

Closing the Digital Divide: A Framework for Meeting CRA Obligations



Jordana Barton, MPA
Federal Reserve Bank of Dallas
jordana.barton@dal.frb.org

Westchester County Association
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The Future of Work

- Technological advancements are transforming work
- Growth of automation & technological complexity are changing required job skills (i.e., manufacturing)
- E-commerce and the disruptions in brick and mortar retail
- Artificial intelligence advancements (augment labor → replace labor)
- Remote models for provision of services (i.e., Telemedicine, Banking)
- Growth in contingent workforce (i.e., gig economy)
- 3D printing
- Self-driving vehicles

2016 Interagency Question & Answer

- Broadband is included as a form of infrastructure investment—an essential community service.
- Under the CRA service test, banks should show evidence that their “alternative delivery systems” using online banking and financial technology are being adopted and are effective in providing services to LMI individuals.
- Economic development:
 - Added workforce development/job training examples
 - Added small business training example

Broadband: A Platform for all Areas of CRA & Community Development

- Essential Infrastructure
- Workforce Development and Education
- Access to Financial Services
- Small Business Development
- Affordable Housing
- Health Care





What is the Digital Divide?

The gap between people who have access to broadband services and know how to use the internet and those who do not have such access or knowledge.

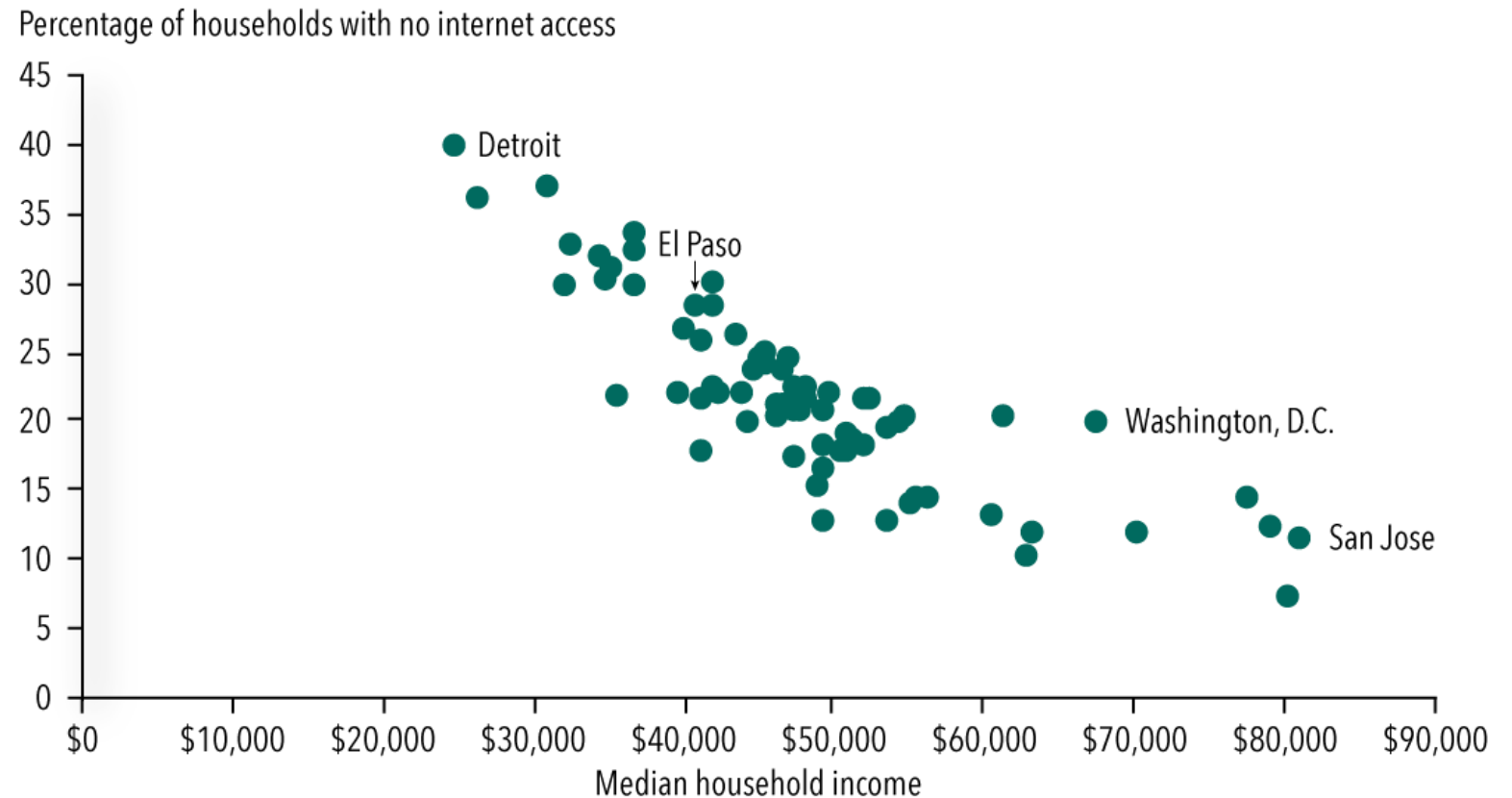
TABLE
1U.S. Cities with 100,000+ Households Ranked by 'Worst Connection':
Median Household Incomes vs. Percent of Households With No Internet Access

