

So again back to that grocery store example, it's very important to us that once approved, the funds are available almost immediately. My experience personally has been less than a minute was the fastest that I've had funds disbursed after approval.

And then, again, overdraft is set to decline all on that account. And they are notified of that by email as well.

As for servicing, the account is immediately visible in online banking. And while we say it's entirely digital, we do have readiness materials in place for our associates. They have job aids. They are trained on Balance Assist so they can answer questions. And because the application is so straightforward and simple, they could walk a client through the application if they had to.

They also, you know -- special issues,

fraud claims, collections, we do have associates that specialize in caring for our Balance Assist clients. And collections communications begin when a client is 15 days past due, well before they would be reported for delinquency.

All right. And then repayment, we send a lot of reminders. We try to stay engaged with the client throughout the process. For every payment, we send a payment due soon notification. When they make a payment, we acknowledge that with another notification. And if they fall past due five days after their due date, we will send them another notification. So ahead of collections notifications, every client will be notified that they have missed a payment. And then when they pay off their loan, we acknowledge that as well.

The client cannot make a payment in the overdraft. So if they don't have the funds to make a payment, we will decline that transaction. And then if we go -- okay. So I

think that's my last slide. Yup. And I'll turn it over to Tiffany.

MS. PACK: Okay. All right. I'll move this over here. This is not for short people. I will second that. Okay.

Can you guys hear me okay? Is that too loud or no? Okay. All right.

Thank you, everybody, for having me and trusting me with the next 10 minutes of your day. My name is Tiffany Pack. I'm with Huntington Bank. And I'm here to talk to you about our small dollar loan, Standby Cash.

I am going to touch on Standby Cash itself as a program, our journey, how did we get there and what have we learned so far.

And this is real sensitive now. I don't know what I'm doing.

DIVA: I'm going to have to advance the slides for you.

MS. PACK: Can you go back one? Okay. All right.

So Standby Cash, I'm going to give you a little bit of a history lesson real quick. So Huntington Bank, our number one priority is looking out for our customers, which is the heartbeat behind our fair play banking journey that we started in 2010.

When you think of fair play, banking at its core began with fee forgiveness. Fee forgiveness, we wanted to give our customers the opportunity to avoid fees, but still also have access to short-term liquidity if needed.

Proof point with that is our Asterisk-Free Checking and our 24-hour grace. I'm sure you guys are aware of our 24-hour grace where we give customers an extra day to cure any overdrafts before we charge any fees.

Well, that was in 2010. A decade later, fair play banking is still the foundation of how Huntington innovates today. And Standby Cash is another proof point in how we are fulfilling this purpose.

Okay. So I did a little bit at a time hop. I'm going to go back to 2015. So 2015, Huntington actually wanted to do a small dollar loan. We wanted to give our customers the opportunity or find a solution for our customers to reduce their dependency on overdraft and overdraft fees.

Just unfortunately at that time, I'm sure you guys are aware, there wasn't a lot of regulatory guidance for us and we couldn't make the business case pencil.

So fast forward, 2020, regulatory guidance came out as we discussed earlier. And it was a perfect storm. We were coming out of the pandemic. There was a lot of unknown uncertainty. And we knew there was going to be a customer need.

So we acted quickly. We were able to get Standby Cash approved by the Board in September. The teams hit the ground running. And in May of 2021, I'm not sure if you guys are

familiar with the life span as far as product development, it's conservatively 12 to 24 months it takes to build a product. We built Standby Cash in eight months. So we were able to launch Standby Cash in May of 2021.

So what is Standby Cash? So this is probably what you guys really want to know. Standby Cash is a line of credit that we offer to our customers. It's easy, accessible, and it provides our customers with access to affordable short-term liquidity.

Standby Cash, it is associated with a checking account, but it's not overdraft protection. Anytime a customer uses Standby Cash, they have to initiate the borrow. And they have three months to pay it back. And it also has no interest as long as they are set up for autopay. If they are not set up for autopay, it's 1 percent monthly interest.

I'm going to try to stay to my slides. Okay. The one thing that I like most about

Standby Cash is that -- oh, Diva, I'm sorry. Can you go back one? Okay.

One thing I like most about Standby Cash is the underwriting. We don't determine eligibility based on traditional underwriting. So we don't check the customer's score. We use strictly their deposit behavior. So how much are they getting in deposits? What's their balance? What's their overdraft activity look like?

We use that to determine whether or not a customer is eligible for Standby Cash. But we do report to the credit agencies. So this is my favorite subject, and I can talk to anyone about it for hours that will listen, is that because we don't use their credit score, they don't have to have credit for Standby Cash, but we report to the credit bureaus. It helps them build credit. It's helping our customers build credit, and we're seeing it.

