EVERFI

Connecting Communities:
The State of the Broadband Economy and Changing CRA Requirements

About the Authors

Steve Bartlett

Former Member of Congress, Mayor of Dallas, and President & CEO of Financial Services Roundtable

Steve has over thirty years of experience in financial services, business strategy, corporate governance, ethics and compliance, and public policy at the highest levels of both private sector and government. His most notable positions include president and CEO of the Financial Services Roundtable in Washington, D.C., Mayor of Dallas, and a member of the U.S. House of Representatives. Contact him at sbartlett@everfi.com.

Ray Martinez

Co-Founder & President Financial Education, EVERFI

Ray Martinez is the Co-Founder and President of of EVERFI's Financial Education division. As President, Ray leads business development strategy to bring EVERFI's financial capability and life skills products to both K-12 students and adults through partnerships with hundreds of financial institutions and organizations across the U.S. During Ray's tenure at EVERFI he has led a number of critical initiatives including key partnerships with MassMutual, KeyBank, BB&T and hundreds of credit unions and community banks that have brought critical skills to thousands of communities.

Foreward

“The dogmas of the quiet past are inadequate for the stormy present...As our case is new, so we must think anew, and act anew.”

— A. Lincoln 1862

Though more than a century and a half has passed since Lincoln offered this advice, it remains as true now as it did then. Technology has reinvented industry after industry—changed the way we learn, communicate, buy and sell, and handle financial transactions. And for financial institutions, it’s also changed the way we meet our regulatory obligations.

I recently came across an intriguing study produced by the Federal Reserve of Dallas that offers a new paradigm for meeting Community Reinvestment Act (CRA) obligations.

The study underlined something we’ve been saying for years: CRA must, and will, evolve to meet the digital economy. This much is certain. And the changes could be so profound as to be considered a revolution of sorts. Given the nature of current technology and communication, it’s likely that this CRA revolution will be centered around the ways that banks communicate with their account-holders and their communities.

The CRA has evolved from its origins as an impetus to encourage lending in lower-income communities. To be sure; lending in low-mod communities will continue, but there is so much more. After all a loan is only half of a successful transaction, repaying that loan is the other half, and equally essential.

As regulators, legislators, and financial institutions continue to embrace new technologies and new strategies around community development, the pace of this CRA evolution will increase. And as banks prepare their reports for CRA 2018-2020, it’s essential that they emphasize the necessity of broadband to our new economy—and to those in need of deeper participation in this economy.

In this new digital frontier, financial education (learning the language of money) will play a crucial part in closing the digital divide that limits too many communities’ participation in our exciting new economy. As the Federal Reserve paper observed, by supporting education, participation, and the infrastructure necessary for financial growth, our communities are better able to thrive. At the same time, community-focused banks will be able reach new populations and extend services to a more engaged, knowledgeable, and confident customer base.

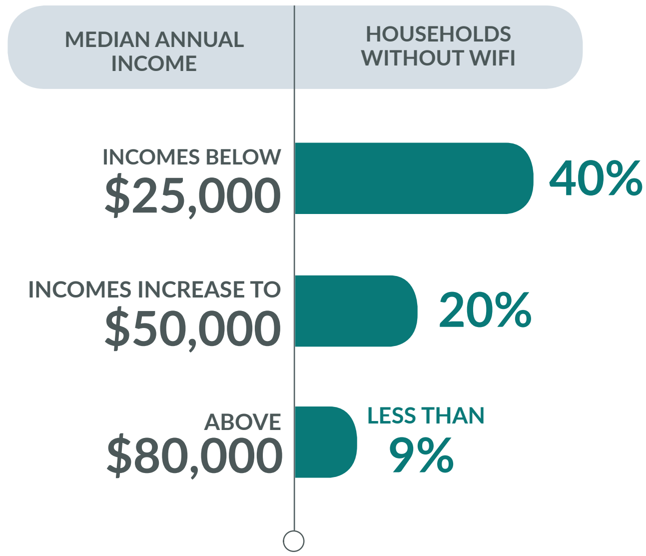
More customers. More engaged customers. More knowledgeable customers. Better customers. Everyone wins. And that is the key to the spirit and the execution of the Community Reinvestment Act.

Access to the New Economy

Broadband has transformed how we do business and has reshaped the economy at large. But high-speed internet is not just a tool to facilitate transactions—it's also both a pathway to, and indicator of, economic success. Put another way, access to broadband is essential to participating in the new economy and, as the digital economy grows, digital inclusion represents economic inclusion.

This trend was made evident in a recent study by the Federal Reserve of Dallas. According to the study, access to the internet plummets in lower- and moderate-income areas (LMIs). In regions where median annual incomes dip below $25,000, for example, nearly 40 percent of households do not have internet access. As incomes increase to around $50,000, the number of "disconnected" households shrinks to 20 percent. And where incomes reach $80,000 and more, the percentage of disconnected households dips down into the single digits.[1] Access to broadband has become essential to the economic health of communities, and the economic health of communities is dependent on broadband—creating something of a vicious circle, where lower-income communities are denied access to an economy that is increasingly dependent on that access.

Federal Reserve of Dallas Study
Increasing Incomes to WiFi Access



Connecting Communities to the Web

Being excluded from the digital economy is a big problem for lower-income communities, but financial institutions are positioned to help solve this problem—while also fulfilling federal requirements of the Community Reinvestment Act (CRA).

