The Meeting of the Advisory Committee on Economic Inclusion

of the

Federal Deposit Insurance Corporation

Held virtually via WebEx

Open to Public Observation via Webcast

June 28, 2022 – 1:00 P.M.

The meeting of the FDIC Advisory Committee on Economic Inclusion (Committee) was called to order by Martin J. Gruenberg, Acting Chairman of the Board of Directors of the Federal Deposit Insurance Corporation (Corporation or FDIC).

Other members of the Corporation's Board of Directors present at the meeting: Michael J. Hsu, Director, Acting Comptroller of the Currency, Office of the Comptroller of the Currency (OCC); and Rohit Chopra, Director, Consumer Financial Protection Bureau (CFPB).

Committee members present at the meeting: Steven L. Antonakes, Executive Vice President for Enterprise Risk Management, Eastern Bank; 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 Corp and First Independence Bank; Margaret Libby, CEO and Founder, MyPath; Brandee McHale, Head of Community Investing and Development, Citi and President, Citi Foundation; Jonathan Mintz, President and CEO, Cities for Financial Empowerment Fund; Jennifer Tescher, President and CEO, Financial Health Network; and Christina Tetreault, Deputy Commissioner, Office of Financial Technology Innovation, California Department of Financial Protection and Innovation.

Committee members absent from the meeting: Lisa Mensah, President and CEO, Opportunity Finance Network; and Raphael Bostic, President and CEO, Federal Reserve Bank of Atlanta.

Corporation staff in attendance: Alys V. Brown, Luke H. Brown, Zachary N. Brown, Sylvia W. Burns, Mary Calkins, Cathy Choe, Karyen Chu, Kymberly K. Copa, Debra A. Decker, Richard B. Foley, Lekeshia Frasure, Pamela A. Freeman, Peggi J. Gill, Shannon N. Greco, Patricia S. Gurneau, Emerson B. Hall, Robert D. Harris, Stuart L. Hoff, Glenn A. Kivlen, Jonathan N. Miller, Elizabeth Ortiz, Jason A. Pan, Mark E. Pearce, Nikita Pearson, Harrel M. Pettway, Ryan M. Rappa, Luke W. Reynolds, Marguerite Sagatelian, Richard M. Schwartz, Patience R. Singleton, Mona L. Thomas, Whitney Thomas Toussaint, John F. Vogel, Lauren A. Whitaker, and Meron Wondwosen.

Acting Chairman Gruenberg presided over the proceedings. Elizabeth Ortiz, Deputy Director, Consumer and Community Affairs, Division of Depositor and Consumer Protection (DCP), and the Committee's Designated Federal Officer, served as moderator.

Opening Remarks

Ms. Ortiz opened the meeting by explaining that participation by members of the Board of Directors did not constitute a Board meeting subject to the public notice requirement under the Government in the Sunshine Act (Sunshine Act). Hence, general discussions that may occur among Board members at the Committee meeting on subjects relevant to the FDIC's responsibilities, but that do not pose specific issues for Board resolution, would not constitute a meeting required to be open to the public and subject to the Sunshine Act's notification requirements, provided that any such discussions are preliminary in nature, that there are no relevant proposals for action pending before the Corporation, and that the merits of any proposed agency action will be opened to full consideration by the Board at a later time. Ms. Ortiz further stated that during the meeting if staff identifies matters that should be discussed by Board members at a subsequent Board meeting to comply with the Sunshine Act, staff would advise the Board members that those matters should be deferred and presented to the Board in a meeting at a later date, at which time Board members would engage in full deliberation on the proposals.

Ms. Ortiz then introduced Acting Chairman Gruenberg, who presided at the meeting.

Acting Chairman Gruenberg welcomed members to the Committee's first meeting of 2022 and expressed his hope that it would be the last virtual meeting. He then introduced the five new Committee members present at the meeting: Steven Antonakes, Michael Calhoun, Thomas Foley, Brandee McHale, and Kenneth Kelly.

Next, Acting Chairman Gruenberg previewed the members' roundtable and upcoming panels and invited comment by Acting Comptroller Hsu, who shared that he had been looking forward to this meeting since the October 2021 meeting which he recalled as providing a valuable range of perspectives. He said he would need to excuse himself from the meeting at 2:00, but was interested to hear how higher rates and a more volatile environment affect members' thoughts on inclusion.

