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FDIC's Updated Economic Inclusion Strategic Plan

In April, the FDIC released its updated Economic Inclusion Strategic Plan (the Plan) to encourage households to establish, sustain, and benefit from banking relationships that create a strong financial foundation, help manage day-to-day finances, and build wealth in communities strengthened by bank lending, services, and investments. The Plan recognizes that consumers and communities experience a variety of economic milestones and will need different financial products from the banking system at different times. The Plan introduces a less linear approach to banks strengthening communities through a wide range of community development activities. (See Exhibit 1 on the next page) It also builds on existing Community Affairs relationships and the FDIC's successful programs, like Money Smart and Consumer News; and the consumer-focused campaigns, Get Banked and Know Your Risk. Protect Your Money.

The Plan outlines four opportunity areas with an intentional and heightened focus on the financial needs of consumers and communities. The Plan encourages the FDIC, bankers, and other community stakeholders to focus on people and consider their vision for their communities, with a particular emphasis on low- and moderate-income (LMI) consumers, consumers of color, and other underserved groups. The four opportunity areas, which build upon approaches and insights gained from prior versions of the Plan, include the following:

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- **Opportunity Area 1. Create and Sustain Foundational Banking Relationships:** Establish an on-ramp to the U.S. financial system, setting the stage for future financial success.
- **Opportunity Area 2. Build Household Financial Stability:** Help households save and increase access to consumer credit to better manage ongoing and emergency expenses.
- **Opportunity Area 3. Achieve a Secure Financial Future:** Build household wealth through investments that can foster savings and accumulate value over time.
- **Opportunity Area 4. Live in Strong and Healthy Communities:** Encourage bank lending, investments, and services that support strong and healthy communities, including LMI neighborhoods and other underserved communities.

The most significant change in the Plan is that it encourages banks to bolster strong and healthy communities, focusing on LMI neighborhoods and other underserved communities. Through community development lending, investments, and services, banks can support a broad range of objectives, including increasing affordable housing, improving community facilities, expanding employment opportunities, and enhancing the resilience of communities to growing risks arising from climate change.

The FDIC has long sought to support the community development efforts of financial institutions. However, through the explicit connection to economic inclusion efforts, the FDIC recognizes that banks are unlikely to succeed in building trusted relationships with households if they are otherwise neglecting to make investments that strengthen the communities in which those households live and work. To that end,

Exhibit 1 – Pathway to Economic Inclusion

the Plan outlines a variety of strategies to assist banks in meeting these objectives and creating a more inclusive banking system.

Similarly, the FDIC will not succeed in its efforts to positively impact communities by doing so alone. Therefore, financial institutions, bank regulatory agencies, federal agencies, community-based organizations, and state and local governments are encouraged to create partnerships that strategically work towards the economic inclusion goals through the FDIC's Community Affairs program.

To learn more about how Community Affairs staff can help your financial institution develop or implement objectives outlined in the Plan, contact your FDIC Regional Manager, D. Simone Stovall, at DStovall@fdic.gov or (312) 382-6935. The FDIC also offers several additional resources related to economic inclusion.

Fair Credit Reporting Act – Consumer Alerts

The Fair Credit Reporting Act (FCRA) requires that consumers be provided with three types of alerts to protect their credit files from potential fraud or identity theft: initial fraud alerts, extended fraud alerts, and active duty alerts. Users of consumer reports, including financial institutions, must take certain steps to verify the identity of a consumer whose report contains fraud or active duty alerts.

The FDIC has recently identified instances where financial institutions are not following the extended fraud alert requirements under FCRA. Specifically, some financial institutions relied on internal policies and procedures for verifying a consumer's identity with an extended fraud alert and did not contact the consumer in person or by the method listed by the consumer in their credit report. Although a financial institution may rely on internal policies and procedures for consumers with initial fraud and active duty alerts, FCRA requires financial institutions, as users of consumer reports, to contact consumers with extended alerts in order to verify their identity. Below is a summary of the initial and extended fraud alert requirements:

Section 605A(h)(1)(B) - Initial Fraud Alerts: Consumers who suspect that they may be the victims of fraud, including identity theft, may request that nationwide consumer reporting agencies place initial fraud alerts on their consumer reports. These alerts must remain on a consumer's report for no less than 90 days. Financial institutions that obtain consumer reports with an initial fraud alert must verify a consumer's identity. Prior to originating a new credit plan or extending credit (other than open-end credit plans), issuing an additional card on an existing account, or increasing a credit limit, financial institutions must use reasonable policies and procedures to form a reasonable belief that they know the identity of the person making the request.