	City	Median household income	Percent of households with no internet access		City	Median household income	Percent of households with no internet access		City	Median household income	Percent of households with no internet access
1	Detroit	\$24,820	39.9	25	Omaha	\$47,512	22.9	49	Boston	\$53,583	19.9
2	Miami	\$31,070	36.8	26	Albuquerque	\$48,357	22.9	50	Denver	\$51,089	19.2
3	Cleveland	\$26,096	36.1	27	Pittsburgh	\$42,004	22.7	51	Arlington	\$51,400	18.9
4	New Orleans	\$36,631	33.8	28	Tampa	\$42,649	22.4	52	St. Paul	\$49,469	18.6
5	Buffalo	\$32,392	32.6	29	Fort Wayne	\$39,878	22.2	53	Long Beach	\$52,116	18.6
6	Memphis	\$36,722	32.3	30	St. Petersburg	\$43,894	22.2	54	Orlando	\$41,345	18.1
7	St. Louis	\$34,488	31.9	31	Corpus Christi	\$49,686	22.1	55	Charlotte	\$51,034	18.0
8	Milwaukee	\$35,186	31.2	32	Tucson	\$35,720	22.0	56	Minneapolis	\$50,563	18.0
9	Baltimore	\$42,266	30.4	33	New York	\$52,223	21.9	57	Lexington-Fayette	\$47,535	17.6
10	Cincinnati	\$34,605	30.3	34	Mesa	\$47,561	21.8	58	Lincoln	\$49,419	16.7
11	Toledo	\$31,907	29.8	35	Greensboro	\$41,150	21.8	59	Aurora	\$49,142	15.6
12	Philadelphia	\$36,836	29.8	36	Fort Worth	\$52,430	21.8	60	San Francisco	\$77,485	14.9
13	El Paso	\$41,129	28.7	37	Los Angeles	\$48,466	21.7	61	Austin	\$56,351	14.9
14	Dallas	\$41,978	28.5	38	Nashville-Davidson	\$46,803	21.5	62	Portland	\$55,571	14.8
15	Fresno	\$40,179	27.0	39	Oklahoma City	\$46,232	21.4	63	Raleigh	\$55,170	14.4
16	Wichita	\$43,538	26.6	40	Jacksonville	\$47,424	21.1	64	Henderson	\$60,819	13.5
17	Tulsa	\$41,495	26.2	41	Sacramento	\$48,034	21.1	65	Colorado Springs	\$53,550	13.2
18	Indianapolis	\$41,361	26.0	42	Las Vegas	\$49,289	20.9	66	Madison	\$49,546	12.9
19	San Antonio	\$45,399	25.3	43	Atlanta	\$46,485	20.8	67	Anchorage	\$79,045	12.8
20	Chicago	\$47,099	24.9	44	Urban Honolulu CDP	\$61,559	20.8	68	Seattle	\$70,172	12.2
21	Houston	\$45,353	24.9	45	Bakersfield	\$54,763	20.8	69	San Diego	\$63,456	12.0
22	Kansas City	\$45,551	24.4	46	Oakland	\$54,394	20.2	70	San Jose	\$80,977	11.6
23	Phoenix	\$46,601	24.1	47	Columbus	\$44,426	20.0	71	Virginia Beach	\$62,855	10.5
24	Louisville/Jefferson County	\$44,893	24.0	48	Washington, D.C.	\$67,572	20.0	72	Plano	\$80,448	7.7

SOURCE: Census Bureau, 2013 American Consumer Survey.

Who does not have access?

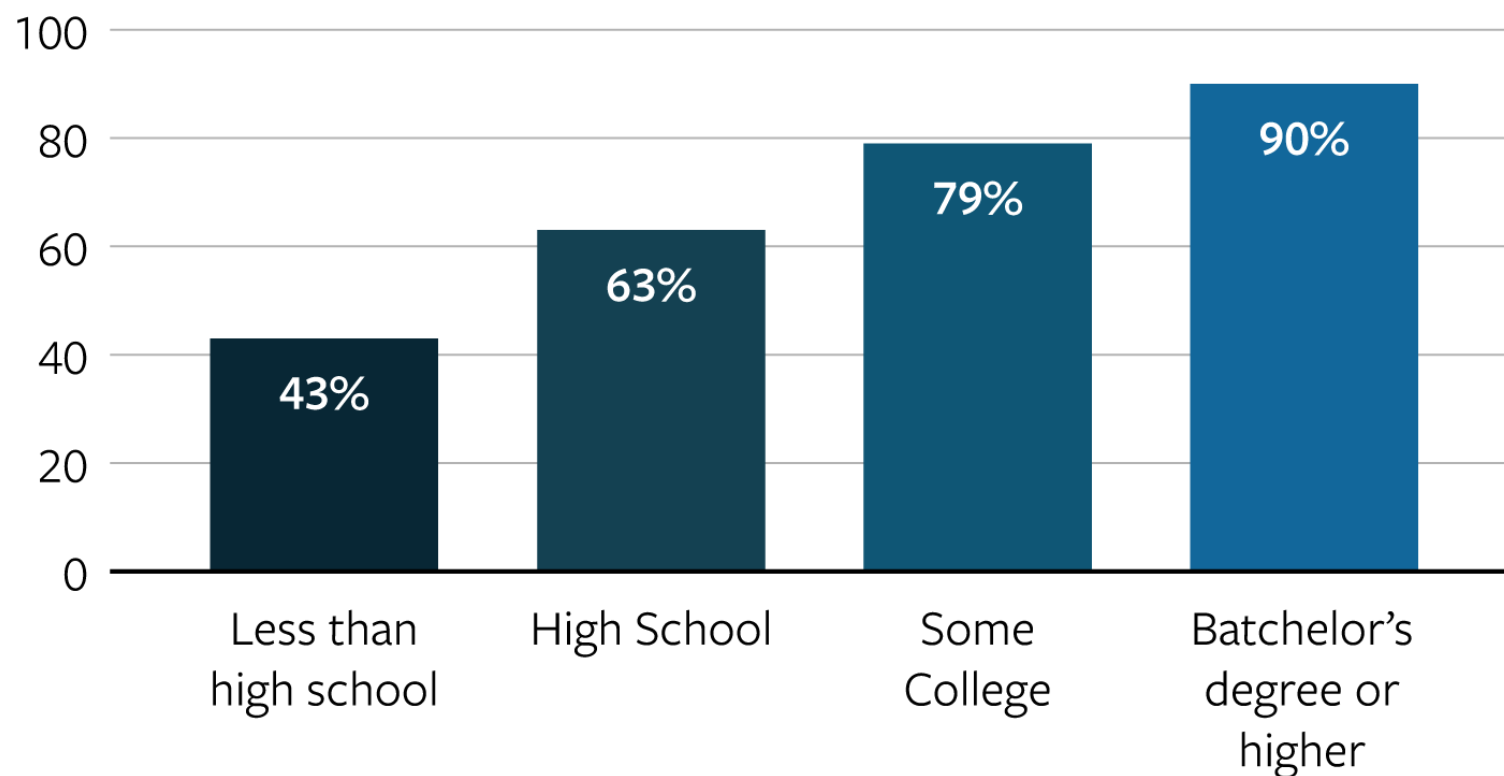
Low-income households are less likely to have broadband access than high-income households.