Next, Acting Chairman Gruenberg invited CFPB Deputy Director Zixta Martinez to comment on behalf of the CFPB, as Director Chopra would join later. Deputy Director Martinez discussed the need to increase access to affordable banking products and emphasized banks' obligatory and leading role in expanding access to electronic payments. She also mentioned that banks should reduce banking and financial inequities by serving all areas of the country, including banking deserts, rural areas, and communities of color, and ensuring that arbitrary customer-level revenue or profitability targets do not impede lower-income household access to affordable banking products. Deputy Director Martinez also highlighted a few provisions of the interagency proposed rule modernizing the Community Reinvestment Act (CRA).

Ms. Ortiz then introduced the members' roundtable discussion.

Members' Roundtable

Member Tetreault highlighted California's new crypto asset executive order aimed at regulatory clarity using existing statutory authorities. She noted that the California Department of Financial Protection and Innovation has invited public comment on the relationship between crypto assets and financial inclusion.

Member Tescher discussed several recent publications by the Financial Health Network (FHN) focusing on the cost of financial products and services. She highlighted FHN’s Annual FinHealth Spend Report that examines how households manage their finances and access credit. She said the report shows a decline in spending on interest and fees overall, but also exposes racial, ethnic, and income-based disparities in the fees and interest paid by customers. She also mentioned FHN’s brief on Buy Now, Pay Later programs, its paper on the challenges that revolving credit card balances pose to financial health, and potential solutions. She also mentioned FHN’s report on medical debt and its forthcoming financial health pulse data.

Member Mintz highlighted growth and development of the BankOn program that has grown to 248 certified accounts. He discussed his work on scaled banking access integrations, which involves inserting banking into programming with payments to encourage consumers to open certified accounts. He noted BankOn’s work with the IRS and FDIC to encourage people to open certified accounts to receive their COVID stimulus payments as well as BankOn’s current work involving unemployment payments. He said BankOn is currently focused on helping veterans and foster youth service recipients open certified accounts. Lastly, he discussed BankOn’s direct digital advertising research and strategy.

Member McHale emphasized that this is a period of economic volatility as well as financial inclusion and innovation. She said that collaboration and the elimination of barriers to closing income and wealth gaps are key factors in promoting innovation. She cautioned that recent data suggest that wealth gaps are worsening and queried whether innovation in the financial system is driving effectiveness. She highlighted Citi Foundation’s new Action for Racial Equity strategic initiative and their commitment to community development financial institutions (CDFIs) and minority depository institutions (MDIs).

Member Libby discussed MyPath’s mission, how its youth banking standards address how banks can offer quality, accessible accounts for young people, and how the new youth economic bill of rights provides information on how to improve the entire financial and banking system to make it more accessible and useful for young people. Member Libby also discussed emerging issues important to young people, including guaranteed income and access to financial mentoring and credit information.

Member Kelly discussed the history and growth of First Independence Bank in the Minneapolis market following the social unrest of 2020. He said work is needed to create educational opportunities and awareness to increase appraiser diversity. Member Kelly called the CRA proposed rule a once in a lifetime opportunity and emphasized that banks are no longer confined by geography. He also mentioned requiring financial literacy education in schools.

Member Foley discussed several data points on the relationship between people with disabilities and the financial system. He encouraged people collecting data to ask questions designed to elicit information about the disability community. He expressed his excitement about the CRA proposed rule, but suggested deeper investment in the disability community. He also highlighted digital accessibility issues with bank websites and apps not addressed in the CRA proposed rule.

Member Camper provided an update on the inclusion initiatives of the American Bankers Association (ABA), specifically BankOn, including its training program for banks that offer BankOn certified accounts and its encouragement of banks to market BankOn accounts to customers. She also noted that the ABA has formed a special MDI advisory council and relaunched its “Banks Never Ask That” campaign.

