ICBA
INDEPENDENT COMMUNITY
BANKERS of AMERICA®

May 23, 2022

The Honorable Jerome H. Powell
Chair
Board of Governors of the Federal Reserve System
20th Street Constitution Avenue NW
Washington, DC 20551

The Honorable Martin J. Gruenberg
Acting Chairman
Federal Deposit Insurance Corporation
1700 G Street NW
Washington, DC 20552

The Honorable Rohit Chopra
Director
Consumer Financial Protection Bureau
1700 G Street NW
Washington, DC 20552

The Honorable Michael J. Hsu
Acting Comptroller
Office of the Comptroller of the Currency
400 7th Street, SW
Washington, DC 20219

Dear Honorable Sirs:

On behalf of the Independent Community Bankers of America ("ICBA"),[1] I am writing to discuss GAO's recently published report, "Banking Services: Regulators Have Taken Actions to Increase Access, but Measurement of Actions' Effectiveness Could Be Improved."[2] Overall, ICBA appreciates the efforts that each of your Agencies has taken to empower community banks

[1] *The Independent Community Bankers of America® creates and promotes an environment where community banks flourish. ICBA is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education, and high-quality products and services.*

With nearly 50,000 locations nationwide, community banks constitute roughly 99 percent of all banks, employ nearly 700,000 Americans and are the only physical banking presence in one in three U.S. counties. Holding nearly $5.9 trillion in assets, over $4.9 trillion in deposits, and more than $3.5 trillion in loans to consumers, small businesses and the agricultural community, community banks channel local deposits into the Main Streets and neighborhoods they serve, spurring job creation, fostering innovation and fueling their customers' dreams in communities throughout America. For more information, visit ICBA's website at www.icba.org.

[2] GAO-22-104468.

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to expand banking services for unbanked and underserved individuals.[3] Indeed, several reports and surveys indicate that your actions have had positive results.[4]

While ICBA believes that the report's main recommendation – measure the effectiveness of Agency action – would provide valuable insight, we recommend the Agencies develop and implement additional policy measures that would further each Agency's financial inclusion efforts. Specifically, ICBA recommends that the Agencies: (1) integrate their independent efforts into a unified, interagency campaign, (2) provide the banking industry with more consistent guidance, and (3) utilize your Offices of Innovation.

ICBA would welcome the opportunity to meet with you and your staff to discuss these recommendations and to identify additional ways to facilitate and measure financial inclusion.

Background

As pillars in their towns and communities, community banks understand the importance of helping their customers maintain financial health. A community bank struggles when the members of its community struggle, but it thrives when its community thrives. Simply put – a community bank's future is intertwined with its community's future. That is one of the many reasons why community banks strive so diligently to provide superior products and services – it is in their own best interests to do so.

Not only do community banks provide basic deposit, credit and payment services, but they also provide much more that is designed to account for the unique needs of their communities, at each stage and situation for their customers' lives. Many of these are specifically designed to cater to unbanked and underbanked populations.

For example, as discussed in other reports, many unbanked and underbanked consumers are considered "credit invisible." Nearly 20 percent of adults do not have a credit record with a nationwide credit reporting agency, with low-income and rural areas disproportionately represented. Almost 30 percent of Americans in low-income census tracts, and approximately 15 percent of adults in rural areas are credit invisible.[5] Community banks have more of a presence in these areas than other financial institutions, with community banks being the only banking

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[3] Agency actions have generally focused on research, education, and oversight. FDIC piloted a public awareness campaign on the benefits of banks, facilitated a tech sprint focused on financial inclusion, and launched a mission-driven bank fund. OCC spearheaded Project REACh, an initiative to increase access to credit, including small-dollar loans. Several Federal Reserve Banks have hosted convenings that share ideas to serve un- and under-banked populations. CFPB has provided empirical research on this demographic and launched the "Start Small, Save Up" initiative.

[4] The rate of the un-banked population has shrunk while financial well-being has increased, as reported in "Federal Deposit Insurance Corporation (FDIC), How America Banks: Household Use of Banking and Financial Services, 2019 FDIC Survey" (Oct. 2020), and "Report on the Economic Well-Being of U.S. Households in 2020, Board of Governors of the Federal Reserve System" (May 2021), respectively.

[5] Kenneth Brevoort, Jasper Clarkberg, Michelle Kambara, and Benjamin Litwin, "Data Point: The Geography of Credit Invisibility," Bureau of Consumer Financial Protection, (Sept. 2018) at 10.

presence in one out of every three counties[6] and maintaining a presence in 93 percent of all minority-majority communities, including 96 percent of African-American majority and 98 percent of Hispanic-American majority communities.

Given that so many consumers are "credit invisible," some community banks offer credit builder products as a creative way to build their credit profiles. The typical credit building product starts with the bank making a loan to the customer, but then placing the loan proceeds into a certified deposit ("CD") account rather than disbursing them to the customer. The customer then repays the loan on a monthly basis, with the bank reporting the timely repayments to at least one of the three major credit reporting agencies. By the end of the term, the customer is able to access the original proceeds and has a positive credit history.