So now we can -- okay. So when we launched Standby Cash, we had no idea what to

expect. We didn't have benchmark. We didn't have another product to benchmark it against. We didn't have financial performance to benchmark it against. We had no trend. We had no idea what to expect. So we learned a lot.

So the first thing that we learned is that our customers have a very, very strong need for this. We hit our annual target for new enrollments in two months. We were blown out of the water. We're like -- assumptions were really just that, assumptions.

And what's really cool, I want to say, neat about it, is it didn't just appeal to our subprime. We have a lot of -- excuse me, a good decent, I should, of mass affluent and wealth customers that are also using Standby Cash. And our customers are using it to proactively avoid overdrafts rather than using it reactively.

Convenience and access matters. Alex alluded to that earlier. They want it, and they want it now. They want it to be easy. And our

customers can borrow and access funds in less than three minutes. That's with the initial enrollment. After enrolled, they can access funds within seconds.

And then our Standby Cash users, again, my favorite subject, are using it to establish and build credit.

Okay. So when we built the product, any enhancement that we make, as we think about our future roadmap, we always take into consideration our customer feedback as well as the feedback from our community.

So some of the things that we are learning that we've learned is that the customers are saying is very helpful. They like that it's available to them. They think that we care about them. And then it's also helping them build credit is another sentiment that we're hearing. We're also hearing sentiments about they want more money. They want access to more money. Customers think they should be eligible, but

they're not eligible. And then some customers -- we do show it to anyone that's eligible so they don't -- so some of the customers that don't want it, they don't want to see that offer.

And then with the community development so when we were doing the product design, we worked with -- we did a lot of customer research and then we also partnered with customer advocacy groups that supported productive classes. We partnered with our groups within, our community groups within the organization.

And one of the things that we heard is that they want to see customer education, financial literacy from this program. So we do provide that to our customers. There's a journey. So it's not just a one and done. It's not just as soon as you enroll. We give you some financial literacy and then we're done.

We are with them throughout key behaviors. So if, you know, through payment activity, high usage. We send our customers

emails to let them know, hey, you know, you probably don't want to use this much or your payment is late. This is how it impacts your credit. So they can understand how their behavior is impacting their credit.

Oh, yes. Thank you. Okay. So I mentioned earlier when we launched, there was a lot that we didn't know. One thing that we did learn quickly is that we didn't make the product too accessible to too many people that were not using it responsibly.

And it did give us -- the initial eligibility criteria that we had gave us -- it was a credit risk. It gave us a cost of capital that was not sustainable. So we did have to make some program changes.

I mean, one thing that we did learn though is a key risk indicator of how a customer -- just basically a key risk indicator for a customer is how they operate their primary checking account. So I'm talking about what

their balances are. Are they overdrafting their account? What do their deposits look like? Those are key risk indicators of whether or not the customer will pay us back.

So we have made changes to our program that aligned with some of the things that we've learned through our data.

And then coming soon, Alex showed the chart earlier. We were the only one that was free. We are going to join the party and begin charging for the use of Standby Cash next year.

And then I think that's -- oh, I still have this. That's it.

MS. ORTIZ: Thank you.

MS. STERN: Alrighty. So, yeah, I like being the caboose. It's no problem at all. And I'm from the Bronx. I'm sorry that the chairman is not here because we have that in common. So I talk very quickly so -- I also wanted to say that not everybody is familiar with Spring Bank. But I now have a 9-month-old

granddaughter. So I'm very into the little engine that could. So I think in some ways that describes who we are.

So for those who don't know us, we are a bank that was established in 2007 in the South Bronx with a goal of meeting the needs of the community. We are located in the poorest congressional census tract in the country. I know that sounds a little odd being that we are in New York, but it's a very, very high density neighborhood with a lot of poor folks.

And I have to shout out to Jonathan Mintz who was there at the inception, and Brian Blake who was there close to the inception. So thank you for creating an establishment that pays me. So thank you for that.

So as I said, we were established in 2007 really as you can imagine right into the headwinds of the financial meltdown with the goal of proving out the case in part that you can be in a poor or low to moderate income community and

still make money. And we have actually been able to do that.

So we are a CDFI bank. We have been a CDFI for about 10 years. And six or seven years ago, we became a B Corp. So for those of you who may not know, the B Corp movement is companies around the globe who are for profit and for good.

So we're both very, very, excited about being a CDFI but also excited about being a B Corp. We think that it sort of gives us -- it's another credential. It helps us to sort of to lay the case for who we are more recently, more readily.

