Community Bank Advisory Council Meeting

November 15, 2023

Consumer Financial Protection Bureau

Meeting of the CFPB Community Bank Advisory Council

The Consumer Financial Protection Bureau's (CFPB) Community Bank Advisory Council (CBAC) met via WebEx at 1 p.m. EST on November 15, 2023.

Council members present	CFPB staff participants
Community Bank Advisory Council	Director Rohit Chopra
Chair Carlos Naudon	Manny Mañón
Anita Drentlaw	
Derek Henderson	
Bruce Hoyer	
Jennifer Johnson	
Victor Ramirez	
Ignacio Urrabazo	

Welcome

Director Rohit Chopra
Manny Mañón, Staff Director, Advisory Board and Councils, External Affairs Division
Carlos Naudon, Chair, Community Bank Advisory Council

The CFPB's Advisory Board and Councils Staff Director, Manny Mañón, convened the Community Bank Advisory Council meeting and welcomed committee members and the listening public. He provided a brief overview of the meeting's agenda and introduced Director Rohit Chopra.

Director Chopra welcomed the new members of the CBAC and provided a state-of-the-markets update. Low mortgage and credit card interest rates are much higher than before, which makes it challenging for consumers to chart their future and financial life.

The CFPB has published a credit card market analysis, and there is over $1 trillion in credit card debt owed by Americans. Due to the higher interest rates, they are not able to pay down the principal. In 2022, consumers paid $130 billion in interest and fees. This is an area where Director Chopra would like to see more competition from a broader swath of entities that serve consumers. Refinancing mortgages has gone down, though cash-out refinancing has increased.

Student and automobile loan delinquencies have creeped up in many financial products. There are big increases in the amount of auto loans owed by Americans, which was driven by the increases in vehicle costs during the pandemic.

Director Chopra said the CFPB is increasing its emphasis on talking to community banks because community banking is still the core of relationship banking and not algorithmic, but the funding advantages of the large too-big-to-fail institutions is a major competitive disadvantage for community banks. Funds are now being stored outside of community banks in nonbank payment apps, and a significant amount of consumer deposits have migrated outside of the system, including money market funds, making it difficult for community banks to stay competitive.

Community banks rely heavily on a small set of core service providers, which is how data is processed and show how much a community bank can operate, but it is the community banks that need to make clear decisions and not decisions made for them by these core service providers.

Director Chopra said a big emphasis for the CFPB has always been ensuring nonbank companies are playing by the same set of rules and not engaging in regulatory arbitrage. A trend high on the CFPB's radar is the advent of big tech companies as it relates to digital payments.

Banks are subject to supervision and regulations, giving them benefits, but they also must meet community needs. Also, there are restrictions on conflicts of interest and undue risk taking. Banks are limited to certain financial activities rather than engaging in commercial enterprises. Director Chopra said in some ways, the U.S. is moving towards a system that looks similar to China's market structure where payments' point of sale and other consumer payments are dominated by large tech companies and their apps. In this regard, the CFPB wants to ensure payment systems don't harm consumers by having clear lines and rules of the road.

The CFPB's supervision is increasing in the nonbank area, but it needs input from community banks to make sure they are going to the right places to effect change and ensure the financial system is working well.

Following Director Chopra's remarks, CBAC Chair, Carlos Naudon welcomed attendees and provided opening remarks. He said that stimulus funds received by Low to Moderate Income (LMI) communities were spent on debt. In New York, the increasing debt and rental requirements is making a significant dent in household net incomes. He said that consumers need to understand how to use financial instruments they have access to and understand how to handle debt and the value of homeownership. There is a significant slowdown in new mortgages for home purchases and not much activity in the refinance markets, and this is a significant area that CFPB should be focused on.

Discussion Questions on Economic Conditions:

- **How are the households in your community, region, and Federal Reserve District adjusting to higher interest rates on mortgages and consumer loans?**
- **When reviewing the Federal Reserve's Beige Book, how does the assessment of conditions in your Federal Reserve District compare to your own view?**
- **What is your reaction to the recent increases in outstanding credit card debt? What do you see as the drivers for increasing credit card debt?**
- **What risks do you see on the horizon for consumer and households in your community?**
- **What risks should the CFPB prioritize in 2024?**

A member thanked the CFPB for looking into regulating big tech companies which compete with small banks. The member would like to see the CFPB focus less on regulatory issues with community banks in order to keep them from having to merge and sell out to bigger banks.

Director Chopra thanked the member for inviting him to the community bank branch and meeting clients a year ago.

A member mentioned concerns with the rising mortgage rates and the lack of affordable housing. The member said that working families and individuals have been hardest hit with the higher interest rates, which has impacted the consumers cost of living and the ability to access credit. The member stated that California is experiencing increasing housing costs and decreasing housing stocks due to investors buying out single family homes and converting them into high-cost rentals. This has resulted in many potential homeowners developing what he called "homeownership apathy." The member said that the issue is cross-generational, and young middle-income families are being outpriced in the housing market, to include LMI families seeking the dream of homeownership. The member said that existing homeowners with lower mortgage interest rates aren't selling their homes, which further exasperates the affordable housing stock. The member added that small business owners are turning to unregulated fintech lenders to expand their businesses.

