Bridging the divide digest: Positioning purpose and profit through financial inclusion

Regulatory developments in the financial services industry (FSI) on financial inclusion

Leading off

As momentum for global financial inclusion efforts gather, the financial services industry looks to step back and take a holistic view of growth, market trends, and progress toward overall objectives. Harnessing insights from current trends, industry leaders are trying to analyze and evaluate the direction and pace of the market's financial inclusion efforts.

Prompted by a growing awareness of the societal impacts of financial inclusion (FI), there's increased pressure from stakeholders, including regulators and employees, as well as socially conscious investors in the financial services industry, to show measurable progress in achieving economic parity in unserved and underserved markets. With the realization that universal progress hinges on the inclusion of socioeconomically disadvantaged segments, there's growing interest in the "social" factor when measuring the environmental, social, and governance (ESG) sustainability and ethical impact.

Continuing from our May 2022 issue, we present the latest developments taking place in banking and capital markets, insurance, investment management, and commercial real estate, including a regulatory advancement toward addressing rising housing costs, how the state of New York is addressing poverty by improving access to financial services in underbanked communities, and more.

Committee on Financial Services passes multiple bills to reduce housing costs, support small businesses[1]

The lack of fairness in lending has prevented communities of color from homeownership, small business development, fair pricing, and protection by the government. Communities of color are cut off from access to capital as banks in small towns, rural America, and other low-income communities close. With the intent to correct the exclusion of many communities that have been left without basic financial services, Congresswoman Maxine Waters, the first woman and African American to chair the Committee on Financial Services, led her team on what is being called a historic piece of legislation on racial equity in mortgages, lending, and investments as it will change the lives of millions.[2] The Federal Reserve Racial and Economic Equity Act, H.R. 2543, holds banks, corporations, and financial institutions accountable for denying access to capital to millions. Retail businesses must accept cash as a form of payment for sales in amounts less than $2,000 and are prohibited from charging cash-paying customers a higher price. The bill expands access to credit, mortgages, and banking services, by prohibiting discrimination with respect to credit transactions on the basis of an applicant's sexual orientation, gender identity, or location based on ZIP code or census tract; establishing language translation requirements for residential mortgage applications; and providing funding set-asides for minority lending institutions. It also expands the support of, and access to, minority depository institutions (MDIs) and community development financial institutions (CDFIs) and establishes an ***impact bank*** designation for small institutions that predominantly lend to low-income borrowers.

The term "impact bank" in this instance means a depository institution with total consolidated assets less than $10 billion and where greater than 50% of loans are extended to low-income borrowers.

Additionally, the bill requires financial institutions to report information relating to diversity policies and lending practices. MDIs and CDFIs play a crucial role in providing credit, capital, and financial services to low-to-moderate income and minority communities in economically distressed urban, suburban, and rural areas that have historically been underserved by the financial industry.

Figure 1. Share of small business financing applicants that applied at a CDFI (by owner's race and survey year)[3]

	Employer firms			Nonemployer firms		
Year	Overall	White-owned	Black-owned	Overall	White-owned	Black-owned
2016	4.3%	3.6%	10.3%	7.1%	7.2%	12.2%
2017	5.1%	4.2%	10.9%	6.1%	5.3%	6.4%
2018	5.2%	5.2%	17.0%	6.6%	6.0%	8.9%
2019	2.7%	2.5%	6.4%	4.0%	4.1%	5.3%

Congresswoman Waters said in a statement, "This bill will not only correct these problems but will go a long way in strengthening the economy because of the talent and energy of so many people of color who are eager to participate. I look forward to working with the Senate and the other side of the aisle to support this long overdue legislation and send it to the President's desk for signature in order to achieve fairness, equity, and support for those who have been traditionally left out. This has been a long time in coming." Multiple other bills of a similar nature were passed to stand up for vulnerable communities.[4]

H.R. 7003, the Expanding Financial Access for Underserved Communities Act, is a bill that would allow all federal credit unions to apply to the National Credit Union Administration (NCUA) to expand their field of membership to include underserved communities, including communities that lack a depository institution branch within 10 miles. It would also exempt loans made by credit unions to businesses in underserved areas from the credit union member business lending cap.

H.R. 4495, the Downpayment Toward Equity Act, is a bill that would help address multigenerational inequities in access to homeownership and help close the racial wealth and homeownership gaps in the United States.

