**Keys to Financial Inclusion Podcast – Season 2, Episode 3**

**July 15, 2021**

**Lael Brainard, Governor, Federal Reserve Board**

Speaker 1:

Welcome to the Keys to Financial Inclusion Podcast brought to you by National Disability Institute Center for Disability Inclusive Community Development. Hear from thought leaders in the disability and financial communities who will share insights, analysis, and emerging strategies to improve and increase investing, lending and service activities for people with disabilities. And now here's your host, Michael Morris.

Michael Morris:

Welcome the Keys to Financial Inclusion Podcast Series. We bring you insights from leaders in the disability and financial communities. I'm particularly excited today to have as our guest, Governor Lael Brainard, who took office as a member of the Board of Governors of the Federal Reserve System on June 16th, 2014. Dr. Brainer previously had served as Under Secretary of the US Department of Treasury and a counselor to the Secretary of the Treasury. And she also was an assistant and Associate Professor of Applied Economics at the MIT Sloan School of Management. Governor Brainard, thank you for joining us today.

Lael Brainard :

Thank you. It's a pleasure to be here.

Michael Morris:

So let's jump right in. National Disability Institute, about a year and a half ago, created the Center for Disability Inclusive Community Development. Our goal and aspiration is to increase collaboration between the disability and financial community with attention to accessible and affordable financial products and services, increased access to financial education, and most importantly, access to credit for home ownership and small business development. What does inclusive community development mean to you and why is it so important?

Lael Brainard :

So inclusive community development in the work that we do at the Federal Reserve really means putting the members of the community at the heart of the community development process. And that means inclusion of all members, including those from groups that have traditionally faced challenges, such as lower income members of the community, members from all racial and ethnic groups and community members with disabilities. The Federal Reserve has community development experts engaging in communities all over the country with the goal of promoting financial and economic stability, and access and inclusion for low and moderate income communities, and for traditionally marginalized groups. And so in the case of community development projects at the community level, inclusive community development means that the people that are going to be most affected by the activity, whether it be a new housing development, a charter school, a health facility have input on the project. They're asked whether the project is the one that should be prioritized. Is it in the current location? Is it going to provide the right services?

Lael Brainard :

And when a bank or a community development financial institution, a CDFI, is financing a community project, it's really important that it listens to community members to ensure that that project is meeting their needs. As we carry out the responsibilities Congress has given to us under the Community Reinvestment Act, we really see inclusion as being at the heart of our performance context assessments. Inclusion is also central to our assessments of financial institution's affirmative obligations to serve the financial needs of their entire communities with products, investment and services that meet the needs of all the communities' diverse membership.

Lael Brainard :

We also think that inclusive community development supports our mandate. The mandate that Congress gave us to support maximum employment. We support research on inclusive workforce policies that improve employment among traditionally challenged groups, and also to increase opportunity for people who have disabilities to participate meaningfully in the labor market.

Lael Brainard :

And also just briefly note that that concept of inclusion was also very important in our recent revision to the Federal Reserve's statement on the longer run goals of monetary policy. We made a point in that statement, this was particularly important to me, of stating that maximum employment is a broad based and inclusive goal, but that's new language. We haven't ever had that in our monetary policy statement before. And it really reflects the listening sessions that we did through our Fed Listens events, which we heard time and time again, that it's really important to allow unemployment to continue improving. Because in the late stages of a recovery, it really brings income and wealth gains particularly to traditionally underserved community members. So for us, it touches on our responsibilities in community re-investment, but also in our core responsibilities with regard to broad-based and inclusive maximal employment.

Michael Morris:

I'm so glad within that overall construct of inclusive community development, talked about employment. Employment has been a particular challenge for people with disabilities. 30 years ago, The Americans With Disabilities Act was passed. Major goal was to advance economic self-sufficiency, open up our country in terms of more accessible services and places. Unfortunately, it's probably the area where we've seen the least gain. What can the Federal Reserve do, or what are ways the Federal Reserve is really helping encourage regulated financial institutions to invest in inclusive community development, that particularly focuses on this issue of moving towards full employment in this country?

