Community Bank Advisory Council Meeting

April 30, 2024

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 1:00 p.m. eastern on April 30, 2024.

Council members present	CFPB staff participants
Community Bank Advisory Council	Director Rohit Chopra
Chair Carlos Naudon	Ann Epstein
Derek Henderson	Kim George
Bruce Hoyer	Manny Mañón
Jennifer Johnson	Dan Martinez
Sergio Ora	Amy Zirkle
Victor Ramirez	
Ignacio Urrabazo	

Welcome

Director Rohit Chopra
Kim George, Outreach and Engagement Associate, Advisory Board and Councils, External Affairs Division
Carlos Naudon, Chair, Community Bank Advisory Council

The CFPB's Advisory Board and Councils Outreach and Engagement Associate, Kim George, convened the Community Bank Advisory Council meeting and welcomed committee members and the listening public. She provided a brief overview of the meeting's agenda, touched on housekeeping items, and then turned the meeting over to the CFPB Director Rohit Chopra who provided opening comments.

Director Chopra welcomed the members of the CBAC and said community banks are moving to other places in the financial systems in key product areas, and there has been an increasing shift to mortgage lenders, bigger ones and often nonbanks.

Auto lending is another area that is leaving the banking system and moving in different directions. It is less competitive, and individuals may not have a relationship with the entity collecting payments from them.

Director Chopra said there has been an acceleration of credit card outstandings. There's been a shift in credit card customers selecting cards offering rewards as opposed to other features. He said the smaller financial institutions will not be able to compete with the larger ones.

Following Director Chopra's remarks, CBAC Chair, Carlos Naudon welcomed attendees and provided opening remarks. He said there has been an erosion in community banking, and today nonbanks dominate the ATMs. There is concern that the payment system is also being eroded away from banks.

Credit Card Competition Discussion

Director Rohit Chopra
Dan Martinez, Program Manager, Office of Markets

The Chair opened the first discussion of the meeting by saying that his bank no longer offers credit cards because of the competition and the inability to grow its portfolio. He mentioned that his bank is an MDI and CDFI in a low-income community. He also added that his bank participated in a fintech offering of a virtual card that was more of a secure revolver than a typical credit card, but compliance and fraud issues got in the way of that program.

Dan Martinez shared a statistic that in 1994, the top 10 banks had about fifty-six percent share of the credit card market, but today have more than eighty percent, making it difficult to compete with the larger banks.

A member said that his bank also does not offer credit cards directly but is engaging with potential fintech partners to be able to offer them in the future. Though there are a lot of different options available, not many meet his bank's standard for due diligence, which is a challenge finding an entity they can trust to perform direct consumer interaction. Rewards, discounts on various types of streaming services, and insurance-type products for cell phones are examples of perks fintechs offer.

A member shared that his bank used to offer credit cards but sold its portfolio to a third-party service provider because the bank size did not have the capability to offer the services. As an "agent bank," it is not the actual issuer, but they can still offer the credit cards to the customers. The member said that the goal is to offer financial products and services to people, businesses, and communities that had not had access to these items previously. The member added that as a smaller bank, it does not have the resources internally for risk management practices but wanted to offer the product. Partnership with a third party enables the bank to provide this service to the customers.

A member commented that his bank had sold its portfolio fifteen to twenty years ago and said the credit card industry is an economies-of-scale business, and a very large portfolio is needed to absorb losses. The bank now has direct lending through an internal credit card and acts as a service agent. He added that the bank receives referral fees, and the customers are happy with the rewards offered.

Director Chopra said with some of the compensation models, all of the credit risk is not with the referring bank; it is with the issuing bank. The more you go into lower credit tiers, that is where diversification of the portfolio is going to matter. A finding has revealed the more concentrated an industry is, it results in rate competition becoming less intense. A member added that in Texas, the credit scores in their community are below normal, which presents a challenge.

Dan Martinez said that on a recent analysis looking back ten years found the average APR on credit cards was thirteen percent. As of the end of last year, though, it was twenty-three percent, a ten percent jump. Only half was increases in the prime rate. The other half was increasing APR margin by the issuers. The analysis did disaggregate by different FICO tiers, and the increase was observed across all of them, from people with greatest credit scores to the lowest credit scores.

