Community Development Bankers Association
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August 8, 2022

Mr. Daniel J. Harty
Director
Office of Capital Markets
U.S. Department of Treasury
1500 Pennsylvania Avenue NW
Washington, DC 20220

Ms. Natalia Li
Deputy Director
Financial Institutions Policy
U.S. Department of Treasury
1500 Pennsylvania Avenue NW
Washington, DC 20220

Re: Request for Comment: Ensuring Responsible Development of Digital Assets

Dear Mr. Harty and Ms. Li:

The members of the Community Development Bankers Association (CDBA) respectfully submit the enclosed comments on the request for public comment regarding potential opportunities and risks presented by development and adoption of digital assets as part of the Department of the Treasury's work under President Biden's Executive Order 14067, "Ensuring Responsible Development of Digital Assets."

General Comments

We are fully in favor of innovation when it advances opportunity and mitigates risk, particularly when such innovation advances policy goals related to community development finance and financial inclusion. However, we urge Federal Policy Makers to exercise caution and carefully consider the relative merits of adoption of a central bank digital currency (CBDC), especially in regards to those topics. We agree that it is important to consider every opportunity to advance the laudable goals identified in the request for comments. These goals are:

a) Protection of consumers, investors, and businesses in the United States
b) Protection of United States and global financial stability and the mitigation of systemic risk
c) Mitigation of illicit finance and national security risks posed by misuse of digital assets

d) Reinforcement of U.S. leadership in the global financial system and in technological and economic competitiveness, including through the responsible development of Payment innovations and digital assets
e) Promotion of access to safe and affordable financial services
f) Support of technological advances that promote responsible development and use of digital assets

Of these goals, CDBA members wish especially to comment on "e": Promotion of access to safe and affordable financial services," alternatively, "financial inclusion." As community banks serving LMI, minority, rural and Native communities, we ask whether the adoption of a CBDC is likely to advance financial inclusion, and whether any risks would be catalyzed along the way.

We do not believe there has been sufficient research to support assertions that a CDBC will advance financial inclusion, especially among the communities we serve. We also believe the contributions of a CBDC to promoting financial inclusion may be overstated. Further, we believe the risk of a CBDC disintermediating community development banks, minority depository institutions (MDIs) and conventional community banks is very high. Disintermediation would undermine and destabilize these institutions and achieve the opposite of this particular goal.

Who We Are & Whom We Serve

CDBA is the national trade association of banks and thrifts with a primary mission of promoting community development. As of this date, there are 175 banks with the Treasury's Community Development Financial Institutions (CDFIs) designation. To be certified as a CDFI, a bank must demonstrate that at least 60% of its total activities (lending, investment, services) are focused on serving low- and moderate-income (LMI) communities, low-income people, or otherwise underserved populations. Our members are leaders in advancing financial literacy and inclusion among LMI populations, as well as unbanked, underbanked, and other vulnerable populations. CDFI banks are often the only bank serving their community.

Advancing Financial Access through Existing Solutions

CDFI banks share the policy goals of the Administration to promote financial inclusion, particularly for economically vulnerable households and communities. As the banks primarily engaged in serving these communities, we understand the barriers to financial inclusion, which have been articulated well by many parties, including the Board of Governors of the Federal Reserve[1]. These barriers include (relatively) high transaction costs and particular vulnerability to delays and complexities in the transmission and receipt of payments. We also understand that advocates for digital currencies frequently cite lower costs and increased speed in the delivery of financial services as potential advantages to adopting a CBDC.

[1] Board of Governors of the Federal Reserve System, "Money and Payments: The U.S. Dollar in the Age of Digital Transformation", January 2022

However, rather than rely on the costly, complex and risk-burdened process of implementing a CBDC, we suggest a better course is for policy makers is to ensure that innovations that are nearly in place, such as FedNow, build on the work of community-focused institutions such as CDFI banks. CDFI banks, MDIs and other community financial institutions are the natural "last mile" for the digital delivery of financial services to underserved communities. With CDFI, MDI and community bank access to systems such as FedNow, it is likely that policy makers will find much of this goal nearly in hand.

Barriers to Consumer Adoption

We do not believe there has been sufficient research to support the assumption that a CBDC, successfully launched, would even advance the goal of increased financial inclusion. However, many of the barriers to increased participation in the banking system are well known. We understand that approximately 13% of U.S. households are "underbanked" and approximately 5% are unbanked.[2] However, of all the identified barriers to entry, we do not believe any clearly point to a CBDC as a solution.

In fact, the FDIC's 2019 "Survey of Household Use of Banking and Financial Services" identified several reasons that the banking industry ought to work collectively and urgently to address. Two of the top three most prominent concerns of unbanked individuals are 1) Lack of trust in the banking system[3] and 2) the perceived lack of privacy inherent in the banking system.[4] The former concern is more a function of policy and practice failures than of currency design, while we believe the latter would only become *more* acute with a CBDC by giving the federal government's representatives in the banking system more visibility into the financial lives of individual citizens.

The Risk of CDFI Bank Disintermediation

A CBDC threatens to disintermediate community banks, including (perhaps particularly) CDFI banks, MDIs and other institutions that specialize in serving the underserved. We share the concerns of our colleagues at the Independent Community Bankers of America (ICBA) who have written that the risks include 1) Removing the ability of banks to lend against deposits stored in CBDC "wallets," which would have "a disastrous effect on the availability of credit, particularly to the small businesses served by community banks," and 2) Introducing a "gateway to public banking", including the opening of direct consumer accounts with the Federal Reserve.[5] We do not believe that policy suggestions to mitigate this risk, such as implementing a non-

[2] Board of Governors of the Federal Reserve System, Economic Well-Being of U.S. Households in 2020 - May 2021
[3] "Reasons for Not Having a Bank Account, Among Unbanked Households, 2019 (Percent) - Don't Trust Banks - 36.3%
[4] Ibid - "Avoiding a Bank Gives More Privacy - 36%"
[5] Independent Community Bankers of America, Letter to the Board of Governors of the Federal Reserve, submitted May 20, 2022

interest-bearing CBDC or limiting the amount of CBDC that an individual can hold, are likely to address the concerns.

Either or both of these disintermediation scenarios would introduce new risks into the operating environment of the CDFI, MDI and community institutions with the local knowledge and hard-won trust of LMI, minority, rural and Native communities.

Conclusion

CDFI banks have grave concerns about the potential for a CBDC to disintermediate CDFI banks, MDIs and other community banks. This would undermine these banks' ability to fund local economic activity, growth, and development. Further, we do not see a scenario in which a CBDC is successful in advancing the goal of financial inclusion, especially in these institutions' absence.

We strongly urge Treasury to work within the Administration and with regulatory agencies to build upon the decades of positive work of CDFI banks, MDIs and community banks - not to destabilize them.

We appreciate the opportunity to comment on this important topic. We look forward to continuing this conversation to ensure that CDFI banks play a leading role in offering services that enable LMI, minority, rural and Native communities and communities to benefit from innovations in financial technology.

If you have any questions, please contact Brian Blake, Public Policy Director at blakeb@pcgloanfund.org.

Sincerely,

Brian Blake
Public Policy Director