Lael Brainard :

Well, it's interesting that you say that because the Federal Reserve Bank of Atlanta in 2019 actually published in collaboration with Rutgers and the University of Texas and the Upjohn Institute, a series of essays that were focused on investing in America's workforce. And in that they had some particular focus on investing in workers with disabilities, and they found that in the 28 years since the signing of The Americans With Disabilities Act, just as you noted, the unemployment rate for people with disabilities has remained disproportionately high as compared with the general population. And that while a lot of progress has been made on employment discrimination of a variety of types, people with disabilities continue to lag behind.

Lael Brainard :

We also have seen though that there have been some progress and research from the San Francisco Fed published a working paper actually last year that found individuals with disabilities and their families made improvements as the course of the last economic expansion, a very long expansion, has sort of progressed. The expansion, because of its length and because of the extent to which it really allowed the employment situation to improve, it bolstered the wellbeing of people with disabilities and in particular, improved the relative labor market engagement of people with disabilities. So over that time applications and awards for federal disability benefits fell, and it suggests that that focus that we have on inclusive maximum employment can make a real difference.

Lael Brainard :

In addition to that, as you well know, the most important tool we have to encourage banks to meet needs of their entire communities is the Community Reinvestment Act. And that inclusive focus of the Community Reinvestment Act is the primary reason we're undertaking an effort to modernize the CRA, it's to strengthen the CRA's core purpose of financial inclusion and addressing inequities in credit access. That is at the heart of the CRA. As you know, the CRA is a critical tool, it provides a foundation for banks, other financial institutions and community organizations to work together to promote accessible and affordable financial products and services, increased access to financial counseling and education, access to credit, whether that be small business or homeowner credit for low and moderate income communities. And as we know from the work that NDI has done, LMI people with disabilities make up a significant share of the people that live in the low and moderate income neighborhoods that the CRA is targeted to ensure banks are serving.

Lael Brainard :

We also do surveys. The survey for household economic decision-making is a really important window for us and to those that are low and moderate income, and who generally face challenges. And the survey of the household and economic decision-making finds that individuals with disabilities are disproportionately low-income. So in our last 2020 survey result, people with disabilities were over twice as likely to have family incomes under $40,000. And that's nearly three quarters of the survey respondents, than adults without disabilities. So we have sought very specific feedback on the Community Reinvestment Act and how to improve its inclusiveness, including from NDI and other organizations that are very focused on disability policy. And we've asked questions about disability inclusive community development. And so we're getting a lot of really good ideas there that I think will help strengthen the CRA in promoting inclusive community development, including for people with disabilities.

Michael Morris:

Thank you. I want to switch us a little bit to certainly a very hot topic these days and that's discussion about race and equity. The intersectionality of race, gender, and disability in low moderate income population presents even added challenges to equity and inclusion. Individuals with disabilities at the intersection of race and or ethnicity, and particularly women are more likely to be unemployed or underemployed or more likely poor, some of the statistics you just shared, and lacks savings to even survive a few weeks without new income production. Do you have some suggestions for our audience, how can financial institutions working with community groups be more responsive to these challenges?

Lael Brainard :

Yeah, so our research and our surveys support the finding that the intersectionality of race, gender, and disability in low and moderate income communities presents added challenges to equity and inclusion. We know that people with disabilities face substantial barriers to sustained employment, to building savings, and that those challenges are magnified for black and Hispanic people with disabilities for instance. In the Federal Reserves survey of household economic decision-making, we found that only 21% of black adults with a disability say that they could cover, for instance, a $400 emergency expense using cash or a credit card, that they could pay off monthly. And that's well below the already low, only 31% of all adults whose work is limited to do with disability. And the 64% of all adults who could cover a $400 emergency expense using a cash or credit card.

