Record of Meeting
Community Advisory Council and the Board of Governors
Friday, May 13, 2016

1. Racial and Ethnic Employment Disparities: *How have recent employment and workforce conditions for racial and ethnic minority groups differed from aggregate conditions in the communities in which Council members operate? What strategies are affected individuals using in response to unemployment or underemployment (e.g., starting businesses, joining the "gig" economy, pursuing further training or education)? Are Council members aware of successful workforce investment efforts that address disparities in employment outcomes for specific populations?*

Aggregate economic indicators mask the continuing marginalization of communities of color and the economic decline among lower-income white people. The impacts from failures to address labor and workforce development challenges have disproportionately affected people of color, and are now also damaging the greater population. Disaggregated data by race and geography provides essential nuance regarding social mobility and the economic realities for millions of Americans that should inform monetary and fiscal policies. Failing to address significant disparities in employment and net worth between major segments of our population, and particularly in segments that are driving our demographic growth as a nation, will result in national-level economic consequences. This is a systemic economic risk for the U.S. economy.

The U.S. unemployment rate has held stable at around 5.0 to 6.0 percent since the end of 2014. However, systemic challenges to gainful employment have increasingly negative impacts on the ability of society's most vulnerable to gain opportunities for social mobility. According to the Bureau of Labor Statistics (BLS), unemployment for whites is at 4.4 percent; for African Americans, at 9.0 percent; and for Hispanics, at 5.6 percent.[1] Racial and ethnic minority groups fair worse overall in terms of employment opportunities, but increasingly whites, especially in rural communities, find themselves confronting chronic employment challenges. Hence, policy approaches must recognize the breadth of support and investment needed, be cognizant of cultural realities, and squarely address access issues preventing sustained employment.

Special attention needs to be paid to populations that have a higher likelihood of unemployment, including the previously incarcerated, young adults (16- to 24-year-olds), and people with disabilities. For instance, widespread use of criminal background checks can disadvantage citizens returning to the workforce from the start. One study demonstrates that a criminal record diminishes a returning citizen's chances of a callback or job offer by nearly 50 percent.[2] There are as many as 65 million Americans with criminal records in the workforce or seeking employment opportunities.[3] Similarly, unemployment in rural America has been consistently higher than in urban areas, as traditional

[1] Bureau of Labor Statistics, "Labor Force Statistics from the Current Population Survey" (April 1, 2016), www.bls.gov/web/empsit/cpseea04.htm.

[2] Devah Pager, Bruce Western, and Naomi Sugie, "Sequencing Disadvantage: Barriers to Employment Facing Young Black and White Men with Criminal Records," *Annals of the American Academy* 623 (May 2009): 195, 199.

[3] Michelle N. Rodriguez and Maurice Emsellem, *65 Million "Need Not Apply": The Case for Reforming Criminal Background Checks for Employment* (New York: National Employment Law Project, March 2011).

manufacturing jobs have declined significantly and few alternatives have replaced them on a large scale.

Immigration policies also force millions of workers into the shadows, depressing their wages and making them vulnerable to wage theft and other predatory behavior from unscrupulous employers. Meanwhile, rising housing costs in many markets are putting a tremendous burden on a growing number of low-wage workers, and effectively wipe out any increases in wages that they experience.

As a result of these conditions of unemployment and underemployment, some affected individuals have responded by working multiple part-time jobs.[4] We are also seeing a trend of more and more business models based on 1099 contract workers rather than traditional full-time or part-time positions. The intentional misclassification of employees, as well as efforts to manipulate labor rules to gain greater margins for employers and limit protections and supports for workers, further inhibit the opportunities for the underemployed to increase social mobility and access career ladders. In addition, many employers do not provide health benefits or overtime pay to part-time workers, further contributing to these individuals' financial insecurity. The rise of part-time employment amongst the above-mentioned groups also does not allow room for wage growth or upward mobility. Working multiple jobs and the lack of time for advancement opportunities leaves many Americans feeling "stuck."

