

# The Fed's Barr outlines a plan to eliminate racial discrimination in banking to kick off Black History Month

Article

**The news:** Federal Reserve Vice Chair Michael Barr vowed to eliminate racial discrimination in banking in a [speech](#) this week at Jackson State University in Mississippi.

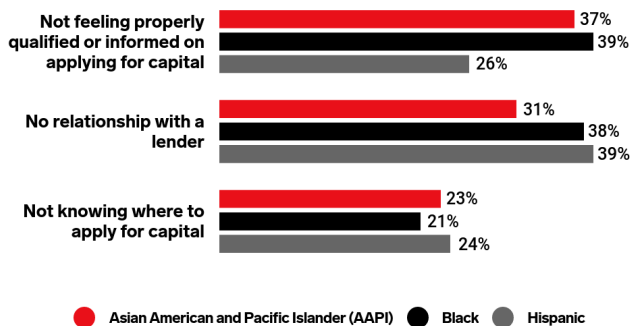
**What will the Fed do?** Barr highlighted some of the key areas on which the Fed will focus, including **Black-owned small business lending, minority auto lending, minority mortgage lending, and access to banking services for the underserved and unbanked.**

- The agency will incorporate screening processes for discriminatory practices into all of its supervisory procedures. This will include emphasis on M&A applications.
- The Fed will also increase its data collection practices to analyze gaps in accessibility and fairness, especially regarding lending to Black business owners, who are typically subject to higher interest rates.
- It will also work with the Consumer Financial Protection Bureau (CFPB) and other financial regulators to create a united front on consumer protections.
- Barr also plugged the Fed's forthcoming instant payments network, [FedNow](#), as a quick, low-cost resource for low-income and underserved consumers.

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### Challenges US Small-Business Owners Face in Accessing Capital, by Race/Ethnicity, Oct 2022

*% of respondents in each group*



Source: Bank of America, "2022 Women & Minority Business Owner Spotlight," Oct 5, 2022

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**Why hasn't it already happened?** Much of the onus for eliminating financial inequality and racial discrimination has been placed on banks, rather than on regulators.

- Barr mentioned that banks have been missing the mark in reporting data around their small business lending under the Dodd-Frank Act. The provision will go into effect at the [end of](#)

**March**, but it will be up to regulators to enforce compliance.

- Barr also called for banks to be more proactive in identifying racial discrimination in their practice. He suggested they implement “mystery shoppers” to test processes like loan applications and approvals.
- Banks have also been told to routinely vet their use of newly adopted technologies, such as artificial intelligence incorporated into loan application reviews. But regulators haven’t yet established standards or guidelines on these technologies for banks to follow.

While banks generally aren’t intentionally facilitating racial discrimination in their practices, regulators have provided little to no support to guide banks in the right direction. And in this time of economic uncertainty, banks are focusing on cutting costs, not hiring mystery shoppers.

**Will it be successful?** The Fed will need to prove that it’s not all talk if it truly aims to eliminate racial discrimination within the financial system.

- The agency should recognize that banks can’t regulate themselves without clear standards, guidelines, or direction. It must ensure banks know exactly what’s expected of them, and provide resources for banks to achieve the expectations easily.
- Increased data collection could be valuable, but the Fed must ensure that its data collection process is well organized and capable of scaling. Otherwise, it will be difficult to draw conclusions from the data.
- The timing of Barr’s promise is somewhat suspicious. Regulators must prove their efforts will outlast Black History Month. A lack of action could bring on criticism similar to what corporations received after marketing Pride month but **standing on the sidelines** during pivotal moments.
- Consumers now have more options to seek financial products and services outside of major banks. Affinity banking is taking off among many minority groups, and several affinity banks have enjoyed great popularity and success. For example, **Greenwood Bank** is building a strong community for Black and Latino consumers, and **Guava** is providing more lending options to Black business owners.

## US Adults' Banking Status, by Demographic, Nov 2021

% of respondents in each group

	Fully banked	Underbanked	Unbanked
<b>Race/ethnicity</b>			
Asian	92%	6%	2%
White	87%	10%	3%
Hispanic	71%	18%	11%
Black	59%	27%	13%
<b>Income level</b>			
<\$25K	62%	20%	17%
\$25K–\$49,999	76%	20%	4%
\$50K–\$99,999	87%	12%	1%
\$100K+	94%	5%	1%
<b>Education level</b>			
Less than a high school degree	53%	23%	24%
High school degree/GED	75%	15%	10%
Some college/technical or associate degree	79%	17%	5%
Bachelor's degree or more	92%	7%	1%
<b>Total</b>	<b>81%</b>	<b>13%</b>	<b>6%</b>

Note: numbers may not add up to 100% due to rounding

Source: Federal Reserve, "Economic Well-Being of U.S. Households in 2021," May 23, 2022

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