Lael Brainard :

So you can sort of see those challenges of not having enough emergency savings, greater for adults with disability and even greater for black adults with a disability. And that tends to be true on some of the other financial challenges. So I think in terms of what can be done there, I certainly believe that the Community Reinvestment Act proposals that we're seeking comment on, go some distance in focusing bank's attention on not just low and moderate income communities, but then looking even harder at those within low and moderate income communities who may face special financial access challenges. Because again, under the CRA, banks really have an affirmative obligation to serve the financial and credit needs of their entire communities. And so that's a really important platform.

Lael Brainard :

Also in terms of the employment challenges, we've got some good research across the system, in collaboration with community organizations, research organizations, and of course our community development functions that suggests that responsiveness to those intersectionality challenges starts with engagement and education, understanding the needs of those populations. To develop concrete proposals, they see as increasing the inclusion, their inclusion taking into account the barriers they might face due to multiple factors, disability as well as race and gender. So recent research from the Atlanta Federal Reserve provides some specific strategies that are effective in improving the workforce status of these adults and recent research from the San Francisco Federal Reserve shows some positive trends for disability inclusion. Companies are doing more to educate their employees, their recruiters, their hiring managers, their diversity professionals, their staff, about how to be more inclusive for disabled workers and to create an environment that is open and inclusive and supportive for people with different kinds of workplace needs.

Lael Brainard :

That is something that I think we see in all our research is not just important for the individuals themselves, but it's actually really important for improving the quality of the workforce and the productivity of the company. So it's very much a win-win. Within the Community Reinvestment Act, we also seek to bolster institutions that are particularly good at providing support to financially reaching communities that have not traditionally been easily to access mainstream financial institutions. And so for instance, we've got a number of provisions in there that are specifically targeted at minority depository institutions and community development financial institutions, both of which tend to be more effective at providing credit and banking services to some of these communities that have traditionally faced barriers.

Michael Morris:

Thank you for that answer. It really takes us right to, I'm going to move from the equity issues. I love the fact you've talked about intersectionality. It's not just race. It's the combination of challenges that people with disabilities, gender, race, ethnicity. But get to one of the most really perplexing challenges. NDI research, FDIC, Federal Reserve has looked at. And you just mentioned, we know that almost one in two working age adults with disabilities are unbanked or underbanked. There is no other group with that high a percentage of not trusting in and believing and utilizing our mainstream banking system.

Michael Morris:

You've presented your view that CRA monitorization can significantly expand financial inclusion. Can you share with our audience from your perspective, what are some of the things? Perhaps amplify on how could that occur and how can maybe through the new regulations as well as just the voice you present and the other governors on the Federal Reserve present to really push forward that let's close the gap for people with disabilities to get them to believe in and be more trusting of the banking system, and then for the banks to do maybe work harder or work smarter in being responsive in terms of financial inclusion services and products?

Lael Brainard :

Well, so our surveys also find that there is a disproportionately high number of people with disabilities who are unbanked and underbanked. So in the 2020 survey of household economic decision-making, 15% of adults with disabilities were unbanked. That means do not have a traditional bank account. That is three times the rate among adults who don't have disabilities. And of those who do have the bank accounts, there's also a very significant portion of adults with disabilities who are underbanked, and that refers to the population that might have a traditional bank account, but still rely on cash and alternative financial services providers for their financial services needs. And often those alternatives quite are bit more expensive. So over a quarter of adults with disabilities were underbanked and that's twice the rate of adults without disabilities.

Lael Brainard :

Similarly, we found that 16% of adults with disabilities report that they desire credit, but they don't apply for it. And when we probe a little further, we find that's because they expected to be denied. And as you said earlier, NDI has done a lot of good research in this area, which suggests that that disproportionally high level of being unbanked or underbanked among the disability population is likely the result of an interplay of factors: income, labor force participation, educational levels, and then disability specific factors such as whether banks provide accessible technology. So in the context of the Community Reinvestment Act, we do ask questions about how to strengthen incentives for banks' provision of fair and equal access to credit, to capital, to financial services for LMI individuals, including those with disabilities. And we've gotten significant engagement on the part of the disability advocacy community. We've heard from you and others in CRA listening sessions. And of course, we've gotten some comment letters that we're going to be taking into account.