Local collaboration between public, private, and nonprofit partners is needed to build a supply chain of dependable skilled workers and to increase employee retention rates. Local institutions must identify long-term workforce needs and develop strategies to address the challenge of uneven employment outcomes for different populations. Successful training programs invest in human capital by offering a source of income, focusing on soft and hard skills development, and providing assurance of employment at the completion of the program. These programs must also engage employer partners and recognize employer needs in order to have optimal impact. When employers understand employee needs and provide additional support, employees tend to be more focused and productive—allowing the employer to retain well-trained and dedicated employees.

Some employers and organizations already understand this and are finding ways to attract or aid vulnerable workers. For example, Sakthi Automotive, an international tier-one automotive supplier, is creating 300 jobs in Detroit with plans to recruit and hire a significant number of returning citizens, single mothers, and other at-risk populations. They also are creating a training facility on-site; offering transportation, childcare, and a discounted grocer to employees; and creating viable, advanced skills on-ramping for the local workforce. As another example, New Immigrant Community Empowerment, a community-based nonprofit organization in New York City, has developed a new smartphone app called Jornalero that is designed to strengthen the position of vulnerable workers who are often victims of wage theft. The app allows workers to rate employers, track unsafe working conditions, and document wage withholding and provides assistance for workers to file legal complaints.

While it is critical to recognize that race, ethnicity, and regional culture strongly correlate with unemployment and wage rates in the United States, we must also recognize that challenges and opportunities are substantively different in different communities. Our nation's infrastructure for delivering fiscal policies aimed at strengthening the labor market should reflect this reality. The speed

[4] Nina Glinski, "More Than a Million Americans Are Working Multiple Part-Time Jobs for Full-Time Hours," *St. Louis Post-Dispatch*, April 13, 2015, www.stltoday.com/business/local/more-than-a-million-americans-are-working-multiple-part-time/article_2816e577-f735-5607-bd31-0343c7ab5ecb.html.

of demographic change, and particularly the growth and dispersion of Latino populations, has widened gaps in cultural and linguistic competence among municipal and nonprofit institutions that address the workforce needs and opportunities of people earning low and moderate incomes. This has made those institutions that can deliver culturally relevant services disproportionately important in addressing these challenges.

There is increasing evidence that self-employment strategies were important for many households in dealing with the economic shock of losing employment during the Great Recession. It is clear that more of the U.S. workforce will need the tools and resources necessary to be successful as self-employed entrepreneurs. Examples of successful small business programs include the National Association for Latino Community Asset Builders national small business investment initiative, which has supported over 5,500 small businesses with culturally relevant programs during the last five years, and Detroit's Motor City Match, which provides a comprehensive suite of grants, site selection, construction, marketing, legal, and other assistance for small businesses.

Increasing wages for workers in low-wage jobs is an especially important strategy for addressing racial and ethnic disparities at the lower end of the employment scale, as well as increasing financial well-being for low-wage workers overall. The Council is encouraged by recent minimum-wage increases in California and New York, as well as in other cities and states, and by the prominence of the minimum-wage conversation in the national political dialogue. The impact of different levels of minimum-wage increase on overall job availability and wage levels should be studied further.

2. Small-Dollar Lending: *Does the Council have a view of the current demand for small-dollar loans? How are consumers currently fulfilling their need for these types of loans? What drives consumers to seek these products? Are Council members aware of promising, scalable alternatives to deposit advance, overdraft, or payday loan products?*

Any conversation about small-dollar lending must begin with a clear distinction between a loan and a debt trap. Extending credit is not a viable solution for a household's financial needs if it does not have the ability to repay or if the product structure is not designed around the household's ability to repay. Some legitimate form of underwriting or scoring is necessary to determine the ability to repay. Without this, we cannot consider a product a legitimate loan; rather, it is a predatory financial instrument.