H.R. 7977, the Promoting Opportunities for Non-Traditional Capital Formation Act, would amend the Securities Exchange Act to require the Advocate for Small Business Capital Formation to provide educational resources and host events to promote capital-raising options for traditionally underserved small businesses.

H.R. 68, the Housing Fairness Act of 2021, is a bill that would establish a new competitive grant program at HUD to support comprehensive studies of the causes and effects of ongoing discrimination and segregation, and the implementation of pilot projects to test solutions.

H.R. 6814, the Small Business Fair Debt Collection Protection Act, is a bill that would amend the Fair Debt Collection Practices Act (FDCPA) to extend protections which are currently in place for consumers to guard against certain predatory debt practices, to also apply to small business borrowers.

New York Governor Kathy Hochul signs legislation boosting consumer protections and addressing inequities in financial services system[5]

A long-standing concern in low-income communities is that banking options are limited, leading people to use check cashing services or payday loan businesses that often use large fees to process payments. In New York City approximately 44% of the population lives near or at the poverty line, and statewide 14% of the population lives below the poverty line.[6] Poverty in America is a complex network of interrelated factors imposed on an individual that affects nearly every aspect of their life, in which impoverished individuals lack accessibility to wealth and assets to build financial stability.

Recently, New York Governor Hochul signed legislation increasing consumer protections. The first piece of legislation, S.1684/A.8293, directs the Department of Financial Services (DFS) to conduct a study of underbanked communities and households in New York and make recommendations to improve access to financial services for them. The bill, among other things, will update the data on households that are unbanked and underbanked and analyze the data with a goal of developing an assessment for New York State's DFS to use in aiding these communities more effectively.

While access to safe and affordable financial services is necessary to build financial stability, too many New Yorkers are either unbanked—with no access to a checking or savings account—or underbanked and use alternative and riskier financial services that include payday loans.

Another piece of legislation, S.4894/A.1693, protects consumers from potentially unsafe banking products by prohibiting banking institutions from issuing unsolicited mail-loan checks. A mail-loan check is an unsolicited loan offer that is sent by mail and once cashed or deposited binds the recipient to the loan terms, which may include high interest rates for multiple years. The practice of mailing unsolicited loan checks can prove confusing and dangerous for consumers and cause unnecessary hardships on them when checks are cashed in their name with no knowledge of these transactions. This legislation will protect New Yorkers from the associated risk.

According to Hochul, this legislation is the first step in remedying the lack of safe and accessible banking services that contribute to the inequities in New York's financial system. The new law will provide state officials with an updated number of households in underbanked neighborhoods.

Other notable regulatory developments

Agencies issue joint proposal to strengthen and modernize Community Reinvestment Act Regulations[7]

The Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency jointly issued a proposal to strengthen and modernize the 45-year-old landmark law, the Community Reinvestment Act (CRA).

To address inequalities in access to credit, the agencies would assess the performance of banks across the various activities they carry out and the communities they operate. They also propose to update CRA assessment areas to include activities associated with online and mobile banking, branchless banking, and hybrid models.
To deliver greater clarity, consistency, and transparency, a new metrics-based approach to CRA evaluations of retail lending and community development financing, which includes public benchmarks, will be adopted. It also would clarify eligible CRA activities, such as affordable housing, that are focused on low-to-moderate income, underserved, and rural communities.

The proposal reflects a unified approach from the bank regulatory agencies. It also provides that smaller banks would continue to be evaluated under the existing CRA regulatory framework with the option to be evaluated under aspects of the new proposed framework. The comment period closed on August 5, 2022, with the final rule expected to be released in three to six months once all of the comments have been reviewed and analyzed.