Lael Brainard :

One of the important ways that we encourage that inclusion is by giving banks credit under the Community Reinvestment Act for offering low cost deposit accounts to low and moderate income individuals. And for tailoring the kinds of transactions counts to the needs of particular communities, that may currently have access or be using traditional bank accounts. And we're analyzing whether as part of this CRA modernization effort, we can provide additional encouragement for banks to provide banking services to the unbanked, the underbanked. And of course, this would include adults with disabilities who are disproportionally unbanked and underbanked. And we've gotten good ideas there, including providing more transparency on bank activity, by gender, race, ethnicity, and disability, and to potentially consider the needs of people with disabilities as part of impact scores in CRA assessments, or perhaps as a factor to be considered for an outstanding rating. So we've gotten some good ideas there, and we'll certainly be thinking about which of those might make an appreciable difference in closing that gap, as you highlighted.

Michael Morris:

That's really very encouraging and we'll continue to participate in the process and encourage all our listeners to participate in the process that lends itself to a final new CRA role.

Michael Morris:

One of the things that struck me by OCC, who went out ahead of the Federal Reserve with their role was they went to an illustrative list of qualifying activities, which helps provide more certainty to community players, to people with disabilities and others. But it also helps the banks understand what exactly is worthy of CRA credit. We like that approach. We know now that OCC is pulling back, just recently announced maybe yesterday the day before, and hopefully all three regulators may go at this together, which may also provide a more coherent picture for the future.

Michael Morris:

I do think that banks have been particularly puzzled when we talk with them about one, we didn't know people with disabilities for low moderate income. We know better and the data, FDIC, Federal Reserve and other data makes that a clear picture that they certainly are. There are certainly also question, are they in our footprint? Yes, they are. They're in low income neighborhoods. But I think what they really didn't get and part of our continuing discussions is, well, then what can we do to make a difference? And I think the list idea, albeit it's not a be all and end all, but the list idea is a good idea. Is that something you think will get strong consideration in the final rule?

Lael Brainard :

So I also really liked the idea of illustrative list of activities that would qualify or unlikely to qualify for Community Reinvestment Act credit. That is an area that I think we received in our community listening sessions, very positive feedback from a community organizations, as well as banks. Banks too, want those concrete examples of activities that have qualified or likely to qualify. And of course they like the certainty. Before making community investments, they like some certainty that those are going to be qualified and assessed favorably under the Community Reinvestment Act.

Lael Brainard :

So in the advanced notice of proposed rulemaking that the Federal Reserve put out, we also proposed publishing an illustrative and non-exhaustive list of community development activities that meet the requirements for Community Reinvestment Act consideration as a important potential way to bring attention to key opportunities. And we appreciate very much your support for that. And the ways that you think that a qualifying list like that could really help banks better conceptualize what kinds of activities are most likely to help lift up the community of disabled members, that can help with their financial inclusion, and can help with community investments that are particularly targeted to improving their financial inclusion and their economic inclusion. So certainly something that we've asked for feedback on, and we're looking forward to that feedback. What kinds of very concrete examples can we put on those lists that would help with that?

Lael Brainard :

The other thing that we asked for is feedback on a process for banks and other stakeholders to obtain pre-approval. Again, for big community development investment banks are going to feel a lot more confident if they get some pre-approval from their bank regulator. We in fact have something that's a little bit like that at some of our reserve banks called investment connection, where a number of investment opportunities are assessed ahead of time by community development staff and provided to banks in those communities as examples. That's been a very popular kind of process. And so we also ask for feedback. The other kinds of things that we're looking at is whether we can find ways to standardize how a bank can determine whether a community service activity meets the requirement of being targeted to low and moderate income individuals. So we now have a list of proxies for what that currently would include and we've asked questions about whether we should include activities that are targeted to recipients of federal disability programs, which might serve to highlight that population as likely to be a qualifying population.

Lael Brainard :

So these are number of ways that we think we're very eager to get feedback. I guess the final thing I would say there is like you, I'm excited with the prospect that all three banking agencies could work together. And that's always been the goal of our proposals on Community Reinvestment Act is to be able to have a joint approach. And we know that stakeholders would really like to see that.