A member suggested that if the community banks could manage the risk by offering twenty-three percent instead of the forty percent industry APR that payday lenders have, they could realize a profit and better serve their communities safely.

Director Chopra said attempts have been made to offer smaller-dollar lending at cheaper rates, to include installment lending, which was not really a scalable enterprise. CFPB has found that revolving credit is more scalable than non-revolving credit and would like to find ways that allow smaller institutions to profit, and lack of price competition presents some difficulties in how to market to consumers.

The Chair mentioned that his bank came out with a product similar to an overdraft line of credit attached to a checking account, but it wasn't successful. He said that the bank switched it into a cash-flow model where it can get access to checking account balances and determine what the customer can pay. He added that they are in the first months of a pilot stage, and the cash-flow model looks promising.

Director Chopra said the cash-flow underwriting model looks promising. It provides predictability in terms of underwriting.

A member commented that his bank is a CDFI, and it does offer a credit card. The latest performance of their credit card division shows that new accounts have remained flat comparing to the first quarter in 2023 to 2024. The banks portfolio is sixty percent consumer and forty percent business. The member said that the footprint now is limited to California, Washington, and Oregon, but the bank is looking to increase to a national scale. He shared that the most popular credit card at his bank, Climate Card, offers a rewards program and for every point given for every dollar spent on the Climate card, the rewards can be invested into a nonprofit of the customer's choice. The member said that the bank is using a third-party vendor just for the rewards program. The member added that the bank also has a secured credit card as part of a community program which offers financial education. The member shared that there is an organization in the Bay Area called CROP which helps support formerly incarcerated individuals establish credit, and the bank is helping those participating to build their credit history. The member said that they have about three-hundred secure cards with very low delinquency rates.

A member shared that his bank has allocated capital for lending to a CDFI called NeighborWorks. This program engages with local county employees who have been employed for over year and qualifies the employees for $1,000 or $2,000. The payroll department of the employer deducts the payment from the employee and pays the monthly payment, but a problem is that the yield is low. The member mentioned that large employers are skeptical about it, but the hope is through CRA credit that this will help level the playing field with payday lenders.

A member shared that her bank no longer offers credit cards in-house, but it does partner with a third party, a banker's bank, not a fintech. The member added that the bank has no control over pricing or rewards programs, but it does offer this as a service to its consumers. The member believes revolving credit would be easier to offer consumers because the disclosure, underwriting, and service requirements are far more significant than with an installment loan. The member shared that the bank has partnered with a religious organization to offer small-dollar installment loans, $500 at seven percent, that the institution guarantees which is a way to keep customers away from payday lenders.

Director Chopra said an area that needs further examination is the service provider's interactions with consumers. The confidence placed in the service providers must be met by making sure that due diligence is adhered to.

A member asked if there has been any movement by the CFPB in terms of regulating the consumer reporting agencies. Director Chopra said CFPB has focused on their core responsibilities under the law: ensuring accuracy, having appropriate dispute mechanisms, and identity theft-related issues. He said that the CFPB is looking at the issue of data brokers and payment providers.

Director Chopra said that the CFPB has really shifted the supervisory work from bank to nonbank because of the number of consumers being touched by credit reporting companies, mortgage servicers, nonbank mortgage originators, and payment players. Three-quarters to eighty percent of monthly complaints received by the CFPB are about credit reporting. Additional supervision for the payment players has been proposed.

A member mentioned that his bank doesn’t have credit cards and does not do a lot of consumer lending because of demographics and location, but the bank does have a number of commercial businesses that needed credit cards but don’t not want to deal with big banks. The member stated that the bank set it up so that the main operating account, if there are no funds, will go to a line of credit and the customer can access online banking and pay the line of credit back down and move funds, this model has been successful.

Director Chopra said Transportation Secretary Buttigieg and he will be hosting a hearing on airline rewards issues, looking to see if consumers are getting the rewards they're promised. A few big players have exclusive relationships with banks about being the provider for their points and rewards. Consumers are closely watching rewards offerings in order to make decisions on consumer lending.

Trends and Themes in Community Banking

Ann Epstein, Assistant Director, Office of Competition and Innovation
Amy Zirkle, Senior Program Manager, Office of Markets

Chair Naudon kicked off the second and last discussion of the day on Trend and Themes in Community Banking. The Chair said the focus on this discussion is on core service providers and that his bank's dependency on them is very significant and often involves lack of innovation, which hinders them from offering products to their customers and this is a significant challenge to small banks in terms of negotiation and getting the service providers responsive to the needs of the organizations.