So I think I may have skipped one. Let me go back one. Yeah, so here's a brief timeline. This has been definitely an interesting journey. And unlike my colleagues here, we were looking from the get-go being able to lend to others in addition to our customer base. And that, as you can imagine, has a whole load of challenges that are very different.

Before I came to Spring Bank, I was at Inclusive. I worked with credit unions. You know, it is a membership which is loyal to the credit union. That's a very different model in some ways from a bank although we like to think we have a very loyal customer base. But it does raise some additional challenges when you're lending to non-customers. And the goal in lending to non-customers, of course, is to convert people into customers.

So we rolled out a couple of products that were not sustainable. One that I thought had a lot of promise called Borrow and Save, which I also worked on with credit unions where a certain percentage of the loan was retained in a savings account, only accessible when the loan was paid off in full. But we sustained fairly significant losses. We have done a couple of other modifications and permutations of small dollar lending. And then we landed on our employee loan, which I will describe in a moment.

But generally the challenges are finding a viable product. I think it means being in it for the long haul. This has not been an easy road. And we have gotten a tremendous amount of support from the CDFI fund. And that has certainly helped us be innovative and also build sustainability over time.

And Chairman you missed the fact that I gave you a shoutout to also being from the Bronx so.

CHAIRMAN GRUENBERG: Thank you. Are you from the Bronx?

MS. STERN: I am from the Bronx. Well, I like to think I was from the Bronx. My parents thought we were from Riverdale, but I went to high school in the real Bronx. You caught me on that one so. Yeah, my parents signed every letter, and their return address is Riverdale, and I always said da Bronx so.

Anyway, being in the small town lending space, especially for a smaller bank,

means that you have to be in it for the long haul. We do not use credit scores for most of our small dollar loans as you can imagine. That has been sort of an interesting challenge, but it has worked for us in many ways.

We have also tried the alternative credit score space. We haven't found that to be any more effective than not using a credit score. So we have stopped using any variation of a credit score.

There are some great models out there, and we work with a company called Happy Mango, which I love. And they're our platform provider for this. And they had an alternative model. But we sort of did some soft credit pulls on a lot of our customers, and found there was no major distinction between the alternative model and the credit score model.

So essential to doing small dollar lending, it's been touched on many times, is adding technology. There was some discussion

earlier today about the challenges of trying to plug in new technology to your core. We used one of the basic core systems. So we built a platform outside the core and that's worked really well for us.

We outsource our financial counseling. We don't have the capacity or the capability, the know-how, to do it in-house. We have so many great partners where we are in New York who do financial counseling. So we work with many of them. And we have baked into our platform access to Green Path. So you click a button on our platform, and you get connected to a financial counselor. And it's all private. We don't know if folks are doing that.

Marketing appropriately, for the most part, we of course are marketing a product. But we think of it as marketing an opportunity.

Collecting the data, there hasn't been a lot of discussion about that today. I am up to here with data collection so if anybody wants to

take on any of that. We collect a lot of data, and we are being required to collect more and more. But frankly, a lot of that data is extremely useful.

And we have a carve out for monies we got from Treasury for ESOP that allows us to collect demographic data that we wouldn't otherwise be allowed to collect. So that's been a sort of interesting journey as well. As I said, be willing to innovate, pivot, in our case take some early losses. I know that's difficult. But as I said, we do have CDFI grant funding that's been enormously helpful.

So we landed, after I said, much trial and tribulation on our employee opportunity program, which we have been offering since 2017. It's a way to get credit to people who may not be customers, but do it in a way that's responsibly and hopefully over time sustainable.

So we use the fact that people are employed in lieu of a credit score. And we

partner with employers. We currently have 37 employers, some of them quite large. Some of them about 50. We try. We aim for 50 or more. And this is built in, I think, a really creative and interesting way that allows working folks to access credit. The loan is on us, and costs the employers nothing. We don't charge anybody to participate. And we've done -- we're doing 600 or 700 loans a year. We would love to double that and that's certainly our goal.

A quick look at what the loan looks like. A loan of up to $3,000, no minimum credit score requirement. The first loan $3,000. The second loan up to $3,500. You can use it for an emergency. A lot of people use it to go on vacation. We're fine with that. As a matter of fact, there are more people using it for what I would call positive opportunities than emergencies than we anticipated.

It's 12 months, fully amortizing 16 percent. I'm sure many of you know, or some of

you know, that New York State has a usury cap, which we're very proud of in New York at 16 percent. It makes it a little more challenging as the interest rate environment has changed. But it also means that we do not have storefront payday in New York.

