Combined Advisory Councils Meeting

May 17, 2023

Consumer Financial Protection Bureau

Meeting of the CFPB Advisory Councils

The Consumer Financial Protection Bureau's (CFPB) Community Bank Advisory Council (CBAC) and Credit Union Advisory Council (CUAC) met via WebEx at 1 p.m. EST on May 17, 2023.

Council members present	**CFPB staff participants**
Community Bank Advisory Council	Director Rohit Chopra
Chair Mary Buche	Kimberley Medrano
Anita Drentlaw	
Bruce Hoyer	
Carlos Naudon	
Michael Tucker	
Ignacio Urrabazo	
Credit Union Advisory Council	
Chair Deborah Wreden	
Michael Daugherty	
Jeff Ivy	
Chad LaFlash	
Floyd Rummel	
Michael Levy	
Suzanne Weinstein	
Shawn Wolbert	

Welcome

Director Rohit Chopra
Kimberley Medrano, Acting Staff Director, Advisory Board and Councils Section, Office of Stakeholder Management
Mary Buche, Chair, Community Bank Advisory Council
Deborah Wreden, Chair, Credit Union Advisory Council

The CFPB's Advisory Board and Councils Section Acting Staff Director, Kimberley Medrano, convened the combined advisory council meeting and welcomed committee members and the listening public. She provided a brief overview of the meeting's agenda and introduced Director Rohit Chopra.

Director Chopra provided remarks by saying the U.S. has seen some of its largest bank failures in history since early March 2023, which has sparked discussion on the role of local financial institutions and whether they are treated differently than large institutions. He went on to say that the effect of technology is changing the economy with new players such as non-banks and fintech entities, and more consumers are using real-time payment mechanisms. The Director expressed an area of concern in how to preserve relationship banking in an age of digitization and leveling of the playing field. He suggested areas of emphasis for discussion would be recent failures, market changes and responses, relationship banking, the shift to a more data-driven and digitized environment, and the associated risks facing people that serve in the committee members' towns, cities, and communities.

Following Director Chopra's remarks, CBAC Chair, Mary Buche and CUAC Chair, Deborah Wreden welcomed attendees. The CBAC Chair emphasized that the open forum format gives the group a unique opportunity to have an open discussion. The CUAC Chair mentioned that fellow committee members want to point out the unique differences in the credit union business model and its impacts.

Discussion Question Number One:
What is the state of the economic conditions in your community and region? What risks to consumers do you see?

Multiple members raised concerns with the rising mortgage rates and the lack of affordable housing. A member said that the situation in Florida is unique in that there is low unemployment and a flourishing tourist industry, but due to limited housing and rising interest rates, folks are having to find part-time jobs in addition to their full-time jobs to supplement household incomes. This member stated that the credit unions membership has been utilizing credit cards and borrowing unsecured debt. This member mentioned that with a thousand people moving to Florida every day, the housing is limited, and rents are skyrocketing. This member said that Florida also suffered from two hurricanes, and this caused homeowner insurance companies to cancel policies. This member also shared that elder fraud is at an all-time high. A member said that the economy in western Massachusetts is relatively stable, but there is not enough affordable housing. This member mentioned that those who have already refinanced when the interest rates were low are not looking to refinance now with the rise of interest rates. This member stated that the challenge of community banks is that technology has brought fin-tech mortgage companies to the industry, resulting in more people banking online instead of face-to-face or in person at the community banks. This member asked that the CFPB look into privacy issues, especially the practice of credit bureaus selling names and addresses of people who apply for new loans to other lenders and insurance companies. This member said that the Boston area has been impacted with a lot of vacant office space since the pandemic. A member said that their community is right on the U.S. Border with about a ninety-seven percent Hispanic population. This member said this area is the number one port of entry to the U.S., with 15,000 trucks crossing on a daily basis, northbound and southbound. This member stated that the area has a strong, growing economy, though there is no affordable housing, however, the warehousing industry and industrial development is on the rise. The same member mentioned that the area is experiencing a shortage of workforce. Member also stated that the insurance rates have increased thirty to forty percent, and the commercial people, mostly small businesses, cannot afford it and struggle with making timely payments. The member also added that illegal immigration is a major problem and hopes a program can be developed to provide a remedy.