Member Calhoun discussed COVID-19 pandemic effects on the financial system and the wealth gap across the country, highlighting the current housing affordability crisis and high volatility among lower wealth households. He challenged the Committee to think of new ways to build the financial system to meet current needs rather than relying on solutions designed for previous generations. He noted that the Center for Responsible Lending launched a program to help borrowers deal with income and expense shocks by creating reserve funds for loans with higher loan-to-value ratios. Member Calhoun also called for coordinated regulatory action to address overdraft fees.

Member Antonakes provided background on Eastern Bank, based in Boston with nearly 1 in 3 of their offices located in low and moderate income census tracts. He then highlighted economic inclusion challenges facing the bank including housing values, affordable housing stock, the racial wealth gap, inflation, increased cost of living, and public transportation and infrastructure. He noted Eastern Bank's overdraft program changes and elimination of non-sufficient funds fees and shared that Eastern will soon launch a special-purpose credit program for women and minority-owned small businesses.

Following the roundtable discussion, Ms. Ortiz declared the meeting in recess.

Home Mortgage Appraisal Bias and Efforts to Engender Change

The Committee reconvened at 2:40 p.m. Ms. Ortiz introduced Luke Brown, Associate Director, DCP, FDIC, who launched the panel discussion of home mortgage appraisal bias and efforts to engender change. He then introduced his fellow panelists: Maureen Yap, Senior Counsel, National Fair Housing Alliance (NFHA); Kenon Chen, Executive Vice President, Corporate Strategy, Clear Capital, who represented the Real Estate Valuation Advocacy Association for purposes of the panel; and Melody Taylor, Regional Director, Mid-Atlantic Office of Fair Housing and Equal Opportunity, Housing and Urban Development (HUD), who serves as Executive Director of the Interagency Task Force on Property Appraisal and Valuation Equity (PAVE).

Ms. Yap provided historical context for the appraisal bias issue and described proposals for reforming the appraisal system. Mr. Chen provided the perspective of appraisal management companies and residential property valuation providers on the current state and modernization of the appraisal system. Ms. Taylor shared information and updates about PAVE and its report.

After the panel concluded its presentation, Member Mintz asked where the appraisal profession has fallen short on self-regulation in this area, and how the industry professional association might find their “value-add” to become part of the solution.

Ms. Taylor responded that PAVE’s close work with the Appraisal Subcommittee (ASC) on the upcoming legislative proposals will be game-changing in expanding governance and regulation of appraisers, qualifications, and appraisal standards. She said the National Fair Housing Alliance report reflects a deep dive into these issues and provides recommendations.

Mr. Chen added that the mortgage industry’s investment in moving toward digitized processing affords more transparency and oversight, with data being more readily available for analysis, and sharing the appraisal data already collected is valuable for examining root cause and analysis.

Next, Director Chopra explained that the ASC mentioned in Ms. Taylor’s presentation is a panel of regulators including HUD and the Federal Housing Finance Agency (FHFA), and is currently chaired by CFPB, with a focus on oversight of the Appraisal Foundation. In response to Member Mintz’s question, Director Chopra added that many appraisers already feel they have unique value to add, but that appraisal management companies limit individual appraisers’ ability to do their jobs. Consequently, Director Chopra said, a balance must be struck between human appraisals and algorithmic appraisals, including automated valuation models. He added that the work of NFHA and PAVE has moved the appraisal bias issue higher on regulators’ agenda.

Mr. Brown then asked Ms. Taylor about the biggest opportunities and obstacles for government agencies addressing the issues in the PAVE action plan. Ms. Taylor responded that the main obstacle is time. The action plan allows 2 years to reach certain milestones, she explained, so it is important to ensure that each federal agency embeds appraisal as part of its book of business or portfolio, rather than merely an initiative. Despite the time obstacle, she said dialogue and collaboration among industry, academia and the Federal Government is an important opportunity created by the listening sessions PAVE held throughout development of its report. She highlighted the synergy among the advocates, industry and government participants on a civil rights issue, on which they are coming together to speak with one voice.

Mr. Brown then asked Ms. Yap what surprised her during her work on the PAVE report. She said she was surprised by the state of the appraisal industry, where many methodologies have not changed in decades. Subjective appraisal measures like "character" and deference to appraisals remain "more art than science." She was also surprised by how well the PAVE report had been received and how excited the appraisal industry is to learn and help shape the conversation.