So you're not going to see -- like many of you have been around the country where there is a payday lender on every block. You won't see that in New York. It doesn't mean that people are not accessing other ways of getting payday loans online. We are surrounded by rent-to-own stores and check cashers where we are in the Bronx. So the challenges are still out there, but they are bit different.

A really unique piece of this program, the employee loan, is that the loan payments are a direct deposit into a savings account we open for each borrower.

So that means that anybody can divide their deposit, their paycheck any which way they

want. They can put, you know, some of it in their Chase account, some of it in their Huntington Bank account and then at least the payment amount has to go into their Spring Bank savings account. We pull the payment out of there.

And what we've learned over time is that it was pretty easy to add a feature on the platform where somebody clicks a button to add $25 or $30 or $40 to every loan payment. We also have a lot of instances where people, for better for worse, forget to turn the payment off. They don't have to. I mean, they don't have to continue it obviously.

So we have had instances where people come in, in an emergency. They need another loan. And we're like, wait, you've got $1,200 in your savings account. So I don't tell people they shouldn't know where their money is going every month, but we have had plenty of instances where people come in for more money and another loan, and they don't need it.

As I said, we partner with Green Path in addition to some local organizations so that anybody can get financial counseling with the click of a button.

This is just a look at how we talk to employers and how we explain it. A real challenge for us is the fact that, you know, you talk to an employer in New York who is earning a good amount of money. They are in the C suite. And you say 16 percent, their hair stands up on end. That sounds like a lot, a lot of interest to a lot of folks.

So we try to explain that, you know, this stuff is going on. And it's a little dicey in that you don't want to accuse an employer of not paying enough. So we try to sort of thread that needle as well as we can.

As I said, technology is critical to this product. We have a great partner in Happy Mango. I wanted to ask Kate Hao, who is the developer, how she picked the name. She said the

fruit products always do well. So that's how she landed on Happy Mango. They've been a fabulous partner. And she makes changes and modifications for us and adds features as we go.

This is a little more detail on how it works. Employee applies online. We cannot turn this product around instantaneously. That would be a goal if we could. But the platform automatically sends an email to employers so they can verify the person is employed, and they tell us how much they are earning.

A lot of our employers are very quick to hit the -- all they have to do is hit a button, and the information comes back to us. But some people less so. So we never promise that we'll get these out in less than three days. We often do. We have just added staff that has allowed us to turn them around in two days, but we never over promise.

Why we're able to do this at no cost to employers in part is because of support from

the CDFI fund, but we would be doing this anyway. And our goal is to build enough strength and capacity and at least double the number of the loans in the next year so that we can reach sustainability on this product. And then we hope to make the case to, and we continue to try to make the case to, fellow CDFI banks and others that this is doable and can be profitable.

It's probably not a big, big surprise that employees love it. All of our employers have been happy with the process. We've had to turn off a couple of employers because of higher than average losses, but we've also offered folks an opportunity -- Eileen Fisher Company came to us during the pandemic and asked us to set up loan product for their furloughed employees. We said no problem. And Eileen Fisher personally backstopped them. So why not? Let's do it.

So as I said, easy for employers. Why it works, the user experience has been really good. We offer it as a holistic benefit where

there are loans and savings and credit building and counseling all baked into one product and one program and one platform.

Customer retention, currently 25 to 30 percent of employees who have taken the loan maintain an account with us. Actually, more do, but a lot of those are sort of very, very small balance. So we're just sort of building in a way to reach those folks on a regular basis to explain to them why it would be good to continue to bank with us or increase the balances in their savings account. But a sizable have moved over either their entire direct deposit or continued to bank with us.

I think that's really the essentials. This is, as I mentioned, some of the challenges in trying to convince new employers to come onboard. Currently, we've disbursed $9 million in small dollar loans, most of those employee loans.

And I know we're pressed for time, so

I will leave it at that.

MR. FRIEDMAN: Thanks to our panelists. I think the presentations touched on sort of a range of interesting topics. I mean, for me, sort of hearing about the range of strategic objectives that institutions are sort of thinking about in this area, and the role of technology certain spark a number of questions. But I think in the interest of time, I will sort of hold those and open it up to the floor. So any questions?

MR. BOSTIC: So this has been great. This is a soapbox issue of mine. We need more competition against payday lenders and these high cost loan providers. And this is a product that I've been trying to see happen in a lot of places.

A couple things, this is all cash flow underwriting. And if you have certainty of the cash flow then there is going to be certainty in repayment. And that something that hasn't penetrated the industry as much. And I think

that is super useful.

