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 areas. Such provisions were evaluated through methods including interviews, a survey, and panel discussions. 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. Data suggest that LMI households are more likely to 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 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.

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.

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.