There is growing evidence that volatility in household income and expenses results in cash flow challenges for households that then trigger financial crises. Even a household that, on aggregate, has enough income in a given year to cover necessary expenses may still encounter periods of cash flow challenge that trigger mounting financial penalties (late fees on household bills, punitive debt provisions, etc.). While savings are the best cushion against such volatility, the reality in our post-recession economy is that many households simply do not have the savings necessary to address these sorts of challenges. Research from Corporation for Enterprise Development indicates that 44 percent of households are liquid asset poor—meaning they have fewer than three months of savings to cover their expenses in the event of a job loss or other financial shock.

The demand for alternative products is growing. The Center for Financial Services Innovation estimated that in 2015 there would be

- $192.1 billion in subprime auto lending,
- $46.2 billion in payday lending,
- $31.3 billion in overdraft lending,
- $26.4 billion in subprime credit card lending,
- $16.2 billion in installment lending,
- $15.9 billion in pawn shop lending, and
- $8.4 billion in "rent to own" lending.[5]

Many businesses and nonprofits are seeking to address that demand, and recent years have seen significant innovation around the world to provide novel solutions or delivery methods. According to a report by Autonomous Research, an independent firm focused on financial services, small-dollar lending provided by digital lenders was estimated at $37 billion in loans globally last year.[6] By 2020, it estimated that digital lenders would collectively triple lending volume to roughly $100 billion in loans globally, or roughly 10 percent of the total market for small business and consumer loans. Banks "left the door wide open" to upstarts by cutting back on lending after the crisis, the analysts said. The report also noted that there are more than 2,000 firms globally now competing in digital lending, with "low barriers" for even more new firms to enter.

Even with significant innovation and growth in online small-dollar lending, low- and moderate-income (LMI) individuals with little or no credit history continue to have limited options. Most mainstream financial institutions either aren't located in communities serving these borrowers or haven't figured out how to evaluate the risk profile (i.e., likelihood of repayment) of someone who lacks a credit score—much less how to make serving such a population profitable enough to warrant the effort.

Those with limited or no credit are generally forced to seek alternative financial products that are often characterized by high interest rates, unrealistic payment terms, prepayment penalties, and unscrupulous collection practices. The scale and prevalence of those predatory products creates a significant and disproportionate risk of harm to LMI communities that must be addressed. Some corporations are beginning to take action to limit harm to consumers. Google, for example, recently announced bans on all payday loan ads. The bans will apply to ads for loans for which repayment is due within 60 days and also to ads for loans that carry annual percentage rates of 36 percent or higher.

In addition, efforts in various states and at the federal level by the Consumer Financial Protection Bureau (CFPB) are focused on examining the use of payday loans and similar products; those efforts seek to establish rules ensuring safe access and are urgently needed.

The focus on payday loans needs to extend to subprime auto lending. The potential systemic risk related to subprime auto lending is very concerning. With over $200 billion outstanding and rising delinquency rates, the impact on LMI communities would be significantly negative.

---

[5] Rob Levy and Nick Bianchi, "Know Your Borrower—The Four Need Cases of Small-Dollar Credit Consumers" (Chicago: Center for Financial Services Innovation, December 2013), www.cfsinnovation.com/Document-Library/Know-Your-Borrower-The-Four-Need-Cases-of-Smal-(1).

[6] Autonomous Research, "Digital Lending: The 100 Billion Dollar Question," January 2016, https://autonomous.app.box.com/s/zsemdkbykegjndrgnxjvzvllv5meq0zp.

While the Council recognizes that technology and data are changing lending practices, and that potential exists to improve credit access and services for certain groups that might not otherwise have received capital, there is a clear need for stronger regulation and examination of consumer lenders. We see examples of consumer lenders, and particularly online lenders, operating in ways that are producing risk (e.g., recent reports regarding Lending Club's falsification of data) and consumer harm that are disturbingly similar to what occurred in the subprime mortgage market leading up to the recession. Given the target market for much consumer lending activity, this risk is particularly targeted and toxic for low-income people and small business owners, and is likely to manifest most dramatically in the next economic downturn.