I just had a couple of questions. Alex, you talked about regulatory certainty. There was one regulator that was not on your page, which is CFPB. I talk to bankers. They are worried about the CFPB. And they are not sure about the regulatory costs they see. So I would be interested to get your perspectives on that. I am going to ask all of them and then you guys can go.

And for Chuck, you talked a lot about the volumes. I didn't hear about performance. On all of these, I am curious as to how much non-payment are we actually talking about just to try to set expectations for new lenders who might want to try to get into this. This is a higher cost product. And so just being exclusive might be helpful.

I was just also curious, like Tiffany, like this seems like something you could market on. I know you need to have a product for -- you

know, a relationship for a year or something like that. But this could be a competitive advantage for a whole host of folks because the set of people who use these products is more than just the lowest balance people.

This is a strategic thing that happens all over the place. And I think it has the potential to appeal, which gets me to the last to the last question, which is where I started which is why is this not taking off? Like what do you think are the barriers?

Like, Alex, you said it's a success. It feels really slow to me, and it feels like folks are not leaning into this and trusting in the potential of this product nearly to the extent that they should give what you all are saying. Like I don't get it. It feels like there's a disconnect there.

MS. PACK: Do you want us to take the answers in the order --

MR. BOSTIC: However you want to do

it.

MS. PACK: I can go first. So when we launched the Standby Cash, it did take off. And we're actually still enrolling over 100,000 customer each year. So we have a steady enrollment in our portfolio. And our portfolio is growing at a really healthy pace.

We took it out of mass media marketing when our losses got really high. So to put that into context, we were losing 36 percent a year. Our losses were at 36. That's a lot, so for a free product that wasn't making any money.

And it did bring in acquisition. So our strategy was acquisition retention. So we did see acquisition from Standby Cash. And retention was kind of hard to measure that early on because it was so early. So we did see a little bit of retention improvement from Standby Cash also. But that is the reason why we took it out of mass media because of the losses.

So we had to do some changes to the

eligibility to get that under control. And my goal, my personal goal, is to get it back in mass media at least to mid to end of next year once we have everything together because I want to open up the product to more people and increase the lines, too.

MR. BEVAN: You asked about performance. I can't speak to specific loss rates in this forum. But I can say the loss rates on the balance of this product are within our expectations and have come down over time due to some tweaking of our eligibility criteria but also we see a lot of repeat borrowing. So a lot of the 1.1 million loans I mentioned earlier are from clients coming back. And we do see clients coming back and reaching that six loan limit in 12 months. So that's a good testament to the efficacy of the product and the popularity and utility of the product among our clients.

And then you asked about -- I'll comment on your question about why it's not

taking off, maybe profitability. It also may be a matter of framing. For us, we do a really good job at the bank of deepening and maintaining long-term relationships with our clients. And while we require a year of tenure for this product, the actual tenure of these clients that are taking Balance Assist is, you know, in many cases 5, 10 or more years. We've invested already a lot in those relationships over what might be a decade or more. And banks look at the benefit of long-term tenured deep relationships. And this is a driver of maintaining and further deepening those relationships. I think you'll see more lenders give it a second look.

MS. STERN: I just want to say this is so interesting because our losses on the employee loan program, which albeit is relatively small, are less than 5 percent. So, you know, I think we're -- and they're not necessarily long-term customers. We also have a product very similar to the Bank of America product for

existing customers that we've had for a very long time. But it's kind of interesting to me that losses pretty well managed.

MR. BEVAN: So CFPB is not a problem here. Once Director Cordray finalized the 2017 Payday Lending Rule, it became pretty clear that nothing more strict than that was going to happen. And the 2017 Payday Lending Rule, which was rescinded, would have in no way gotten in the way of these products because they all have terms more than 45 days, and they are all repayable in a multi-payment structure. So they weren't covered by the 2017 Rule. So that rule would not have impeded these products in any way. And nothing more strict than that was coming down the road.

The CFPB did issue a no action letter template in 2020 at the same time as the joint guidance, which was helpful that the bank policy in suit had requested. But I don't see any real risk from the CFPB for institutions offering a

product like this that has a multi-payment structure.

MR. MINTZ: Could I? Thank you. This is a really interesting panel. David, thank you for moderating it, and Alex, the context was super, super helpful. All three of you should be really proud of these products. And I can see that you are. And Melanie, you brought back a lot of happy memories from your launch.

I have a question that has -- there are two sides to the coin for you, Tiffany, and for you, Chuck. So, Tiffany, one of the things that you talked about in regard to eligibility was concern about clients who have histories of overdraft.