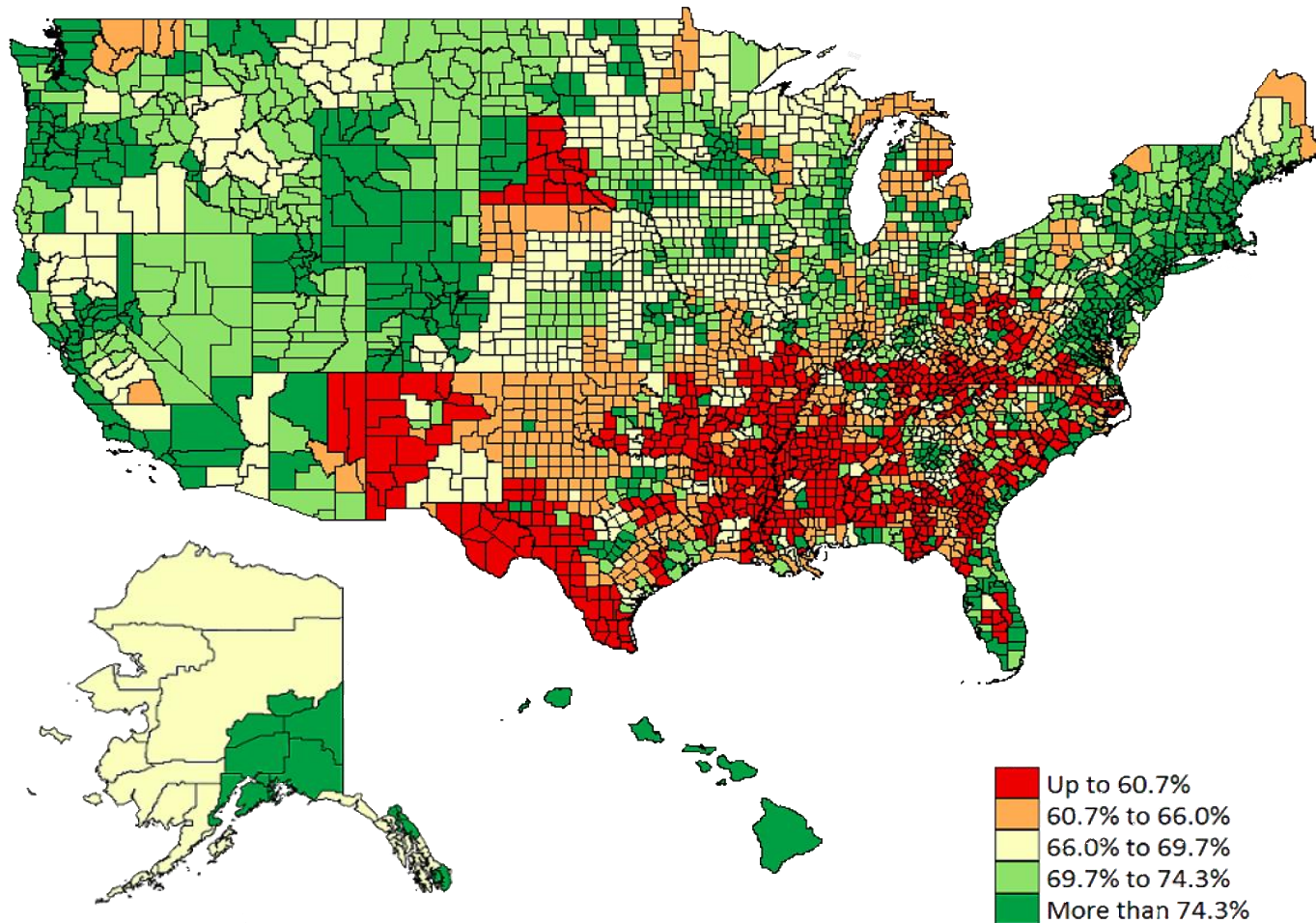
Who does not have access?