A member said that community banks have been pushed out of the credit card markets, making it difficult for them to be competitive when there is no alternative.

Director Chopra said the comments so far are consistent across the country in terms of decline and mortgage origination anxiety about future homeownership. He said though credit cards are generally a well-regulated product, there are drivers as to why consumers are borrowing more on credit cards due to financial hardship. Director Chopra suggested the CBAC to think about ways to partner with other financial institutions to obtain lending volume. Some use debit-plus networks, and another area to look at is lines of credit attached to deposit accounts. Though mortgage interest rates have gone up, the credit card interest rates have climbed much further. Director Chopra suggested a relationship banking arrangements may provide more solutions that could benefit consumers.

A member shared that in southeastern Wisconsin they are seeing an increase of consumers not qualifying for home equity loans. Even though they have equity in their homes. The member said that despite that, they have seen an uptick in home equity line of credit usage. The member is concerned about the qualification scenario for some consumers relating to student loan debt now that they are going to resume full payments.

Director Chopra asked the member to provide insights on the utilization of Home Equity Lines of Credit (HELOC).

The member said that the bank is still receiving requests for new lines, and there is more HELOC usage as opposed to credit card debt because the credit card interest rates are much higher than a line of credit.

Director Chopra said people can get into real trouble with the cash-out, refi HELOCs, and he thinks this trend may increase.

A member commented that the cost of tech companies, and the regulations hurt the smaller banks with only 40 to 50 people. The member gave an example and shared concern over of the 1,500 pages of the CRA rules and not having the personnel with expertise to understand the legal ramifications. The member said that mortgage loans are down due to high interest rates going up. The member said that consumer lending ratios have gone up, with some maxing out their limits, and they now use credit cards for living expenses after the pandemic deposits ran out. The member shared that the import-export business in Laredo, Texas has increased in volume, which has benefited the economy, especially in retail sales to a certain degree. The member added that affordable homes are basically nonexistent.

A member commented that the risk the CFPB should be looking at is Artificial Intelligence (AI) and its role in underwriting. The member said that unless the data which is based in AI is cleaned of all existing biases, AI is going to continue to have biases that will hurt the LMI community in particular.

Director Chopra said the CFPB took an enforcement action against Citibank due to deliberate discrimination against Armenian Americans, who were being disqualified. He said it is possible that an algorithm or AI could make the same exact discriminatory decisions. He thinks AI has a lot more implications such as much more generative AI where people's voices can be cloned, as an example, and it is an area that the CFPB is devoting energy to.

Director Chopra said the CFPB needs to help make sure that borrowers navigate the system effectively for alternative payment programs. They qualify for in student loan payments and resumption, and the CFPB is working with a lot of loan servicers. This is going to be a big issue for lending going forward.

On household finance, Director Chopra said there has been an uptick and concerns about homeowner insurance cancellations due to climate and natural disasters, which may lead to homeowners paying more for homeowners insurance or their mortgage servicer having to charge force-placed insurance, which would soak up more income.

A member said as a financial professional, they themselves struggle to navigate the system on student loan servicers. The member added that anything the CFPB is planning to do in terms of working with and encouraging student loan servicers to handle consumers appropriately, that would be welcome.

A member that was unable to attend shared via email with fellow CBAC member and CFPB staff the following comments on this session. The member shared the following feedback:

- Individuals, households, and small businesses in our community of North Nashville are struggling to cope with the higher level of interest rates on mortgages and consumer loans. Coupled with the rapid and substantial rise in property values in the Nashville market, people are finding it increasingly difficult to qualify for conventional mortgage financing not only because of the lack of sufficient financial resources for required downpayments; but also because of the much higher monthly mortgage payments created by the increased level of interest rates. Our institution's Down Payment Assistance and Shared Equity Programs help some prospective home buyers; but not enough to help all. The preceding statement applies to consumer borrowers who find it difficult to qualify for and service loans for "large ticket" items like automobiles, etc.
- With inflation causing the price of all goods and services to rise rapidly, low to moderate income households in our community are having to resort to high interest loans (credit card or payday lenders) to purchase basic necessities (food, utilities, fuel, etc.). The rate of increase in household income for the families in our community has not kept up with the rate of increase in the price of goods and services and the cost of borrowing.
- In 2024, a continuation of the elevated level of prices for goods and services and the high cost of borrowing will exacerbate the inability of individuals, households, and businesses in our community to build economic wealth. This situation will have a marked negative impact on our communities hampering their ability to share in the economic prosperity and growth that the Nashville region has been experiencing over the last several years.