Acting Chairman Gruenberg called the PAVE report a case study on how to bring to light an important issue of public policy. He asked the panelists whether appraisers themselves are aware of the extraordinary insularity of the appraisal profession, as Mr. Chen had described earlier, and whether they are aware of the need for change, and aware that that change needs to start with them.

Mr. Chen responded that growing awareness of the appraisal industry's insularity is one of the unexpected effects of the pandemic, which awoke appraisal industry participants to the need to depart from traditional approaches. He said the pandemic created record volume, requiring new talent, and required social distancing and related appraisal flexibilities departing from traditional methods, such as embracing technology to see into properties without physically visiting.

Ms. Yap responded that the appraisal industry reacted overwhelmingly positively to the report, and is interested in what to do next. She emphasized that nothing focuses industry like potential enforcement, so she encourages quick action on the action plan's call to federal regulators and enforcement agencies to quickly issue public exam procedures and investigation procedures so that appraisers, lenders, and appraisal management companies know that federal regulators are serious about the issue.

Mr. Brown noted that the banking agencies are extremely focused on exam procedures in this area, with more to come.

Ms. Taylor likewise responded to Acting Chairman Gruenberg's question by emphasizing enforcement. As the number of complaints rises, she said, HUD and its Office of Fair Lending and Equal Opportunity are working hard to create quality control standards around enforcement work, ensuring there is public interest relief when cases or complaints are conciliated and that investigators evaluate cases consistently. She added that her agency is working closely with the Department of Justice (DOJ) and CFPB in discussions around those cases.

Following the appraisal discussion, Ms. Ortiz thanked the panelists and declared the meeting in recess.

Community Reinvestment Act

The meeting reconvened at 3:55 p.m. Ms. Ortiz introduced Jonathan Miller, Deputy Director, DCP, to moderate the panel on the Community Reinvestment Act (CRA). Mr. Miller noted that a summary of the CRA discussion would be made part of the public record as a comment since the comment period for the proposal is still open. Mr. Miller introduced the three panelists: Patience Singleton, Senior Policy Analyst, DCP; Pamela Freeman, Chief, Fair Lending and CRA Examinations, DCP; and Richard Schwartz, Counsel, Legal Division.

Mr. Miller then described the Corporation's objectives for the proposed rulemaking, which is meant to strengthen the CRA's role in financial inclusion by considering activities that address inequities in credit access for low- and moderate-income communities.

Next, Mr. Schwartz provided an overview of key CRA topics including assessment areas and qualifying activities. Then Ms. Singleton and Mr. Miller discussed the overall evaluation framework. Finally, Ms. Freeman described the community development financing test and data collection and reporting requirements.

After the presentation, the panel welcomed questions. Member Kelly asked how implementation of the plan would look five, ten, or fifteen years hence, considering that in 1977 the original CRA had the same goal of dealing with inequities.

Mr. Miller responded that the goal of the proposed rulemaking is to expand the CRA’s reach by evaluating banks more broadly geographically. He explained that the proposed rulemaking accomplishes that by increasing the current amount of lending required for a bank to receive a low satisfactory, high satisfactory, or outstanding rating. Therefore Mr. Miller expects that if the rule is finalized as proposed (and accounting for comments), more credit will be available to low and moderate income borrowers and communities.

Ms. Singleton noted that since rural areas are often underserved and metropolitan areas also sometimes lack branch access, the proposed rule would increase credit and capital in those areas.

Ms. Freeman added that the proposed rule would address inequities and credit access for low and moderate income communities, individuals, and families in part by expanding the areas where retail lending is considered, which was not done before. In other words, she explained that community development would be considered everywhere, under a clear list of qualifying activities, with preapprovals so banks have assurance that their activities will count. She emphasized that the standards and implementation will be more rigorous and that the proposed rule encourages partnerships with MDIs and Treasury-certified CDFIs, and included that as a specific definition for community development.