Households with less education have lower rates of broadband adoption.

Internet Adoption by the Education Attainment of Head of Household



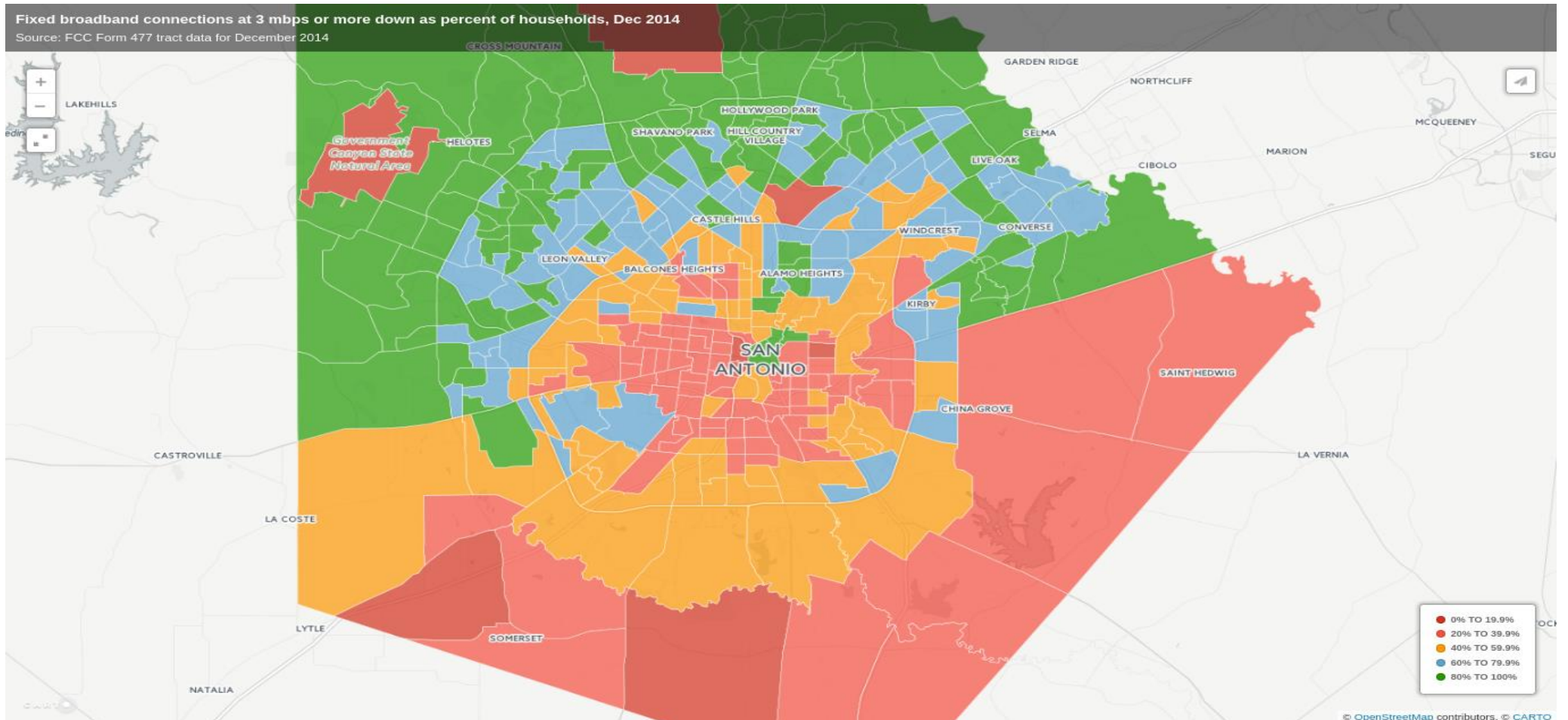
Who does not have access?



