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Director Chopra's Opening Remarks to the Community Bank and Credit Union Advisory Councils

Thank you all for joining today. Welcome to our joint meeting of the Community Bank Advisory Council and Credit Union Advisory Council. I want to thank all members of the council, especially our two chairs for all of your work.

Since arriving at the CFPB, I grew concerned that the agency was highly responsive to the large banks we supervise, but less attuned to the needs of local businesses financial institutions who are impacted by changes in consumer financial markets and regulations.

That needs to change, and I have welcomed the opportunity to directly engage with state banker associations and credit union leagues across the country to make sure entities with relationship banking models are not shut out of the CFPB's work. The Community Bank Advisory Council and the Credit Union Advisory Council are going to be just one of the many ways we change course when it comes to listening to local businesses affected by our work.

As many of you may already know, I've asked our council chairs to help the Consumer Financial Protection Bureau answer a question I think about each and every day: what do we want the future of the consumer finance ecosystem to look like?

A key topic of discussion in the meetings of our councils this week will focus on competition, scale, and technology in the consumer finance infrastructure, and its connection to relationship banking. Technology has the ability to make our banking system more vibrant and competitive. But how can we make sure that tech companies, gatekeepers, and middlemen don't gain too much control and make it harder for smaller players and new entrants? How do we also make sure that technology promotes relationship banking, rather than undermining it?

Restoring relationship banking in the age of digitization is a key priority for the CFPB. How can we preserve the benefits of local knowledge and direct customer relationships in a world where scale and automation feel like a business imperative to remain viable? How do we make sure that technology can be a vehicle to create more competitive intensity, rather than reinforce the power of dominant incumbents?

Before you go into your meeting, I want to talk a bit about core services providers, the vendors that many small banks and credit unions rely on. In a market where small financial institutions need to compete head-to-head with big players, I am concerned that the core services providers that small players rely on have too much power in the system.

Community banks and credit unions know the rhythms of the daily lives of their clients and communities – making them integral to the financial marketplace. Small financial institutions play a pivotal role in many markets, but especially small business lending. According to one survey, small business satisfaction with loans given by community banks is 18 percentage points higher than for loans received from larger institutions. And people in rural communities say they prefer local financial institutions and report greater dissatisfaction with the transparency of the costs of products and services offered by online lenders.

Why small businesses prefer local financial institutions was illuminated by the COVID-19 pandemic. Over 33% of small businesses were closed at the height of the pandemic.

When it came to credit and Paycheck Protection Program loans to keep small businesses afloat, local financial institutions truly outperformed, providing a lifeline for so many entrepreneurs and the workers they employed.

Many small financial institutions are worried about the rising costs of and limited flexibilities offered by core services providers. While we are seeing many upstart players seeking to enter the core services market, Fiserv, Jack Henry & Associates, FIS, and Finastra remain the largest providers. These four provide numerous functions to financial institutions to fulfill the technical delivery of core bank functions, including deposit taking, payment facilitation, loan origination, account opening and servicing, fraud management, and compliance.

Local financial institutions depend on core services providers being agile, responsive, and cost-effective in order to compete and serve their clients and customers in their communities.

The core services provider market is heavily consolidated. Fiserv, Jack Henry & Associates, FIS, and Finastra serve 78% of all U.S. banks. The consolidation of the providers among these four is affecting service and cost – with one community bank CEO aptly framing the problem as "stand-in-line and write a big check." In an age of constant tech innovation, with many younger consumers craving digital banking solutions, patience is not a viable solution.

The CFPB is concerned because the downstream effects of this on relationship banking and consumers. The contracts written by the major core services providers are making it harder for local financial institutions to switch providers or use add-ons from outside technology providers, which allow the major incumbents to charge exorbitant amounts of money for their services, while discouraging them from quickly adapting their own products and services to fit with an ever-evolving banking tech landscape.

Local financial institutions' entire suite of online and tech services have become intertwined with single providers as banks are coerced into complex and tome-like contracts that come with costly and unnecessary extra non-core banking services, longer contract periods, and stiff penalties and fees for ending contracts early or making other contract changes.

In our conversations with local financial institutions, one told us they have 36 separate contracts – each with their own expiration dates and time periods – with a single provider. Without robust legal and business development departments, such contract structures are not a long-term model for responsiveness and adaptation to customer needs and digital banking innovations.

The high costs, unescapable contracts, consolidation, and slow reaction times are harming local financial institutions' abilities to keep up with their bigger competitors.

According to one survey, local financial institutions report only a net 5% satisfaction with their core services providers' innovation speeds, less than 15% satisfaction with their providers' product roll-outs, below 20% satisfaction with products' third-party compatibility, and around a 40% satisfaction with their providers' tech sophistication.

These survey results highlight the unsustainability of the current moment.

I have asked our staff to work with core services providers and our federal partners, including to answer questions related to banks' collective bargaining on core services' contracts. We will also work with other agencies to examine third-party service providers and potentially referring complaints to other law enforcement agencies.

More broadly, I hope all of you will guide us on how technology and software providers can create a more competitive market that helps every institution, regardless of size, compete for customers. We need to chart this course together, or local relationship banking will fade into history.

Thank you.

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