A member shared that his bank uses a small core provider called COCC, local to Connecticut. It sometimes lags behind in offerings and capabilities than something like a Fiserv. The member said that the AML transaction monitoring is a major software that all banks have to have, but if it is not meeting the needs, to shift from an AML transaction monitoring service provider is a major undertaking that is costly with much regulatory pressure.

The Chair mentioned that his bank has different cores, one for digital banking and one for retail, which has been effective. The digital core is more flexible and better at integrating things.

A member emphasized that at her bank it has found that core providers slow in product offerings as well as being very cost prohibitive. Whether through a clearinghouse or FedNow, the cost is too significant, around $80,000 a year. The member added that a fintech is also cost prohibitive.

A member added that changing core providers is not simple, and there is a learning curve. The benefits are there, but there is a price to pay, time and effort in the commitment.

A member shared that his main concern is security in the core system that his bank has internally. His organization has at least twenty-five to thirty software companies that provide to the system as software providers but have to ensure the software is compatible and meets its consumer needs. The member feels strongly that it is very important that the software is just as strong as the core systems.

Ann Epstein asked about the best of breed-type approach and then using APIs and other methods to connect to the core, as compared to getting all of the software needs from one provider. Several members responded to the question. The Chair said that the best-of-breed approach requires dealing with two, the technology side with integration and the legal side with contracts. Most core provider contracts have multiple pieces and are not necessarily coterminous. He gave an example to illustrate how integration is sometimes difficult to achieve and very expensive, such as the core at this bank having a Salesforce application that then required a middleware of MuleSoft. The process cost millions of dollars and took years of implementation. Another member responded and agreed that the investment is needed for growth, but it is important to have the tools required not just for marketing and product delivery but also for compliance and regulatory issues. It takes time for the process to take hold.

The Chair said that the instant payment has progressed much greater internationally than in the United States and stated that FedNow is not mandated and is very expensive. His bank is delaying implementation and thinks different alternatives that could be better may be forthcoming.

Amy Zirkle said FedNow is not really a consumer-facing product, but she asked about the prohibitive costs and wanted to know what others thought about this space evolving. The Chair said the problem is his bank's item-processing provider, which is also the bank's core, has its own clearing network, and there's no urgency to move from that system. Another member explained why the cost is high for her bank and that it does not directly engage with its core provider, with the exception of care services. The member added that her bank uses a third party to manage that relationship, which means the bank is getting charged twice, a comprehensive installation that requires one cost from the core and one cost from the third party who manages the core. The member added that there is also a required cost of fraud-monitoring software if you move to sending real-time payments, but her bank is one of the few banks able to get by with a manual fraud management process. A member added that high technology can backfire and create more work, requiring another monitoring system needed to be put in place.

The Chair said a trend that is happening is adjusting to higher interest rates on mortgages and consumer loans. In terms of originations, his bank did almost $970 million in 2023, but expect to be down in 2024 by $250 million. The competition for deposits is high, and the bank is not getting the funding. Even though retail deposits have grown by $90 million since the end of 2023, it is not enough to keep pace with the high loan demands, especially for affordable housing. He also shared that there is some strain on old buildings where rent stabilization rules have changed, making it hard for landlords to recover an investment.

A member agreed that it is a challenge for banks like his to maintain profitability and continue to fund the mission based on internal and organic profitability.

A member commented that at his bank does not sell loans and does not participate in the secondary market. Most of the consumer base is agriculture and one-to-four family construction. The member said that it is difficult to gain new deposits with the way the stock market is and that people that lost money last time in the stock market said they would never go back. The member mentioned that his bank is having a hard time finding the funding source. The member shared that there is a big military base project on the horizon in his region, which will bring in new workers and employees, but it will be challenging to keep it all funded going forward the next year or so.

Closing

Chair Carlos Naudon

The Chair gave some closing remarks and thanked the members, participating staff, and the public for attending.

Adjournment

The meeting adjourned on April 30, 2024, at approximately 3:00p.m. eastern time.

Certification

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

Manny 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