



Federal Financial Analytics, Inc.

FORECAST: RACIAL-EQUITY DEBATE WILL LEADS TO REGULATORY REBOOT

Regardless of the election's outcome, we expect the Fed and, perhaps, other banking agencies and the CFPB to launch major anti-discrimination and inclusion initiatives to insulate themselves from institutional political risk. A raft of new rules will result no matter how law may change in 2021.

The analytics below are based on in-depth reports provided to FedFin clients.

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Although redlining, diversity, and discrimination are longstanding hot buttons at all financial companies, the national reckoning with racial equity makes them far more highly charged. Renewed public attention has thus turned this question from a compliance challenge into a strategic and political priority, one that will take center stage for Congress and federal agencies in the fourth quarter and beyond regardless of the 2020 election's outcome. We expect:

- new anti-discrimination standards from some or all of the federal agencies stipulating additional corporate-governance not just over fair lending, but also fair access and equitable policies at all bank vendors (e.g., appraisers, fintechs, etc.);
- a proposed approach to AI and ML underwriting and pricing activities, looking closely at training data, the models on which decisions are premised, and outcomes for various “protected” groups -- i.e., those differentiated by race, ethnicity, age, gender, disability;
- express policies on serving those for persons with limited English proficiency and those receiving public income that go beyond assertions about reaching the un- and under-banked to specific obligations;
- hard questioning of wholesale and even foreign banking organizations about their CRA footprint;
- new reporting standards not just for [small-business lending](#), but also other financial services;
- prescriptive [alternative-data standards](#) than the largely rhetorical statement released late last year; and
- if COVID's impact leads to the risk-based capital rewrite we expect, a new look at disparate impact wrought by regulatory edict.

And, of course, look out for high-profile enforcement actions. These are a standard agency response to policy pressure on pressing social or consumer-protection questions. The “heads-on-pike” policy is part of the playbook and we expect to see it moving back to the first page later this year.

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