Section 605A(h)(2)(B) - Extended Fraud Alerts: Consumers who allege that they are the victim of identity theft may also place an extended fraud alert, which lasts seven years, on their consumer report. Financial institutions that obtain consumer reports with an extended alert must contact the consumer in person or by the method listed by the consumer in the alert prior to originating a new credit plan or extending credit (other than open-end credit plans), issuing an additional card on an existing account, or increasing a credit limit.

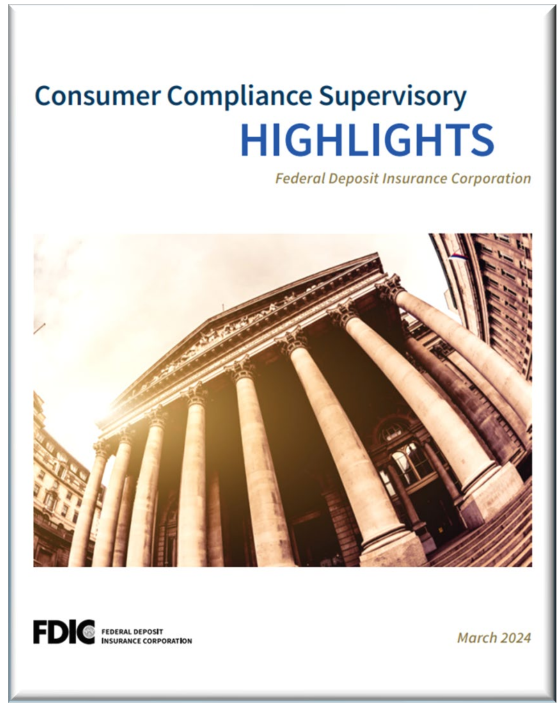
To ensure that the financial institution has an effective compliance management system, and consistent with requirements under FCRA and its implementing Regulation V (12 CFR Part 1022), the financial institution's Board and senior management should ensure that appropriate policies and procedures are established for FCRA requirements, periodic training is provided to applicable staff that addresses the difference between initial and extended fraud alerts, and periodic monitoring and/or audits are conducted to test for compliance with FCRA requirements.

FDIC Consumer Compliance Supervisory Highlights

The FDIC's Consumer Compliance Supervisory Highlights is an annual publication to enhance transparency regarding the FDIC's consumer compliance supervisory activities, and provide a high-level overview of consumer compliance issues identified through the FDIC's supervision of state non-member banks and thrifts. The March 2024 edition includes the following topics:

- Overall consumer compliance performance in 2023, including a list of the five most frequently-cited Level 3/High Severity or Level 2/Medium Severity violations;
- Consumer compliance examination observations including high level discussions of cases involving the misuse of FDIC's name or logo, credit builder products, error resolutions, broker relationships, and fair lending compliance;
- Discussion of regulatory and other developments;
- Links to helpful resources for financial institutions; and
- Overview of consumer complaint trends.

Supervised institutions may find this information helpful in supporting their efforts to more effectively manage their consumer compliance responsibilities and stay abreast of regulatory topics and developments. We also encourage you to check out the valuable information covered in past editions!



Statement on Examination Principles Related to Valuation Discrimination and Bias in Residential Lending

On February 12, 2024, the Federal Financial Institutions Examination Council (FFIEC), on behalf of its member entities, issued the "Statement on Examination Principles Related to Valuation Discrimination and Bias in Residential Lending." The statement communicates the following principles for the examination of supervised institutions' residential property appraisal and evaluation (valuation) practices:

(i) mitigate risks that may arise due to potential discrimination or bias in those practices, and
(ii) promote credible valuations.

Real estate valuations are a critical underwriting component in residential real estate lending, both from a consumer compliance and safety and soundness perspective. Therefore, as part of the examination process, examiners will assess institutions' compliance management systems and risk management practices for identifying and mitigating potential discrimination or bias in residential property valuation practices. The full press release and Statement of Examination Principles can also be found on the FFIEC website.