Director Chopra acknowledged the big dry-up in refinance activity because of the current interest rate environment and how it is affecting real estate lending, especially residential real estate lending. He said the CFPB is looking at trigger leads, and the supervision of non-banks is an area of oversight.

The Director also mentioned the boom in warehousing and production on both sides of the border and asked if there is massive amounts of commercial lending and industrial activity is driving the local economy. A member responded to the Director and said that there is a lot of infrastructure going on, and they are issuing warehousing and industrial park loans, but the lack of new truck availability is a problem, resulting in "nearshoring." The member also said that a positive effect of this boom is that transportation cost is significantly less and is faster from Mexico to the U.S., usually 24 hours, than the three weeks from China.

Director Chopra said the acute housing pressures have collateral effects on people's borrowing and financial health.

Another member expressed concern with small businesses and high interest rates. This member stated that there is a significant resurgence in the New York City economy of small businesses, but due to high interest rates, these small businesses, many of whom are self-employed, need to utilize Non-Qualified Mortgages (QMs). This member would like to see some coordination between prudential regulators and CFPB in terms of the application of underwriting rules, disclosure, and monitoring of institution performance.

Director Chopra asked for clarification if it is supervision or enforcement that is needed to cover all mortgage lenders. A member responded by saying there has been a significant shift in the last two years of their regulator when it comes to acceptable underwriting as well as abuses and the non-QM loans becoming no-doc loans.

A member said that Kansas City is experiencing affordable housing issues, and the goal is to have more equitable housing opportunities for everyone and to reach diverse populations. This member said that their bank is continuing to see racial disparities in home evaluations and lending, and she would like to see a focus on combating appraisal bias.

Director Chopra asked the committee members to follow up with CFPB staff and the committee chairs on the takeaways from the meeting and where should CFPB move its attention and focus, thereby creating a to-do list.

Discussion Question Number Two:
What changes have you seen since the recent bank failures?

Multiple members expressed concern with consumer education when it comes to the lack of knowledge about Federal Deposit Insurance Corporation (FDIC) insurance coverage. A member suggested education to consumers on FDIC insurance coverage as many clients are concerned about the insurance limit on their deposits. This member said that they help large depositors structure their accounts appropriately if coverage is a concern by utilizing a program like IntraFi. Another member shared an area of concern with investment advisors informing consumers to move their money out of small banks after the recent surge of bank failures, which hurt small banks. A member said that there is confusion between FDIC and National Credit Union Administration (NCUA) with consumers asking similar questions about each. A member shared that they have not noticed changes in light of bank failures, but they have received inquiries about National Credit Union Share Insurance Fund (NCUSIF) insurance and that there have been investment brokers reaching out to consumers to move their money to larger institutions.

Director Chopra responded to the above comments and said he did vote in favor of the systemic risk exception, but he believes a cure must be found to solve the too-big-to-fail problem, looking at uninsured deposits, and this might require congressional action moving forward.

Another member mentioned the increasing pressure of boards to adhere to their fiduciary duty of protecting their funds, and a transaction account guaranteed program would be helpful to prevent outflows from the larger mission-aligned, non-profit organizations that maintain operating accounts with the bank.

A member said at a recent National Association of Federal Credit Union conference there was a lot of discussion about junk fees and would like further guidance from the CFPB to provide a definition of what is a junk fee, which might assist both banks and credit unions.

Director Chopra responded to the last member comment and said the CFPB has done a few enforcement actions against illegal fees, especially manipulating transactions by financial institutions to charge four fees at one time when the consumer expects only one. He said that the CFPB has also been looking at debt collection fees and that the CFPB has received a lot of complaints in this area of fees being charged.