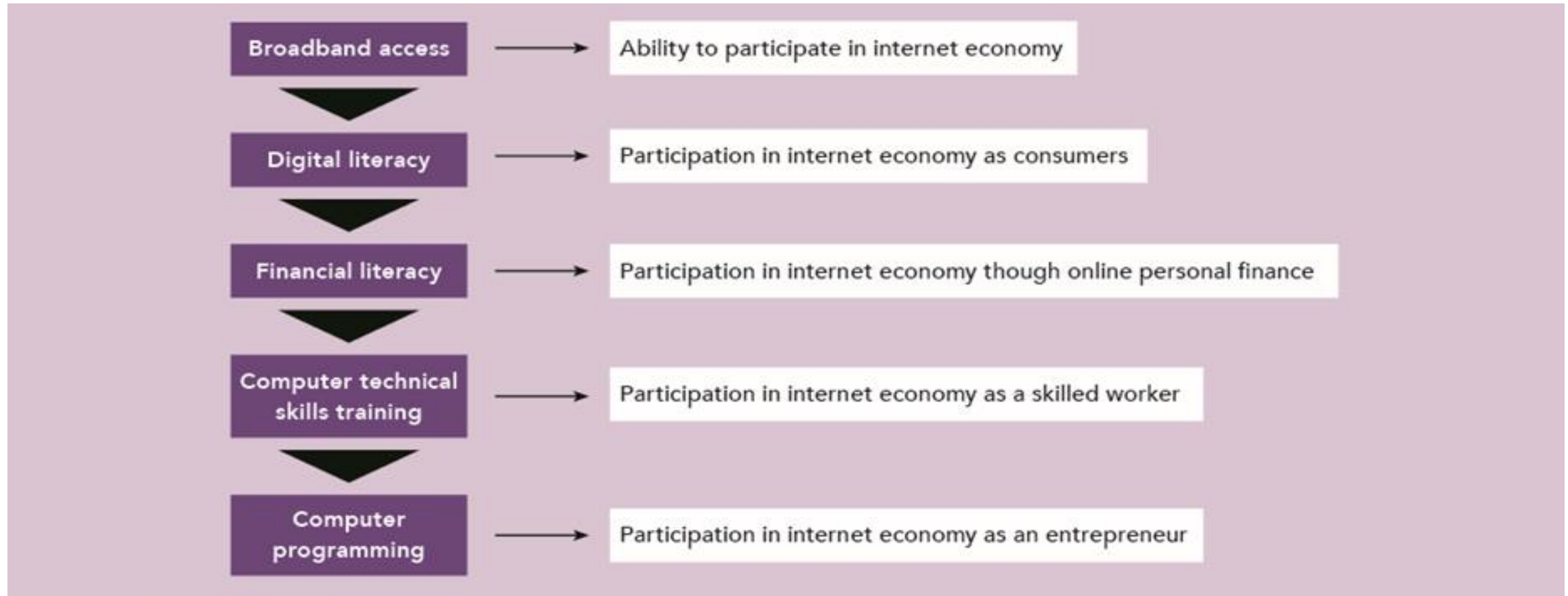
The likelihood that a household has a broadband connection varies greatly depending upon its location.

Generally, metropolitan households are more likely to have broadband access than households in rural areas.

Who does not have access in San Antonio, Texas?



The Internet Economy and Workforce Development



SOURCE: Federal Reserve Bank of Dallas.

Workforce Development

- Digital skills & access to broadband required for accessing jobs & training
- 70% of jobs are posted online
- Job training programs increasingly offered online
- 8 in 10 middle skills jobs require digital skills (32% of labor market demand)
- Digitally intensive middle skills jobs have grown twice as fast as other middle skills jobs in the past decade (higher wages)
- The skills mismatch in the digital economy

The Homework Gap

- 1/3 of households with incomes below \$50,000, with school age children, do not have high speed internet access at home (40% of all families with school-age children)
- Only 8% of households with incomes of \$50,000 or more lack broadband at home



Small Business Development

“Uber, the world’s largest taxi company, owns no vehicles. Facebook, the world’s most popular media owner, creates no content. Alibaba, the most valuable retailer, has no inventory. And Airbnb, the world’s largest accommodation provider, owns no real estate. Something interesting is happening.” -Tom Goodman, Havas Media

Access to Financial Services

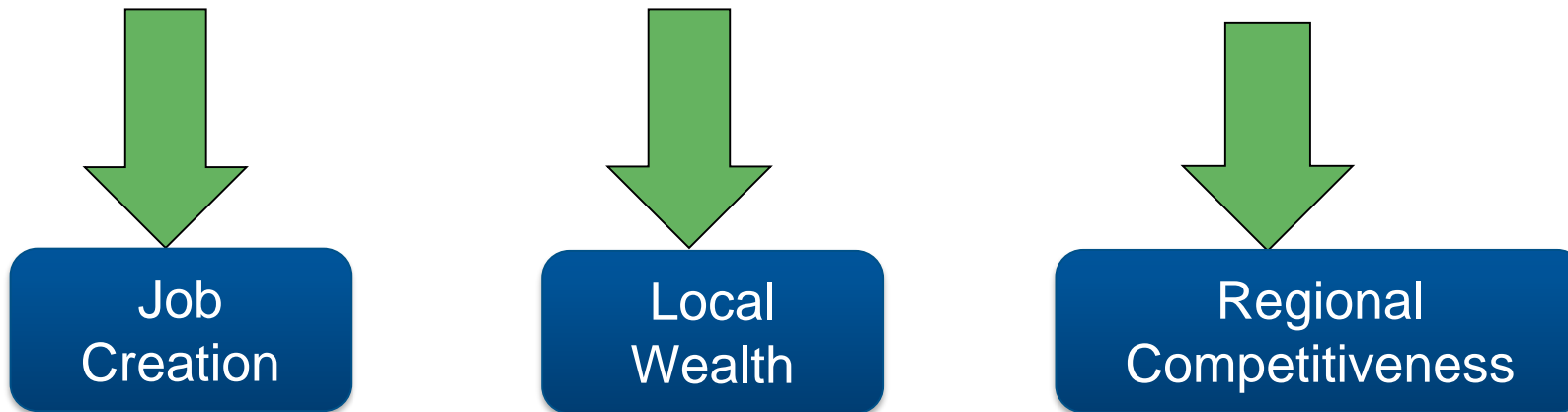
- More and more banking services are now available without making a trip to a branch—online banking, mobile banking, remote deposit
- 61 percent of total internet users bank online (Pew, 2013)
- 43 percent of adults with mobile phones and bank accounts reported using mobile banking, an increase of 4 percentage points from the previous year (Federal Reserve System, 2016)
- Total number and density of banking offices declined during the post-2008 Great Recession (FDIC, 2015)