I think you know this, but if not, folks back home will know, Huntington is the only big 30 consumer bank that doesn't have a bank uncertified product. And so I guess I might ask whether as you think about expanding eligibility rather than contracting it, you think about a

product that would generate successful histories of no overdraft with an account that can't have overdrafts.

So I think that there is a different direction for a solution to such a wonderful product being expanded. And I hope we can revisit talks with Huntington about that.

And then before you comment on that, the flip side, Chuck, probably not a big surprise to you is, are you announcing tomorrow that Safe Balance customers -- or later tonight that Safe Balance customers -- I'm trying to be nice here -- you know, are eligible, and why not?

I mean, especially if you are looking at 12 months of a successful relationship. For goodness sake, you've got this great account. It's a huge seller. They are successful relationships. They are your customers. They need this product more than anybody else. What am I missing from this equation?

MR. BEVAN: Which side of the coin do

you want to --?

MR. MINTZ: You go first.

MR. BEVAN: -- okay. All right. So let me just take a step back and explain Safe Balance from our perspective, right? So the Safe Balance product, I managed this product when it was launched in 2014 many years ago so it's near and dear to my heart. But it's designed for clients who have expressed that they have had trouble with overdraft in the past.

They are willing to accept not having overdraft service available to them, paying a monthly fee and not having check writing ability in order to have those guardrails to protect themselves, right, from overspending, from falling into overdraft and the trouble that they've gotten into in the past. And also clients were entering the banking system after a period of being unbanked, right, is the primary product for us for clients who are just coming back into the traditional banking system.

MR. MINTZ: That's not true of all of the customers, right?

MR. BEVAN: Not all. And that's --

MR. MINTZ: Like I talked to other banks --

MR. BEVAN: Any generalization --

MR. MINTZ: Yeah.

MR. BEVAN: -- about any product, we can find examples that it's not true. I will tell you like Balance Assist for Safe Balance clients, you might -- the average balance is very low. You might have clients in the Safe Balance portfolio who have several hundred thousand dollars in their Safe Balance account.

MR. MINTZ: No, no. I'm not talking about the outliers.

MR. BEVAN: Yeah.

MR. MINTZ: But I'm saying like my sense from most of my banking partners is that, you know, you are looking at maybe a 50/50 split of people who choose that account because they

like it and people who choose that account because it's kind of their only --

MR. BEVAN: Yeah.

MR. MINTZ: -- realistic choice. So anyway, I --

MR. BEVAN: I would say --

MR. MINTZ: I know you love this account --

MR. BEVAN: I do.

MR. MINTZ: -- so that's why I'm pushing.

MR. BEVAN: I do. And I think in a lot of cases clients are making a deliberate choice. And whether it's 50 percent or 20 percent or 10 percent that are those clients that are very vulnerable, we have to take that very serious when we're talking about small dollar lending as I talked about.

We're making this product extremely accessible, easy to apply for, easy to disburse. And a charge-off on a small dollar loan like this,

a $500 loan, is really nothing to Bank of America, right? It's such a small amount. But to a client who experiences that charge-off, it can really damage their credit. And so we have to be extremely cautious as we develop this product.

And I'm not saying we'll never make Safe Balance eligible, but we're in the early days of development of small dollar loans, and we're taking a cautious approach for the well-being of our clients as we consider product specs and eligibility.

MR. MINTZ: I would just respectfully urge you to take a look at the performance data of those customers and to ask yourselves in comparison to the performance data of the other customers who are currently eligible, you know, whether or not the type of product they have is really the go/no-go kind of factor that it needs to be at. I hope you will revisit that.

MR. BEVAN: Yeah, absolutely.

MR. MINTZ: Tiffany?

MS. PACK: Is it my turn?

MR. MINTZ: It's yours.

MS. PACK: Okay. So you make a good point as we go into a future that may not be overdraft. We may not be able to have overdrafts.

The one thing that I like about our overdraft behavior or the overdraft rule, eligibility rule, is that it encourages and rewards a behavior shift within our customers so they are proactively avoiding overdrafts rather than going into overdraft and then trying to cure that within the 24 hour grace.

So that's one of the things I really do like about the overdraft eligibility rule. But to your point, as we go into a world where we may not have overdrafts, there are other models that we will need to consider as we think about expanding our eligibility.

Two to three years into the product now, we do have more customer behavior data that we can look at to create more in-depth models as

we look at expanding our eligibility.

MR. MINTZ: You can put your heads together and take a look at the performance of those people in no overdraft accounts. Great.

MR. KELLY: I have a question. It sounds like profitability has been challenging with these programs. So help me in understanding how you all talk about them internally. Is it part of CRA? Where does it fit in your P&L internally if you don't mind without getting into too many details?