Member Camper then commented that the proposed change to the CRA is historic and acknowledged the significant work that went into it. She noted that different banks have different capacities for implementation and that her organization and some others had submitted a written request for a 30-day extension to comment. She anticipated commenting on the retail lending assessment area to help the Corporation understand smaller institutions’ perspective on whether purely numerical triggers make sense for lesser-known banks in a given geographic area, and raising alternative methods for the Corporation’s consideration that could supplement just a simple loan count. She emphasized that the industry understands the momentous nature of the proposed rule, and wants both banks and the regulators to get it right.

Member Mintz noted that in the BankOn world, banks are focused on the proposed new retail services and products test, about which he made two comments: First, he said it dovetails with research on financial empowerment counseling, which shows the connection between having a safe bank account and the ability to save money and improve credit scores. For that reason, he said, industry feels the test correctly identifies the metrics indicating that customers are financially ready to become homeowners.

Second, he hoped that data collected concurrently in the BankOn world and stored in the Federal Reserve Bank of St. Louis BankOn data hub would be useful for examiners to help banks and credit unions successfully answer the 15 percent part of the CRA’s proposed test.

Finally, Mr. Mintz asked whether any part of the retail services test particularly rewards the ability to open new accounts online, consistent with expansion of assessment areas.

Ms. Singleton responded that the ability to open new accounts online is not expressly included in the proposed rule, but is covered by the distribution of the bank’s digital and other systems. She said the ability to open new accounts online could be included under evaluation of a bank’s digital and other divisions prong. She agreed it is important and could be considered as the Corporation moves forward in the rulemaking process.

Mr. Miller noted the general standard that any product or service particularly responsive to low and moderate income consumers would receive special consideration, which could include opening accounts digitally.

Mr. Schwartz added that the Corporation would create a list of qualified activities, and banks can write in to inquire whether certain activities are covered. He said that makes it likely digital account opening will be covered.

Next, Member Foley asked about credit for financial literacy activities regardless of income level and whether the proposed rule captures the need for accessible housing, which is even more difficult to find than affordable housing.

In response to Member Foley's first question, Ms. Freeman indicated that there was no required income levels to track financial literacy activities because banks reported that when they held financial literacy outreach activities, it was difficult to actually obtain attendees' income information. Plus, she said the Corporation views financial literacy as important across the board.

With regard to Member Foley's second question, the panelists did not recall accessible housing being included in either the preamble or the rule.

Member Antonakes then asked two questions about thresholds: First, had the Corporation considered how to bridge the large gap between banks with 2 billion in assets and those at 2 trillion in assets and whether a "megabank" category was considered; and second, if there had been any concern about any unintended consequences of the data collection provisions kicking in at 10 billion in assets in terms of increased compliance cost leading to further consolidation?

Mr. Miller responded that the threshold discussions considered the desired balance between increased efforts that would be required to collect and report data and the benefits from collecting and having that data. He said they drew the line where the assets would cover the increased costs.

Next, Member Libby encouraged the Corporation to be open to including non-custodial accounts for young people in certain subcategories, and to consider small, entry level, safe credit-building products that were previously more widely available as a pathway to credit.

Ms. Singleton confirmed that credit-building products would be considered under the services test, have always received CRA consideration, and that under the proposal there is an increased emphasis on the quantitative and qualitative aspects.

Closing Remarks

Director Chopra then made a statement about the CRA, emphasizing that policymakers should consider not just the creditworthiness of consumers, but whether credit is worthy of the people it serves, and how to ensure all mortgage lenders are serving all qualified applicants, especially in neighborhoods that have been historically excluded.

Acting Chairman Gruenberg said he expects the Committee's next meeting, on October 27, 2022, to be held in person. He noted that the Corporation's latest household survey of who is unbanked and underbanked in the nation would be released at that October meeting.

There being no further business, the meeting adjourned at 4:55 p.m.

/s

Debra A. Decker
Deputy Executive Secretary
Federal Deposit Insurance Corporation
and Committee Management Officer
FDIC Advisory Committee on Economic Inclusion

Minutes

of

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Held Via Webcast

Federal Deposit Insurance Corporation Building

Washington, D.C.

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I hereby certify that, to the best of my knowledge, the attached minutes are accurate and complete.

/s
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Martin J. Gruenberg
Acting Chairman
Board of Directors
Federal Deposit Insurance Corporation