Access to Financial Services

- Impact of technology strongest among younger consumers
- Branch transactions have declined—1993-2012 teller transactions per office declined by 45 percent
- Paper checks fell from 43 percent of non-cash payments to 15 percent (2003-2012) (FDIC, 2015)
- Mobile financial services are found to help banks address many of the core financial services needs of underserved consumers (FDIC, 2016)

Benefits of Broadband for Rural Communities

- Education: Distance learning for students and adults in rural areas and preventing the “brain drain”
- Attracting Business: Basic infrastructure for doing business
- Healthcare: Telemedicine/Telehealth for treating patients at rural clinics and accessing health records
- Employment: Connections to global markets and the ability to work remotely or seek job opportunities
- E-Commerce: Provide a bigger market for small, local businesses to buy and sell goods or provide secondary income



Identifying Best Practices

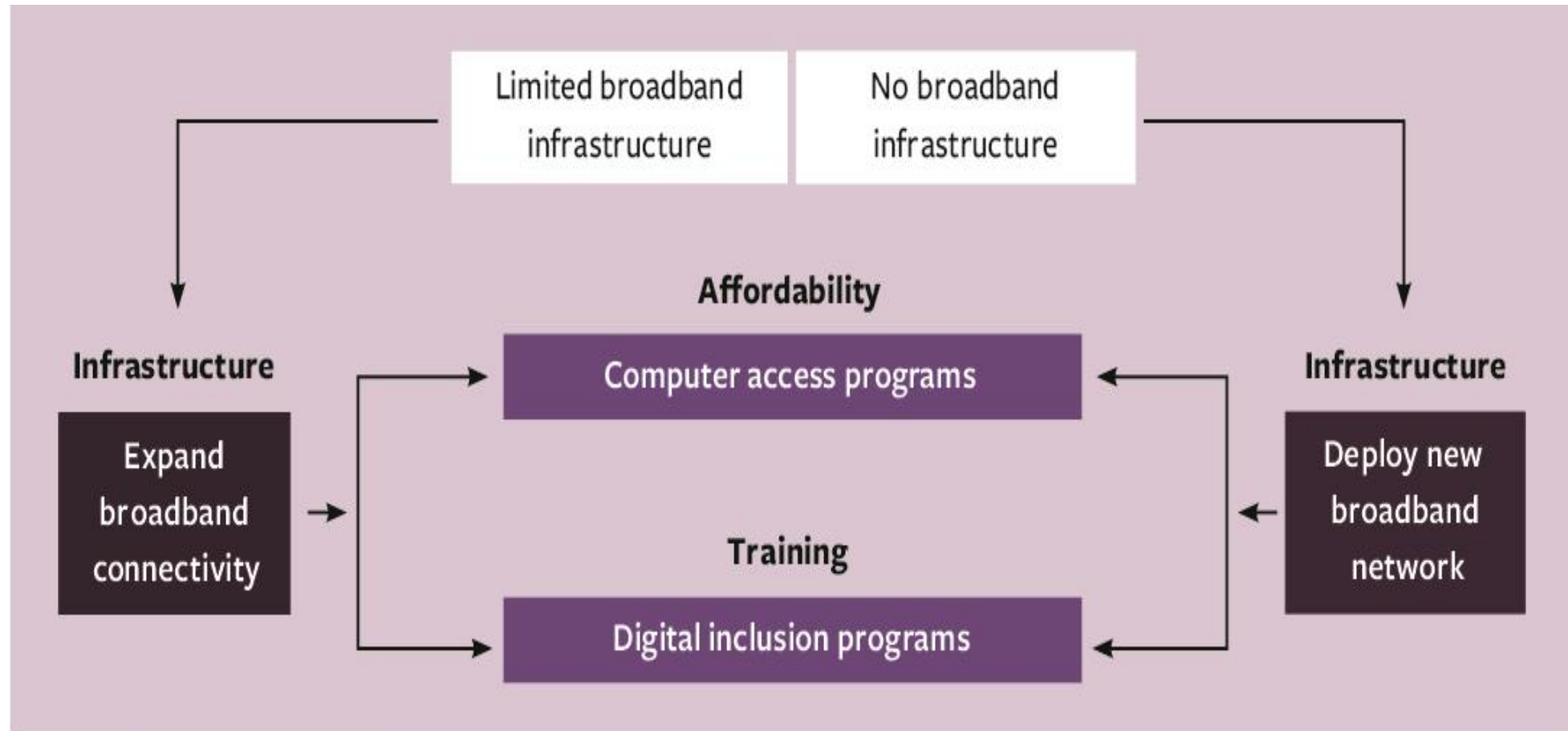
To achieve success, it is critical to invest in community programs that include all of the “three legs of the stool” of broadband adoption.

