February 2018

GAO Highlights

Highlights of GAO-18-244, a report to congressional requesters

COMMUNITY REINVESTMENT ACT

Options for Treasury to Consider to Encourage Services and Small-Dollar Loans When Reviewing Framework

Why GAO Did This Study

A 2015 FDIC survey found that 7 percent of U.S. households were unbanked—meaning no one had a checking or savings account—and about 20 percent were underbanked—meaning the household had such an account but used an AFS provider's products. The goal of CRA is to encourage financial institutions to help meet the credit needs of the communities in which they operate, including LMI neighborhoods. FRB, FDIC, and OCC periodically evaluate financial institutions' efforts to meet the credit needs of their communities.

GAO was asked to assess financial institutions' provision of basic banking services and small-dollar, nonmortgage consumer loans in LMI communities, including how regulators evaluate their performance. GAO assessed 2016 data on the availability of financial institutions in LMI communities; reviewed regulators' evaluation procedures; and analyzed a generalizable, stratified random sample of 219 CRA performance evaluations from 2015 to determine how provision of these services and loans was assessed. GAO also solicited input from stakeholders (including consumer advocacy groups, financial industry members, and regulators) through methods including interviews, a survey, and panel discussions.

What GAO Recommends

GAO recommends that Treasury consider the options outlined in this report when conducting its planned review of the CRA framework. Treasury concurred with the recommendation.

View GAO-18-244. For more information, contact Alicia Puente Cackley at (202) 512-8678 or cackleya@gao.gov.

What GAO Found

Based on GAO analysis of 2014 and 2016 data from the Federal Deposit Insurance Corporation (FDIC), National Credit Union Administration, Federal Financial Institutions Examination Council, and Census, low- and moderate-income (LMI) communities have at least as many banks and credit unions nearby as middle-income communities in rural areas and larger metropolitan areas but fewer than in smaller metropolitan areas. However, 2015 FDIC survey data suggest lower-income households were more likely to obtain credit or conduct financial transactions through an alternative financial services (AFS) provider (such as a check casher) and less likely to have a checking or savings account with a bank or credit union than their higher-income counterparts.

Federal banking regulators' procedures for conducting Community Reinvestment Act (CRA) evaluations do not require an evaluation of financial institutions' provision of retail banking services or small-dollar, nonmortgage consumer lending, or support for community development in LMI areas for every institution. Whether the federal banking regulators—the Board of Governors of the Federal Reserve System (FRB), FDIC, and Office of the Comptroller of the Currency (OCC)—evaluate a financial institution on its provision of these services and loans depends on the type of institution, among other factors. For example, while large institutions are subject to evaluations of their services, lending, and support of community development, smaller institutions are primarily evaluated on their lending. Further, small-dollar, nonmortgage consumer lending is typically evaluated only if consumer lending is a substantial majority of the lending or a major product of the institution, which generally is not the case across all institution types.

Stakeholders GAO contacted identified several options they believe could provide additional incentives for financial institutions to provide basic banking services and small-dollar, nonmortgage consumer loans in LMI areas. Such options include modifications to tests conducted as part of the CRA examination process to focus more on the extent to which institutions are offering these services and loans, expanding the areas and entities assessed as part of the examinations, and clarifying guidance about the examination process. However, other stakeholders noted that such options may not alleviate institutions' competing concerns about the profitability of these services and loans or regulators' concerns about their safety and soundness. In commenting on these options, the federal banking regulators noted they had, among other things, issued in 2016 additional guidance on small-dollar loans that would qualify for CRA consideration. In June 2017, the Department of the Treasury issued a report indicating that statutes of critical importance to the banking sector, such as CRA, should be modernized to better target the financial risks consumers face. As a result, Treasury is planning a review of how CRA is being implemented, though the agency did not have a timeline for completing this review. Given the continuing unmet needs of many LMI consumers in obtaining basic banking services and small-dollar credit, the options that our work identified could help inform Treasury's review of the CRA framework and potentially encourage financial institutions to provide basic banking services and small-dollar, nonmortgage loans.