MS. STERN: So this is -- all of our small town loans are just baked into the mission of the bank.

MR. KELLY: I'm sorry. Could --

MS. STERN: I'm saying all of our small town loans are baked into the mission of the bank. This is in part of what we exist to do.

We have not -- I have heard in the industry a lot of discussion about a certain

amount of blow back or misunderstanding or a lack of understanding on the part of regulators. I have to say we haven't had that. We sort of lay out what the products are. And we have not, you know, had any excess regulatory compliance issues with the product.

It is not -- and we have several small town loan products together. They are not profitable. Thankfully the bank is.

MR. KELLY: Mm-hmm. Sure.

MS. STERN: So that allows us to do this. But that is certainly our goal over the next two years to build enough volume that the products would be --

MR. KELLY: Sure. Thank you.

MS. STERN: -- at least break even.

MR. KELLY: Thanks, Melanie.

MS. PACK: So, Kenneth, with our behind closed doors what I can say is that acquisition and retention, a relationship builder, is the conversations that we were having

when we first launched Standby Cash. And it was probably six months after we were asking customers why they were coming to Huntington.

And of our branch, customers that were surveyed, 24 percent said it was because of Standby Cash and because our acquisition is just 90 days, so you just have to have an account with us for 90 days and not a year. And then for online customers, 44 percent said Standby Cash was one of the reasons why they came to Huntington. So we're using that as acquisition play.

With the P&L, we don't really -- we have the opportunity of writing a loan on our deposits P&L so that's been -- yeah, we've been able to do that so far. But now that we're going to be implementing a fee, we are anticipating a break even when it comes to our losses and, you know, what we would make off of the fee.

MR. BEVAN: Yeah, thanks. I think my answer would be similar and echo what I said when

I responded to Raphael's question. You know, if you take a longer view of the client relationship, and we're seeing long tenured clients applying for the Balance Assist Loan, it's a good investment in the relationship. And a lot of our growth in our deposits business has been because of our ability to retain and grow meaningful relationships with our clients. So it's just another investment in those longer relationships.

MS. CAMPER: A quick question, and I'm probably -- I just want to make sure I have the premise right before I ask. Bank of America does a credit check?

MR. BEVAN: We do. We do.

MS. CAMPER: And the two of you do not. And one of you said that you thought it was not predictive.

MS. STERN: That was me.

MS. CAMPER: That was you? Okay. But presumably you find some value in it. How do I

like -- discuss.

MR. BEVAN: I would love to talk shop on eligibility criteria in detail. We do find it predictive. And we find it to be an important component of the process. And if I go back to what I was saying a minute ago to Jonathan, you know, if there is a charge-off on a small dollar loan, that's not a lot of money. That's not like a large mortgage charging off on the bank. That's not a lot for Bank of America but that could be a very detrimental event.

And the credit report gives us insight into what else that client is doing outside of Bank of America. And they may already be overextended. We don't want to make a bad situation worse. And so it's very important in our underwriting to use the credit report.

MS. STERN: We did a -- for the first couple years of our program, we did a soft pull. Equifax allowed us to do a soft pull, which was great. So for several years, we did a pre- and

post-loan. And we just found it was not predictive of repayment. We would look at the folks who repaid. And some of them had great scores, and some of them did not and the other way. I can't say if it's something unique to us. I don't know.'

MR. HOROWITZ: Of the six large bank products that are out, two pull a credit report and four don't.

MR. CALHOUN: A comment, observation and question, I think it's really important here, the focus has been on the responsible credit product. But the research and experience show that that's only half of the solution. You have to also not have a bad product available also, meaning standard abusive overdraft.

We talked earlier about Fiserv. And Fiserv, one of the leading core providers, they provide overdraft services, actively marketed that. They also for a period marketed it at a very high cost bank direct deposit advance. It

was less than the payday lenders, but embarrassingly close to the payday lenders.

And they actively marketed in writing, don't worry. This high cost payday-like product will not reduce or diminish your overdraft revenue. It will just add onto to it. And in fact, the CFPB collected data on this because they tracked the data when eventually the bank regulators, I would give a nod to our OCC folks because it was mainly their banks, closed that down. CFPB had the data and showed overdraft did not go up at the banks. They got rid of their payday-like loans. They just went down.

What's notable here is all three of the banks you have here have very robust overdraft reform. I would start out, I think --

MS. STERN: We don't have overdraft.