Broadband access

Computer access

Training & technical assistance

Broadband is Essential Infrastructure and the Prerequisite for Closing the Digital Divide

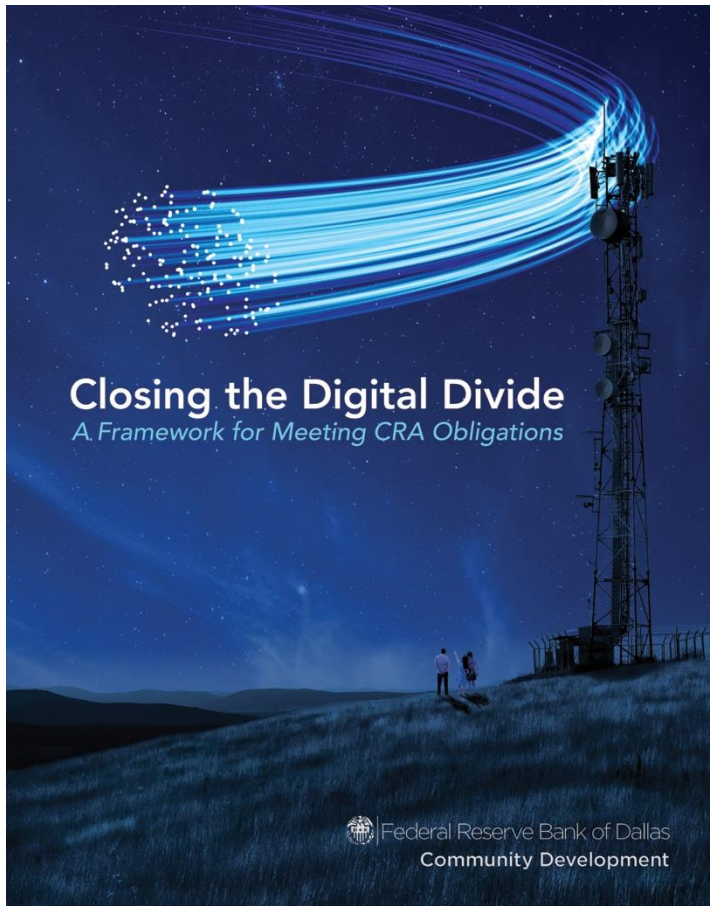


SOURCE: Federal Reserve Bank of Dallas.

Best Practices

- When there is an opportunity, banks can blend or layer the types of investments they make in broadband to include the “three legs of the stool”.
- Measure outcomes to identify what works.
- Digital inclusion programs need to consider the barriers to adoption people experience.
- Training programs for youth and adults should cover the subject of internet safety and security.
- Communities should consider the internet speed that will meet their economic development goals.
- Local governments should create their digital inclusion plans as part of their economic development plans.

Tips for Preparing Your Case



Preparing Your Case

PART FOUR

Understanding how their community development activities meet CRA requirements is vital information for CRA and compliance officers when they are communicating with internal management, customers, community partners, target communities and bank examiners.

In July 2016, the Federal Reserve, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corp. published an updated CRA guidance—the 2016 Interagency Questions and Answers. In the new Q&A, broadband is included as a form of infrastructure investment, and the agencies identify communications infrastructure as an essential community service and describe how investing in new or rehabilitated communications infrastructure is consistent with the CRA regulatory definition of community development. For examples of the types of infrastructure investment that may be needed in your community, see Appendix A. The new Q&A also provides guidance on alternative delivery systems for providing retail banking services, such as online banking.

The CRA Q&A is available on the agencies' websites and on the Federal Financial Institutions Examination Council website: www.ffiec.gov. The Q&A is not meant to be exhaustive; thus, the Federal Reserve Bank of Dallas produced this publication to help financial institutions understand how to invest in broadband access and digital inclusion. This publication also illustrates (in Part One) how broadband access has become an integral part of the key areas of community development and the CRA.

To help ensure that the community development activities they are considering or planning meet CRA requirements in a safe and sound manner, financial institutions should refer to the information in the tips and CRA documents listed below. For more detailed data, financial institutions should consult the CRA webpage of the Federal Financial Institutions Examination Council. Additionally, they should also contact their CRA examiners to obtain specific feedback on the strengths and weaknesses of their community development activities and opportunities for improvement.