Under the CRA, banks should demonstrate how they are making investments and loans in lower-income areas for the infrastructure necessary for public services, education, and other community needs. Investments in broadband infrastructure would be one way to fulfill that requirement—with the goal of helping lower-income communities effectively participate in the new digital economy. And while spearheading such a program might fall outside the budget of smaller financial institutions, partnering with nonprofits, schools, and housing and development organizations to support infrastructure and digital access initiatives makes such a lofty goal possible, while still meeting the service requirement of the CRA.

As internet access increases, financial institutions can even take their CRA service initiatives a step further, reaching out to educate and include lower-income communities via their digital channels. To meet the CRA service requirements, banks would need to provide evidence that their online banking and other digital services are being adopted by—and are helpful to—lower-income individuals. Luckily, there are ways to target the needs of lower income communities and measure the results of initiatives aimed at serving them.

Financial Education Helps Close the Digital Divide

Participation in the digital economy may begin with broadband access, but it doesn't end there. Closing the digital divide isn't simply a matter of supporting digital infrastructure, but also helping communities take advantage of their increased access. Lower-income households will need additional services as they begin to more deeply engage in the new economy.

Financial institutions looking to serve LMI populations while also fulfilling their CRA obligations should build out education and outreach strategies to engage with communities. And as part of this outreach strategy, banks should also offer their own employees educational programs to help them build their own financial capability, engage with service efforts, and address account-holder questions and needs.

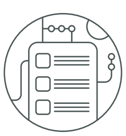
5 key areas financial education and community outreach strategies should address:

Financial stability

With just a moderate amount of education around financial decisions, tools, and planning, lower-income households can make significant steps forward. The more they become engaged with their bank, the more they can begin saving, investing, planning, and sensibly borrowing to further invest in their educations, careers, and other needs.

Workforce development

In addition to financial wellness, online education can address vocational needs. An informed workforce not only gains a larger skillset, but also the ability and confidence to make better decisions surrounding their careers and finances.



Small business development

Small businesses are crucial drivers of community economies. Financial education can help entrepreneurs earn, save, and more wisely re-invest in their businesses to further boost the financial wellbeing of their businesses, employees, and communities.

Access to financial services

Financial education can provide learners with the access, knowledge, and confidence they need to embrace financial services. An informed customer is more engaged, more likely to take out loans and make investments, and more likely to build trust with their financial institution.

Relationships with the community

It's important not to underestimate the public relations effects of financial education. Presenting your financial institution as a resource for education and access can drive goodwill, media attention, and trust. Partnering with nonprofits and other community-focused organizations can further build relationships and present opportunities for engagement throughout your community—both online and off.

While online educational tools will be a critical piece of the strategy, remember that many LMI consumers may not have access to the tools they need the most. With this and other barriers in mind, financial institutions can provide alternative methods to serve these communities. For example, banks can sponsor education in schools, at community centers, or even through employers. And since many LMI consumers do have smartphones, financial institutions who make it easy to engage through online apps—especially available in multiple languages—will reach more people. By putting boots—and computers or mobile devices—on the ground where they're needed, banks can begin to address the digital divide, while also meeting CRA requirements.

Making Your Case for Community Reinvestment

Under the CRA service test, you'll need to provide evidence that your "alternative delivery system" is meeting CRA requirements. This means that your efforts—including the development of broadband access—must demonstrate how you serve LMI individuals through access, education, or online banking services as applicable to your program.

To ensure that your financial institution is making a compelling case for CRA auditors, it's important to tell the story of your community involvement in an ordered way. Be sure you include the following 5 points in your CRA story:

1. **Your institution's mission.** This will set up a framework for your story and tie into the reasons, beyond compliance, that you choose to serve your community.
2. **Your geographic market/community.** You can start with census data, broadband maps, or any community economic development plans available—as well as data related to income, demographics, share of Home Mortgage Disclosure Act, small business needs, and elements of your community.
3. **A definition of the CRA.** Restating the CRA's goals here gives you a place to begin tying your mission and community needs to the purpose of the act.
4. **Specifics of how your plan is addressing need.** Describe in detail what your bank is accomplishing. Some examples might include statements like:

   "There's a large disparity in access to the digital economy in lower income areas of our community. By partnering with nonprofit] to help provide broadband infrastructure and access, we're revitalizing these areas (list some specific metrics related to efforts—including number of households impacted and any resultant educational or job development).

   "We've used low-income family tax credits to fund the construction of (number/type of housing units) with pre-wired access to broadband service to provide financial literacy education and job development training."

The specifics will vary based on your approach, partners, and outcomes, but by telling a story unique to your community and your financial institution, you can make a powerful case to CRA auditors.

Conclusion

The ways that banks meet CRA requirements will continue to evolve, following technology trends and the needs of LMI communities that are trying to navigate a changing world and an increasingly digital economy. The good news is that evolving technologies will likely present additional means to meeting the requirements of the CRA—including online financial education.

Communication is key to the success of LMI communities—as well as banks' CRA efforts. The connections between these two groups must be built on engaging programs and services, must be personalized and interactive, and must be measurable in ways that both satisfy CRA requirements and also present real positive change and economic inclusion for communities struggling to cross the digital divide.

Learn More About EVERFI at

everfi.com/FinEd

or

(202) 871-9292

EVERFI

EVERFI is the leading education technology company that provides learners of all ages education for the real world through innovative and scalable digital learning.

everfi.com/FinEd