Discussion Question Number Two:

- **What are some of the factors your institution considers when seeking to implement real-time payment solutions like FedNow and Zelle?**
- **What are your customers' expectations when it comes to real-time payments?**
- **What are your institutions experience with customers who use nonbank payment providers like Venmo and CashApp?**
- **For those who are implementing FedNow, are you planning to be "send and receive" or "receive only"?**
- **What are the challenges you and your customers are facing when it comes to real-time payment solutions?**

A member mentioned that the payment system is one of the last bastions of banking that is being eroded, and a big concern is lack of interoperability of all those systems in terms of real-time payments. The member stated that cross-border payments is a difficult area because of the disparate systems in other countries. The member said that when it comes to cash-ups, the difficulties community banks have is the lack of audit trails, and there's very little a small community bank and do in terms of dealing with larger institutions that just reject payments. The member added that many times, the small community banks just swallow it.

Several members expressed concerns about real-time payment solutions. A member said that their bank does not currently offer Zelle due to the amount of fraud that has been going on in that payment app. The member said that the bank plans to be a "receive-only" bank when they implement FedNow at this juncture, as they have concerns about being a send bank, again, due to fraud. The member shared concerns about how liquidity is going to be handled as payments go back and forth, especially during the weekend or overnight. The member stated that having an overdraft at a correspondent bank or the Fed is a major issue. The member said that there is concern as well with Reg E disputes. The member commended the CFPB for starting to level the playing field by subjecting big tech companies to the same supervisory process that banks go through. Another member shared that FedNow will be implemented but as a "receive-only" to start. The member said that investing the same risks and evaluating what controls are needed to be in place is important. The member shared that they will be educating their customers as it takes time to get used to this new form of instant payments. The member added that many customers have never used this type of payment before. Another member mentioned that they are not offering any instant payments but will in 2024 with the advent of a new core system. The member feels that instant payment system utilization increased during COVID. The member said that micro businesses are using these services on a daily basis, but there is a lot of fraud, and education is very important to help people understand the different types of payment programs that are available as well as the awareness in terms of risk involved. Another member said that currently they offer Zelle to customers, but there has not been much interest or demand from commercial consumers in a real-time payments solution yet. The member does not anticipate that request to institute a true real-time payments option will be forthcoming, and they have been doing considerable research into the feasibility of its use either through the clearing house or FedNow. The member said that in terms of obstacles for community banks to consider real-time payments, it comes down to cost, third-party management, and fraud risk. The member added that if the liability for those types of fraud gets pushed back onto institutions, it is going to cause significant losses that could, theoretically, depending on the size of the institution, put them out of business.

A member added in agreement to a comment that receiving payments does have risks associated with it too which we have been discussing and trying to figure out how to mitigate that.

Director Chopra said the CFPB is putting a lot of thinking into not having the liability pushed back onto the bank when it comes to fraud. He also said there is a big question on the table about the differentiation in the apps and management of how much people can send outbound. Though the Fed is creating FedNow, much of the payment networks is in the hands of the industry that is governed by a set of industry-driven network rules. Nacha has put out a proposed framework they are collecting comments on. Zelle is owned by the largest banks, and in many ways, the smaller players will have less ability to shape the governance of it. Another area of concern is the core service provider chargebacks to the institution and whether they are commensurate with the service being provided.

A member that was unable to attend shared via email with fellow CBAC member and CFPB staff the following comments on this session. The member shared the following feedback:

- Due to small ($170 million) size of our institution, we have to rely on our technology partners (core system provider, etc.) to ensure having the ability to properly deliver these real-time payment solutions. Strong and careful management of our processes will prevent our customers and the Bank from being victimized by fraudulent activities. We have a concern that the instantaneous, real-time processing of these transactions may not provide the Bank with sufficient avenues of protection from fraud and the ability to recover funds lost through these fraudulent transactions.

- Our new generation of customers regard these real-time payment services as the norm and will expect our Bank to be able to provide the service to them as part of the normal course of banking.
- We intend to offer real-time payment services to our customer. However, at this time, our position is offering the service on a "receive only" basis.

Closing

Director Rohit Chopra

Director Chopra gave some closing remarks and said it was a great initial discussion, and the themes covered are what is the nature of the economy and how are consumers faring in it. He suggested members share with Carlos and CFPB staff what may be some areas to work on in smaller groups to develop more thinking and maybe action items for the CFPB and others to move on. He also would like to have further discussions about the future and sustainability of community banking.

The Chair thanked the members and the Director for the discussion.

Adjournment

The meeting adjourned on November 15, 2023, at approximately 2:15 p.m. EST.

Certification

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

Emmanuel Manon

Emmanuel Mañón, Staff Director,
Advisory Board and Councils, External
Affairs Division, Consumer Financial
Protection Bureau

Carlos Naudon

Carlos Naudon, Chair,
Community Bank Advisory Council