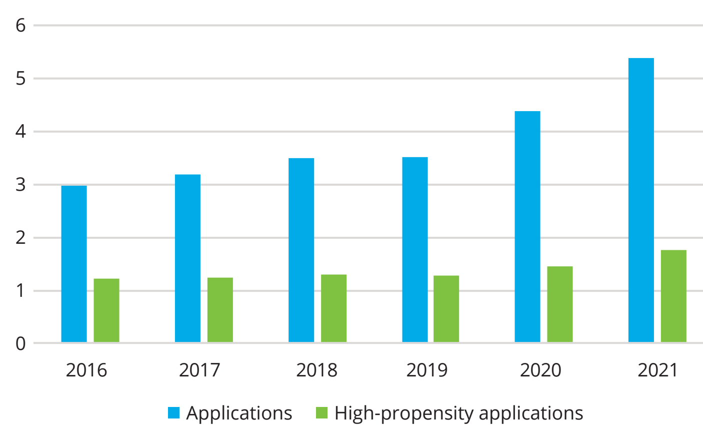
Treasury announces first State Small Business Credit Initiative awards to support underserved entrepreneurs and small business growth in key industries[8]

US Department of the Treasury announced the first group of plans authorized within the new sphere of the State Small Business Credit Initiative (SSBCI).

To assist underserved communities emerging from the pandemic and increase their access to capital, the new SSBCI provides almost $10 billion to states, the District of Columbia, territories, and tribal governments.

In 2021,[9] Americans applied to start 5.4 million new businesses—20% more than any other year on record. A recent White House study also found that small businesses are creating more jobs than ever before, with businesses with fewer than 50 workers creating 1.9 million jobs in the first three quarters of 2021—the highest rate of small business job creation ever recorded in a single year.

Figure 2. National business applications[10] (in millions)



The investments being made through SSBCI are a key part of the Biden administration's strategy to keep this small business boom going by expanding access to capital and by providing entrepreneurs the resources they need to succeed.

The Treasury strongly encourages states to support industries vital to the US economy. It has also been a proponent of small-scale business groups that are investing in clean and renewable energies and those working to improve essential supply chains and reduce energy dependency. It also strongly encourages state recipients to reach out to small businesses that offer living wage-paying jobs enabling people to come out stronger from the challenges of pandemic-era employment.

Awarded states include Hawaii, Kansas, Maryland, Michigan, and West Virginia. These states will launch various credit enhancement programs to expand access to capital for underserved communities; help early-stage businesses; support women-owned and minority-owned small businesses; and help industries with high wages and high job growth potential, such as manufacturing, medical device technology, engineering, and agribusiness. The Treasury intends to continue approving plans under the SSBCI program on a rolling basis.

The Treasury, in its efforts to progress inclusion, has also launched the Small Business Lending Survey (SBLS) to better understand, and share with the public, banks' contributions to this vital part of the US economy.

FHFA announces Equitable Housing Finance Plans for Fannie Mae and Freddie Mac[11]

The Federal Housing Finance Agency (FHFA) announced the release of Fannie Mae's and Freddie Mac's (the Enterprises) Equitable Housing Finance Plans for 2022–2024, aimed at improving access to affordable and sustainable housing.

The Enterprises developed the 2022–2024 plan activities, which will be updated annually, to address barriers experienced by renters, aspiring homeowners, and current homeowners—particularly in Black and Latino communities. These activities include, but are not limited to:

- Consumer education initiatives for renters and homeowners
- Credit reporting to help tenants build credit profiles and access financial services
- Expanding counseling services to support housing stability
- Deploying technology to improve access to sustainable credit and fair home appraisals
- Special Purpose Credit Programs to address barriers to sustainable homeownership

The FHFA has also created a pilot transparency framework for the Enterprises to accompany these plans, which requires each Enterprise to publish and maintain a list of pilots and test-and-learn activities on its public website. It will also provide accountability in determining whether disparities have been identified in the Equitable Housing Finance Plans.

Note: This is a brief spotlight on current industry events and not Deloitte's point of view.

Key takeaways

While financial inclusion efforts have increased significantly over recent years, regulators continue to take critical steps to implement a more equitable and resilient financial sector and to correct discrimination, increase access to financial services, and promote equality with consumer protection. In this issue, we've noted several aspects of the ongoing wave of regulatory initiatives to address potential inequities, including:

- Congresswoman Waters led her team on the Federal Reserve Racial and Economic Equity Act, H.R. 2543, **a historic piece of legislation on racial equity in mortgages**, lending, and investments. Multiple other bills of similar nature were passed to stand up for vulnerable communities.
- New York Department of Financial Services enacted legislation that seeks to **bolster consumer protections while addressing the inequities in its state's financial services system**.
- Agencies issued a joint proposal to strengthen and modernize Community Reinvestment Act (CRA) regulations **to deliver greater clarity, consistency, and transparency, through a new metrics-based approach to CRA evaluations for retail lending and community development financing**.
- The Treasury approved the first group of **plans authorized within the new sphere of the State Small Business Credit Initiative (SSBCI)** and provided almost **$10 billion** to states, the District of Columbia, territories, and tribal governments.
- The FHFA released Fannie Mae's and Freddie Mac's (the Enterprises) Equitable Housing Finance Plans for 2022–2024, which are designed to complement the initiatives outlined in the FHFA's Strategic Plan: Fiscal Years 2022–2026 that **promote the Enterprises' safety and soundness and foster housing finance markets that provide equitable access to affordable and sustainable housing**.

Additional Deloitte perspective on financial inclusion

For additional insight, please see our ongoing series on financial inclusion and the impact it has on the financial services industry and the broader economy.

- Driving purpose and profit through financial inclusion
- Advancing social and economic goals with global financial inclusion
- Financial inclusion and the underserved life insurance market, part one
- Additional Deloitte resources

Endnotes

1. US House Committee on Financial Services, "Committee on Financial Services passes 10 bills to reduce housing costs, prevent housing fires, support small businesses, stand up for consumers and protect whistleblowers," press release, June 23, 2022.
2. US House Committee on Financial Services, "Waters leads Committee Democrats on House passage of historic racial equity bill to provide overdue mortgage assistance, lending and new opportunities to communities of color," press release, June 15, 2022.
3. Mels G. de Zeeuw and Victor E. da Motta, "Minority-owned enterprises and access to capital from community development financial institutions," *Community Development Innovation Review 15, no. 1 (May 2021).*
4. US House Committee on Financial Services, "Committee on Financial Services passes eight bills to keep up with evolving financial marketplace, stand up for vulnerable communities," press release, May 18, 2022.
5. New York State, "Governor Hochul signs legislation boosting consumer protections and addressing inequities in financial services system," May 5, 2022.
6. New York State Senate, Senate Bill S1684.
7. Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, "Agencies issue joint proposal to strengthen and modernize Community Reinvestment Act Regulations," press release, May 5, 2022.
8. US Department of the Treasury, "Treasury announces first State Small Business Credit Initiative awards to support underserved entrepreneurs and small business growth in key industries," press release, May 19, 2022.
9. The White House, *The small business boom under the Biden-Harris administration*, April 2022.
10. Ibid.
11. Federal Housing Finance Agency, "FHFA announces Equitable Housing Finance Plans for Fannie Mae and Freddie Mac," press release, June 8, 2022.

Contact us

Courtney Davis
Principal | Deloitte Risk & Financial Advisory
Deloitte & Touche LLP
coudavis@deloitte.com

Chris Tucker
Senior manager | Deloitte Risk & Financial Advisory
Deloitte & Touche LLP
chtucker@deloitte.com

Deloitte Center for Regulatory Strategy

Irena Gecas-McCarthy
FSI director, Deloitte Center for Regulatory Strategy, Americas
Principal | Deloitte Risk & Financial Advisory
Deloitte & Touche LLP
igecasmccarthy@deloitte.com

Michele Jones
Senior manager | Deloitte Risk & Financial Advisory
Deloitte & Touche LLP
michelejones@deloitte.com

Kyle Cooke
Senior consultant | Deloitte Risk & Financial Advisory
Deloitte & Touche LLP
kycooke@deloitte.com

Additional contributors

Saakshi Nagdev
Manager | Deloitte Risk & Financial Advisory
Deloitte & Touche LLP
snagdev@deloitte.com

Hilak Asheshkumar Patel
Senior consultant | Deloitte Risk & Financial Advisory
Deloitte & Touche LLP
hilakpatel@deloitte.com

Monica Siva Srujana Asapu
Senior consultant | Deloitte Risk & Financial Advisory
Deloitte & Touche LLP
msivasrujanaasapu@deloitte.com

Shubham Kumar
Consultant | Deloitte Risk & Financial Advisory
Deloitte & Touche LLP
shubhamkumar2@deloitte.com

Deepshi Singhal
Consultant | Deloitte Risk & Financial Advisory
Deloitte & Touche LLP
deesinghal@deloitte.com

Deloitte.

CENTER *for* REGULATORY STRATEGY AMERICAS