MR. CALHOUN: You don't have overdraft at all, right. That is definitely -- but Bank of America notably limits theirs to a $10 fee with two per rep, so nothing 10 up, so it's per year,

which -- and then this was actually part of that comprehensive reform. So otherwise, if you don't do that, people will flow sort of like water. Folks who have that desperate need for cash at the end of the month, they will flow back to the other products. So you got to plug the hole in the bucket as well as be putting the water in.

And then Huntington, I think your $15 fee, which is well below the industry $35. So one, I think that's a really important part of this lesson. Repeatedly throughout this market, just like with subprime mortgage lending, we were offering fully underwritten fixed rate loans. We could not outcompete abusive exploding ARM subprime mortgages needed for the rest of the market. That's why QM rules are needed to protect the mortgage market. And similarly, you need that here in the small dollar.

My question part of this is in North Carolina, we've had an experiment with this that goes back 20 years. So State Employee's Credit

Union, one of the larger credit unions in the country, was disturbed because in those days the payday lenders would come physically into the bank office on payday mornings and be first in line with their checks to make sure they were getting them cashed, which was much to the chagrin of State Employee's Credit.

So they set up a program called Salary Advance and continued to offer a variety of that. It was much like this. So lessons, I think, validate what you are doing. It is totally online. You can click on it today. You can click on it on the mobile or the computer mobile page and get it.

The total fee is 11 percent straight up APR. They believe they break even at that rate.

They have a very high take up rate and renewal rate, if you will. People taking them out again. So one of the things they did, and they have a variety of that, a more complex one

now under new leadership, they put in a built-in savings requirement. The one that they used was 5 percent of essentially the loan amount.

So after you took out 20 loans, and people will take out 20 loans in a year if there's not a limit, you have enough in savings to get that amount of money without having to take another loan. That's how they built in a break.

So I just wonder if people have thought about experimenting with some built-in savings here given all the studies that show that having some savings at least correlates with dramatically reduced use of high cost lending products although the causation is not as certain if it's for savings. But again, things, as we talked about earlier, to experiment of how do you break that cycle.

The other thing, I don't know if you can comment on this, Chuck, is my understanding is that you have seen, in fact, account balances increase with the overdraft reform that you have

at Bank of America. So I don't know if you're the one who has those numbers or not.

MR. BEVAN: Yeah, I would have --

MR. CALHOUN: The question about the savings part and then have you seen the impact on account balances from either of these programs, your overdraft reform or the Safe Balance?

MR. BEVAN: Yeah, thank you for the question. I have not considered the savings component of it. We found that income is very predictive so the inflows into the accounts. And if we look at the average balance in total of total deposit relationship, the clients that need to balance this loan don't really have a lot of means to start saving. So it's an interesting component to kind of transition them from small dollar lending to savings. So definitely worth talking about. I like that. I like that idea.

And then thank you for that recognition on the overdraft reform. I was very proud of what we've done.

MR. CALHOUN: The old standard as we say.

MR. BEVAN: I would also note that a lot of clients after they have been charged two fees will continue in some cases to overdraft without a fee. And so it makes it much more affordable for the client.

I can't really -- I don't have the data at hand to say that we have seen balances increase. But definitely improved the balances in general among clients who previously overdrafted very frequently because we have been working to drive down the number of clients that are reliant on overdraft, right, by some of the policy rules we've made. So definitely helping, but I don't have a number that I could share on that front.

MR. CALHOUN: And I don't know if you've got any comments.

MS. PACK: I can say -- I can't give you exact numbers. But I can tell you that we

are seeing a balance build in our Standby Cash users. So we believe that it's because they are not reliant on overdrafts, and they are not paying the overdraft fees. We are seeing their balances build.

MS. STERN: Quickly on the savings, and we can talk about this offline, on our platform we added a button -- we asked people if they want to add to their payment, $25, $50, $75. Do they want to move their entire direct deposit over, which some people do? They can say no, but they have to answer the question. So they can't move forward with the application without clicking something. And it's working.

MR. FRIEDMAN: With that, I want to thank our panelists, and I will turn it over to Liz to -- or to the Chairman. Thank you.

CHAIRMAN GRUENBERG: Thank you all for your indulgence. Let me thank this panel as well. You have been very helpful, and I appreciate the feedback on your experience. And it is something

we will be following.

Let me thank our staff as well for organizing today's program. I thought it was outstanding. And I thank all of the members of the Committee for their time and their service. It brings a lot of value to us.

We will see you next time. We will come back on some of the issues in particular relating to the strategic plan and how we might take that forward.

Listen, thank you all. Wonderful to see you all. Thanks. Thanks a lot.

(Whereupon, the above-entitled matter went off the record at 4:07 p.m.)