A member pointed out that credit unions are significantly different than banks because they only owe a duty to their members and do not have stockholders. The member would like the CFPB to calm the concerns of consumers about the bank failures. The member added that Junk fees is another area that members mention, and he would like the credit unions to be a part of the data mix when defining what is appropriate. The member stated that other initiatives for the CFPB to pursue are elder financial abuse and relationship banking.

Another member mentioned the problem with interest rates and feels many smaller banks are competing with the federal government and larger banks paying larger interest rates on CDs, T-bills, and money markets. The member added that most banks try to match the non-interest income with the non-interest expense to make sure operations are covered by the non-interest income.

Discussion Question Number Three:
What do you see as the future of relationship banking in an increasingly digital world?

A member shared concerns with the underserved populations being preyed upon. The member said that the pandemic made a huge change in how people use digital banking platforms, which spurred fintechs and other companies to provide new ways for consumers to receive financial services. The member stated that the underserved population is preyed upon by payday lenders, with excessive fees and large interest rates being charged. The member mentioned that safety and security of non-banking transactions is an area that should be addressed. The member would like the CFPB to do more to help regulators and Congress understand the risks better, the need for more security of outside players, and protection of data.

Another member shared about the human versus digital engagement that is being seen. The member said that that the majority of his credit union members is a mix of students and professors in the general population, all consumer-focused, with no commercial activity at all. The member stated that most of the members are digitally inclined and use mobile devices regularly and that there is a huge number of the loan applications, mortgages, credit cards, deposit accounts are processed online. The member mentioned that his organization invested in top-notch technology and convenience, which helps to retain the membership base. The member added that the overall business strategy to attract young consumers as they begin financial independence is a successful operating model and strategy.

Director Chopra responded to the above member comment about the human versus digital engagement with his members, wanting to know if it has shifted or if they have gotten the balance right. The member said that it has shifted over the years, especially during the pandemic, but with their success in opening new branches, the customers respond well to the availability and enjoy the opportunity to meet face-to-face if a problem arises that can't be solved online.

Several members shared what is being experienced in their areas regarding relationship banking. A member said relationship banking has been the bread and butter of community banks, and there is a highly saturated banking market in the Kansas City metro, with 125 different banks. This member stated that they have partnered with banking as service providers to help the underserved and unbanked populations, but because of the competition, it is hard to reach everyone in the community. This member said that it would be nice to see an equitable distribution of services from core processors and other vendors with implementation of Application Programming Interface (API) access. This member mentioned that education is needed to understand fees, especially when it comes to payday loans. A member said that relationship banking is the core of their business, but in the communities served, there is still an increasing wealth and health gap. This member stated that there is now an increasing digital divide, and these issues must be addressed, or it will continue to grow. A member said that their business is based on relationships, and their customers appreciate the opportunity to come in and talk to a human to discuss banking needs. This member mentioned that the privacy and data security is an area that needs further development, as the CFPB continues its work on Section 1033. This member said that screen scraping needs to go away.

A member emphasized that in order to preserve the future of community banking, especially when it comes to technology and the digital age. The member also said that there must be a level playing field and economies of scale when competing with larger banks. The member stated that it is expensive for the smaller community banks to adhere to Regulation 1071 on data.

Closing

Director Rohit Chopra

Director Chopra provided closing remarks and said the future of community banking when it comes to technology and the digital age is an area of focus that needs to be looked at more closely. He would like to see and encouraged more feedback to be provided to CFPB staff on Section 1033 as it pertains to third parties and the associated issues. The Director thanked everybody for their participation and feedback in this discussion format and looks forward to the next session together.

Adjournment

The meeting adjourned on May 17, 2023, at approximately 2:30 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 Section, Office of Stakeholder Management,
Consumer Financial Protection Bureau

Mary Buche

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Deborah Wreden

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