Other products and services can help build financial health or serve the unbanked and underbanked population, including small dollar loans and prepaid cards, as highlighted in the GAO report. A growing number of community banks use technology to reach less traditional customers. For example, through the use of alternative data in their credit underwriting, community banks have a clearer picture about a consumer's credit risk.

Recommendations

As you evaluate how to implement GAO's recommendations, ICBA respectfully asks that your Agencies also consider a number of additional initiatives that could further help community banks increase access to credit, encourage savings, and help reduce the number of unbanked and underbanked Americans.

1. Greater collaboration among the Agencies

Each of your Agencies is engaged in impressive efforts to address gaps in financial inclusion– some Agencies are engaged in multiple efforts. These efforts can be categorized as working groups, convenings, technical support, and education. While these endeavors are meaningful in their individual right, efficiencies can be gained, redundancies eliminated, and greater awareness can be raised through interagency collaboration.

For example, the Financial Literacy Education Commission ("FLEC") serves as a model for what this interagency effort could emulate. Established under the Fair and Accurate Credit Transactions Act of 2003, FLEC is designed to "improve the financial literacy and education…through development of a national strategy to promote financial literacy and education."[7] The areas of emphasis include basic personal income and household money management and planning skills.[8] While the FLEC will occasionally focus on financial inclusion and issues unique to unbanked and underbanked individuals, financial literacy is really only a

[6] Data extracted from FDIC Summary of Deposits (SOD) 2011 to 2021 and USDA ERS Urban/Rural Classifications identifying community bank branches per year.
[7] 20 U.S.C. 9702.
[8] 20 U.S.C. 9703, including how to create household budgets, manage spending, credit, and debt, including credit card debt, effectively; increase awareness of the availability and significance of credit reports and credit scores in obtaining credit, and understand, evaluate, and compare financial products, services, and opportunities.

portion of overall financial health. A broader interagency collaboration, sharing the resources and expertise of personnel comprising each individual Agency effort, could achieve new ground.

Additionally, ICBA believes that Agency-led efforts are enhanced when private industry, including community banks, are involved. While FLEC allows for the inclusion of private industry participants, ICBA recommends that the interagency collaboration maintain permanent inclusion for community bank and other private participants. While Agencies correctly defended the lack of outcome-oriented measures as not entirely within the Agencies' control, ICBA believes that including private industry in collaborations will better place the inter-Agency effort to not only set the desired outcomes, but to be in the position to put actions into place that result in achieving the desired outcomes.

2. More consistent guidance

ICBA believes that regulator guidance, when issued for notice and comment in adherence to standards set by the Administrative Procedure Act, is a valuable tool for community banks when evaluating new products and services. Guidance can provide Agency interpretation of rules and general statements of policy that address grey areas of the law. While not necessarily dispositive, guidance can provide a community bank with some assurance that their product or service conforms to the spirit of the black letter law.

ICBA commends your Agencies for periodically offering guidance intended to spur financial inclusion efforts. For example, the Consumer Financial Protection Bureau has been focused on publishing blogs and issuing formal guidance on novel matters of law and technology, such as Special Purpose Credit Programs and use of alternative data.

However, as the GAO report highlights, problems arise when your Agencies significantly revise or rescind prior guidance. This has most notably caused harm in the small dollar market, which is arguably the most needed product for unbanked and underbanked individuals. As the GAO noted, "some market participants and observers noted that banks do not want to offer small-dollar products because they are expensive to develop and the regulations or supervisory expectations may change."[9] The report goes on to detail how your Agencies issued or rescinded at least 19 actions related to small-dollar loans over only a ten-year period.

Though the GAO did not explicitly flag consistency of guidance as an explicit recommendation, ICBA strongly recommends that the Agencies take steps to alleviate regulator uncertainty that clearly inhibits banks' adoption of products and services that would otherwise benefit unbanked and under-banked consumers. Taking this premise further, ICBA asks the Agencies to consider greater use of presumptive safe harbors from enforcement actions when certain agreed-upon parameters are met.

3. Support for responsible innovation

ICBA firmly supports your Offices of Innovation, which provide significant value when researching and developing policy-based solutions that nurture these relationships. Over the past several years, your Offices have helped community banks by hosting office hours, publishing

[9] *Supra* note 2, at 30.

guidance on novel technologies and techniques, launching and/or considering pilot programs, initiating competitions and tech sprints, issuing advisory opinions and safe harbors for approved activities, and seeking greater information and knowledge from a wide swath of stakeholders. This effort has proven to be invaluable for community banks as they seek to forge a path for the future.

The community bank model of relationship banking is key to high quality products and services that improve financial health. ICBA believes that innovative technology will not only help community banks establish more meaningful relationships with their existing customers, but will also provide avenues to develop new relationships with the many Americans that lack financial health. We sincerely hope to see you utilize your Offices to continue delivering such value.

In conclusion, as you work to implement GAO's recommendations to improve your financial inclusion efforts, ICBA asks that you consider the recommendations made above. To that end, we would greatly appreciate a meeting with you or members on your team to discuss these further. We are confident that community banks would welcome the opportunity to engage with your Agencies to further your goals and increase levels of financial inclusion. If you are so inclined, please contact Michael Emancipator at Michael.Emancipator@icba.org or (202) 821-4469.

Sincerely,

/s/

Rebeca Romero Rainey
President and CEO