Michael Morris:

Thank you. Let's switch to yet another area. And this is the ever evolving area of technology in financial services. We certainly have seen that accelerate during this COVID period, as more people obviously were doing their banking online than ever before and that's wonderful. Sometimes people with disabilities have transportation issues anyway, of trying to get to their local neighborhood bank. But technology also is an issue of haves and have nots. There are many people in the low moderate income community, including people with disabilities who lack access to broadband lack access to the technology tools that would bring financial services to them directly. Is this something that the Federal Reserve Board of Governors perhaps through CRA or attention could be brought to, financial services is such a fundamental need by all? How can we see ways to improve broadband access and ultimately improve financial service access?

Lael Brainard :

Yeah, well, I think the pandemic has just brought alive that paradox that you just pointed to, that technology can enable greater inclusion for people with disabilities for all kinds of community members. But if a broadband is not available, it's that technology access is not available, it can also serve to exclude. And so this is true for remote work, it's true for telehealth, it's true for education. And of course it's absolutely true in financial services. We've seen the financial services landscape just transformed by technological developments over the 25 years since the last time the Community Reinvestment Act was updated. And so we're very focused on this question of both access to financial services being enabled potentially by technology, but also then making sure that access to broadband is part of the broader set of considerations.

Lael Brainard :

Banking deserts, places where people don't have access to a bank branch, to bank accounts, bank services often also have less reliable access to internet services and broadband. And that can be true in a range of different geographies, whether it's in urban areas, rural areas or [inaudible 00:28:13] country, there's the potential to overcome the banking desert problem, but only if broadband is available. And of course it's true for many people with disabilities. So what we've done is tried to provide clarification's that efforts to provide communications infrastructure in underserved communities, efforts such as providing broadband internet services, are viewed favorably under the Community Reinvestment Act. And we've asked them questions in our proposal on whether we can further support the access to broadband in underserved communities and thereby financial inclusion.

Lael Brainard :

The one thing I will say though, is I also don't want to diminish the importance of bank branches. So even as we kind of lift up that potential for technology to be enhancing inclusion, where broadband is accessible, we also want to maintain the CRA's traditional focus on branches given that low and moderate income individuals disproportionately tend to, when they are banked, really look to those branches to provide really important financial services. And so we want to make sure that we're giving credit also to being physically present in communities in those low and moderate income communities.

Michael Morris:

Yeah. Thank you for making that point. In focus group after focus group, we've done with people with disabilities, they shared with us such poignant stories, pre COVID, where they would look forward to once a week going into their local branch, where people who work in that branch knew them by their first name. And they felt it was such a personal and for them a very deep relationship and sensitive relationships. So yes, technology access, we are always looking to upgrade, but the local branches serve an important role in relationship to people with disabilities and other groups.

Michael Morris:

Related to technology, accessibility was one of the issues very much talked about in the proposed rule, but it's not just the accessibility of financial products and services, the websites, but also a lot of concern about FinTech accessibility, and the still somewhat gray areas to who regulates FinTech. Does anyone regulate FinTech? For people with disabilities concerns have been expressed to us about being left further behind in access to key critical tools regarding access to credit, affordable lending. What can you say about all that? How are you trying to tackle those issues?

Lael Brainard :

So the area of financial innovation, both in banking and then payments as well as what is referred to as FinTech, it's a very fast evolving field and beyond the questions about having access to broadband, which is a kind of first prerequisite, there are questions around whether some of the FinTech applications have the same kinds of consumer protections as people may be accustomed to with their traditional bank accounts. So we have generally stated principles of being very supportive of what we call responsible financial innovation, financial innovation that provides the transparency to consumers. For instance, account fees and liability. How much is the FinTech provider actually standing behind accounts? We want all consumers to be very vigilant with regard to what consumer protections they're being offered. And to be aware that bank accounts have certain federal protections associated with them, such as deposit insurance, that simply may not be present with some of these other FinTech providers. But again, the landscape is large and there are a lot of new applications and services that may in fact promote inclusion by using different data sources, for instance, a broader set of data sources.