CFPB Extends Compliance Date for Small Business Lending Data Collection Rule

On March 30, 2023, the CFPB issued a final rule to implement Section 1071 of the Dodd-Frank Act (Section 1071). Section 1071 amended the Equal Credit Opportunity Act to require covered financial institutions to collect and report certain data on credit applications made by small businesses, including women- or minority-owned small businesses. According to the CFPB, the final rule would fulfill the statutory purposes to (1) allow Federal, State, and local enforcement agencies to assess potential areas for fair lending enforcement and; (2) enable a range of stakeholders to better identify business and community development needs and opportunities for small businesses, including women-owned and minority-owned small businesses.

Background

The final rule specifies a number of data points that lenders are required to collect and report. The final rule also provides the CFPB authority to require any additional data points that it determines would aid in fulfilling Section 1071's statutory purposes. In addition, the final rule contains a number of other requirements, including provisions that restrict access by underwriters and other persons to certain demographic and other data (i.e., firewall).

Section 1071 applies to:

1) Covered financial institutions making at least 100 covered small business loans per year. Covered institutions include depository institutions (i.e., banks, savings associations, and credit unions), online lenders, platform lenders, merchant cash advance providers, and non-profit lenders;
2) Diverse forms of credit that include closed-end loans, lines of credit, business credit cards, online credit products, and merchant cash advances; and
3) Small businesses with gross revenue of $5 million or less in its preceding fiscal year.

Compliance Date Extension

On May 17, 2024, the CFPB announced its intention to extend the compliance deadlines for the final rule. The announcement came immediately after the U.S. Supreme Court's ruling in *CFPB v. Community Financial Services Association of America, Ltd. (CFSA)*, in which the Supreme Court confirmed the CFPB's funding structure is constitutional. Lenders initially challenged the final rule in a Texas district court. The district court stayed the effective compliance dates of the rule for certain lenders pending the Supreme Court's decision in *CFSA*. The stay was then extended to cover all small business lenders nationwide and the district court required the CFPB to extend the final rule's compliance deadlines to compensate for the period stayed if the CFPB won its case against the *CFSA*.

The CFPB intends to extend the compliance dates as follows:

Compliance Tier	Original Compliance Date	New Compliance Date	First Filing Deadline
Tier 1 institutions (highest volume lenders)	October 1, 2024	July 18, 2025	June 1, 2026
Tier 2 institutions (moderate volume lenders)	April 1, 2025	January 16, 2026	June 1, 2027
Tier 3 institutions (smallest volume lenders)	January 1, 2026	October 18, 2026	June 1, 2027

The CFPB has published a number of additional materials and plain language resources to help lenders prepare for the new rule, including:

- CFPB's Small Business Lending Rulemaking Page
- CFPB Small Business Lending Rule Compliance Date Extension
- CFPB's Small Business Lending Resources

Upcoming Chicago Region Community Affairs Events

Milwaukee Alliance for Economic Inclusion Member Meeting recognizing Hispanic Heritage Month
Date: September 19, 2024
Location: TBD
Point of contact for more information: Carol N. Maria, Community Affairs Specialist (Wisconsin Territory)
cmaria@fdic.gov

Northern Indiana Bank On Alliance Launch
(The alliance will cover Jasper, Lake, LaPorte, Newton, Porter, Pulaski, and Starke counties.)
Date: September 26, 2024
Location: TBD
Point of contact for more information: Samantha N. Sherrod, Community Affairs Specialist (Indiana Territory)
ssherrod@fdic.gov

Third-Party Risk Management – A Guide for Community Banks

On May 3, 2024, the FDIC, along with the Board of Governors of the Federal Reserve System and the Office of the Comptroller of the Currency, issued the Third-Party Risk Management, A Guide for Community Banks (Guide) as a resource to help community banks in developing and implementing their third-party risk management programs, policies, and practices.

Why was this done?
Community banks engage with third parties to help the banks compete in and respond to an evolving financial services landscape. Third-party relationships can offer community banks resources, including access to new technologies and risk management tools. A community bank's reliance on third parties, however, reduces its direct operational control over activities and may introduce new risks or increase existing risks, including but not limited to, operational, compliance, financial, and strategic risks. A community bank's use of third parties does not diminish or remove a bank's responsibility to perform all activities in a safe and sound manner, in compliance with applicable laws and regulations, including those related to consumer protection and security of customer information.

How does the Guide help?
This Guide is intended as a resource for community banks to consider when developing third-party risk management programs, policies, and practices by providing potential considerations and examples for each stage of the third-party risk management life cycle. The Guide is not a substitute for the Interagency Guidance on Third-Party Relationships: Risk Management. It is also not a checklist and does not prescribe specific risk management practices or establish any safe harbors for compliance with laws or regulations.