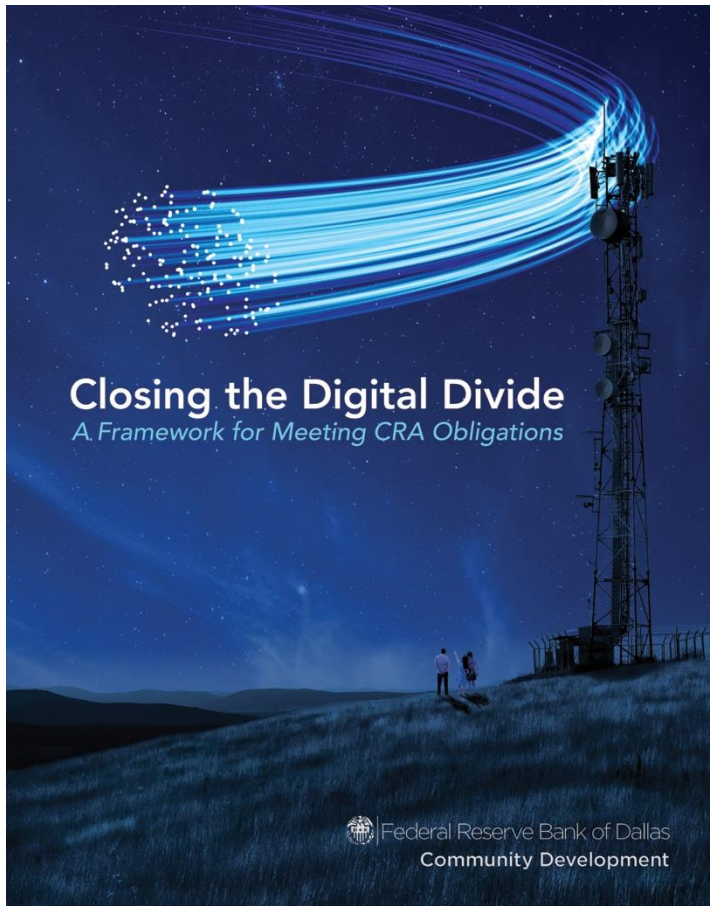
Tips for Preparing Your Case

- The Community Development (CD) definition (under the CRA) includes activities that revitalize and stabilize LMI areas. A bank could receive credit for helping supply broadband to targeted LMI areas if it could demonstrate that it helps the LMI areas/people—such as enhancing access to banking services, social services, health care and educational activities. The activities would have to meet the definitions of CD loan, investment, service. Examiners will also determine whether the activity is consistent with the community's formal or informal plans for the revitalization and stabilization of the low- or moderate-income geography.
- Q&A § __.12(g)(4)(i) – 1: What activities are considered to “revitalize or stabilize” an LMI geography, and how are those activities considered? A1: Activities that revitalize or stabilize a low- or moderate-income geography are activities that help attract new, or retain existing, businesses or residents. Examiners will presume that an activity revitalizes or stabilizes an LMI geography if the activity has been approved by the governing board of an Enterprise Community or Empowerment Zone (designated pursuant to 26 U.S.C. 1391) and is consistent with the board's strategic plan. They will make the same presumption if the activity has received similar official designation as consistent with a federal, state, local or tribal government plan for the revitalization or stabilization of the low- or moderate-income geography.
- Under the CRA service test, banks should provide evidence that their “alternative delivery systems” using online banking and financial technology are being used/ adopted and are effective in providing services to LMI individuals. If banks support the work of nonprofits, economic development corporations, schools and public housing authorities that are serving communities in closing the digital divide, they will potentially be developing an LMI customer base that will have broadband access and knowledge of online banking (if the training program includes online banking and financial education, as some do). The key for banks will be to provide the evidence. The 2016 Q&A adds evaluation

Part four of the new publication includes:

- Helpful tips on preparing your case
- A overview of critical sections of the CRA Q&A
- A list of CRA Reference Guides

Telling Your CRA Story



A Template for Financial Institutions to Tell Their CRA Story

PART FIVE

Your Financial Institution's Community Development Story

Section A: Background

I. Your mission and/or purpose

II. Your geographic market(s):

A discussion of demographic data related to income, deposit market share, Home Mortgage Disclosure Act market share, CRA small-business/small-farm share and identified needs. For demographic information, a bank can use the Census Bureau data (some of which is provided in this report), the broadbandmaps and the community's economic development plan.

III. Define the CRA

Below is sample text.

- "Under the Community Reinvestment Act (CRA), it is our responsibility to identify and invest in low- and moderate-income (LMI) communities. These activities must benefit both our financial institution and these communities."
- "The CRA defines community development as that which encompasses affordable housing (including multifamily rental housing) for LMI individuals; community services targeted to LMI individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize LMI geographies, designated disaster areas or distressed or underserved nonmetropolitan middle-income geographies designated by the Federal Reserve Board of Governors, the Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC)."

IV. Examples of how your financial institution has met your CRA obligations

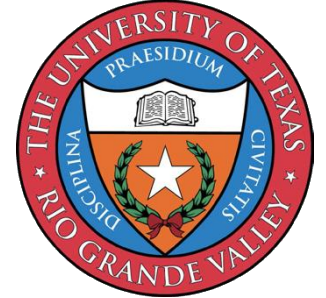
Below is sample text.

- "There is a distinct digital divide in our assessment area (see NTIA broadband map for our assessment area below) and this is how LMI people are affected. ... Our work with (give name of partner, such as nonprofit, economic development center or school) to bring broadband infrastructure to LMI communities is designed to revitalize and stabilize the LMI geography. ... (Provide evidence of impact on workforce development, access to health care through telemedicine, small-business development or improved educational outcomes.)"
- "Specifically, we provided a grant (amount) to offer home Wi-Fi and computers, as well as training for students at the local high school to help close the homework divide. The majority of students at the high school are LMI (>51 percent of the students qualify for free and reduced lunches.)"

Part five is a template your financial institution can use to tailor its own community development story and recognize ways to demonstrate leadership, responsiveness, and innovation.

Digital Opportunity for the Rio Grande Valley (DO4RGV): The Role of Local Governments

- A community-led initiative to design and implement an effective model for closing the digital divide in the Rio Grande Valley on the South Texas Border.
- A middle mile (government to government) demonstration project with Pharr-San Juan-Alamo School District (PSJA) and the City of Pharr to provide an adaptable and replicable model for the border.
- A digital inclusion program at PSJA for parents and students.



Conclusion

- Income and wealth inequality are at the highest levels since the Great Depression.
- The Digital Divide creates a structural barrier to closing the income and wealth gaps—and a barrier to LMI individuals' ability to move up the economic ladder.
- Investing in broadband infrastructure and digital inclusion can help us prevent downward mobility.
- By working with nonprofits and other local partners to bring broadband access and adoption to LMI communities, banks can have a powerful impact on the “infrastructure of opportunity” in this country.

Q & A



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www.dallasfedcomdev.org