Lael Brainard :

So it's simply a sort of a field where consumers should be as educated as they possibly can, that there are innovators who are responsible and are providing greater inclusion through their products. But it puts a bit more onus on the consumer and potentially on counselors that might be working with them to make sure that they are educated. And now you have partnerships of these FinTech organizations are working for instance, with trusted community development financial institutions, or trusted local banks. Those are the kinds of things where, I think that combination of consumer protections with greater potential inclusion and more innovation, it really does potentially add to the offerings that can aid the individuals in the disabled community of adults with disabilities, as well as other communities that have traditionally had inclusion challenges.

Michael Morris:

Thank you. Last two questions. So much attention will continue to be focused on the modernization of CRA regulations. But for so many of us in the low moderate income community concern is modernization somehow leaves behind the past focus on low moderate income communities, and in improving equity and access to financial services for low and moderate income populations. For you, what does the future of bank regulation look like so this focus is not diminished and not lost as we move ahead in the future?

Lael Brainard :

Yeah. So as we have put forward proposals on the Community Reinvestment Act, those proposals have all been oriented to strengthening the core focus on promoting equity and inclusion, particularly for groups that have faced systemic inequities in the financial system. So that is the core focus of the Community Reinvestment Act. That is the core focus of all of our work, to update and strengthen the Community Reinvestment Act. And of course there are other responsibilities that the banking agencies have that we share that are also important. Of course, we continue to have very important responsibilities with regard to the enforcement of fair lending laws. And we think the affirmative obligation of financial institutions to serve the credit and financial needs of their entire communities goes hand in hand with their obligations under the fair lending laws to prohibit discrimination and lending. So we think of those two things as proceeding hand in hand.

Lael Brainard :

We're also trying to promote access and payments through a new real-time payment service that we're setting up. We are also promoting inclusion and greater access through our support of minority depository institutions and community development financial institutions. And of course the data collections that we do both on wealth and economic decision-making provide extremely important data that a lot of groups use to understand whether we're making progress on financial inclusion and on equity in the financial system.

Michael Morris:

I think as a final question, and it sort of puts everything in perspective. As we look ahead over the next five years, I know no one can accurately predict the future economically, socially, politically, anything, but we can do a lot, and the role you play and the Federal Reserve Board of Governors plays can help shape the future with monetary policy and other activities as you've just mentioned. What advice can you give banks over the next five years that could help improve investment lending and service to LMI communities and particularly LMI people with disabilities? And how can the Federal Reserve play a lead role in bringing about that type of activities to occur?

Lael Brainard :

Well, I think banks need to see inclusion as a core part of their strategies. They need to see it as a core part of their opportunity. One of really the genius at the center of the Community Reinvestment Act is that banks thrive when their communities thrive. A lot of bankers, particularly sort of locally focused bankers that I talk to, they understand that by providing products and services that are accessible to all members of their communities, they lift up those communities, they make them more vibrant and more resilient. And as a result, it's better business for the banks. And of course it's a brighter futures for all the local community members. And that includes low and moderate income communities, very centrally, and the groups within those communities that face particular challenges, including those who have disabilities. So that is kind of at the core of the Community Reinvestment Act. I think really good bankers understand that by providing that access, that inclusion, they promote thriving communities and that in turn is good for their own businesses.

Michael Morris:

Governor Brainard, thank you today for your insights, your perspective, your viewpoints on inclusive community development. I've learned a lot. I know our listeners will learn a lot as they get to hear this conversation. So thank you so much for your time.

Lael Brainard :

Well, thank you very much for including me. I really appreciate it.

Speaker 1:

You've listening to the Keys to Financial Inclusion Podcast brought to you by National Disability Institute. Please subscribe to the podcast on Apple Podcasts, Google Podcasts, or wherever you listen to podcasts. To learn more about National Disability Institute, visit www.nationaldisabilityinstitute.org. Thanks for listening, and we'll be back soon with a new episode.