Numerous organizations are piloting high-quality efforts designed to provide access to safe and affordable small-dollar loan products. The programs use features such as flexible repayment periods and installment loan structure. Examples undertaken by Council members include:

- **The California Pilot Program for Increased Access to Responsible Small-Dollar Loans:** Under this pilot, lenders like Oportun can charge marginally higher interest rates, as well as larger origination and delinquency fees, than those permitted for consumer loans of that size ($300–$2,500) made outside the program. In order to charge those marginally higher rates, the pilot provides significant additional consumer protections and benefits.
- **Twin Accounts:** Participants in LISC (Local Initiatives Support Corporation) Twin Accounts program receive a "loan" of $300, which is not drawn immediately, but rather deposited into a "locked" savings account. The participant pays back the loan in installments over a 12-month period. By the end of the program, participants have not only saved $300, but also have the opportunity to earn a 1:1 match on every on time payment, doubling their savings to $600. Just as importantly, their payments are reported to credit bureaus, enabling participants to build their credit scores or establish a credit history. Within six months, participants who are "unscored" at program entry typically generate credit scores in the high 600s. Those with low scores at program entry see an average increase of 30 to 60 points.

3. Community Reinvestment Act: *What is the Council's view on the key concerns with how the Community Reinvestment Act (CRA) is being implemented today? What areas may require further examination and analysis?*

CRA remains one of the few and most important drivers of private financing for activities in low-income communities. Most banks report that CRA is a threshold consideration in the volume and location of their community development financing. CRA is becoming an increasingly important tool for mitigating negative community impacts resulting from bank mergers, and financing activities in low-income communities as public subsidies that support these activities are on the decline. It is critical that we do all we can to strengthen and improve this essential source of financing support for underserved populations and neighborhoods, and to do so in a manner that reflects that the banking industry has evolved significantly in the close to 40 years since the enactment of CRA. The following issues are critical concerns to strengthen CRA. We appreciate that some of these concerns can be addressed through the ongoing process of updating the Interagency Questions and Answers Regarding Community Reinvestment, the document that provides additional guidance to the public and financial institutions on the agencies' regulations (the CRA Qs &As), but the Council urges regulators to open a regulatory review process to address other issues as necessary.

Assessment Areas

The assessment area-driven approach to CRA, which may have served the program well in its early years, is not working well in local communities, and is becoming increasingly difficult to manage for banks and regulators. Two divergent trends are in play here. On the one hand, the mergers of institutions over time have created a situation where some national retail banks have hundreds of individual assessment areas that must be managed. Conversely, the rise of wholesale, limited purpose, and internet banks (WLPIBs) has created a situation where some institutions may only have one or two assigned assessment areas, even though they are serving a national market.

The reliance on assessment areas has led to a concentration of investment in "CRA-hot" markets at the expense of markets that are already suffering precisely because there is limited bank presence there. While Council members appreciate recent revisions to the Interagency Qs & As clarifying when banks can get credit for investments outside their assessment areas, the regulators' efforts to encourage a broader scope of investments will continue to be frustrated until they can develop an approach to CRA evaluation that is not so driven by geographic constraints. Additional geographical assessment areas need to be designated when banks are making considerable numbers of loans in areas where banks do not have branches. Alternately, it is well documented that branch closings often have a negative impact on access to financial services and access to credit. Research aimed at mapping of assessment areas and lending will give greater insight.

The geographical basis of CRA exams should not be ended because banks must continue to be held accountable for the communities in which they have branches and/or are making loans.

Quality of CRA Activities

It is not always clear that even the banks receiving "outstanding" ratings based on their volume of activities are having a meaningful impact on the communities or the families being targeted with their activities. Regulators may want to consider whether more weight should be given to activities that are the most difficult to undertake and will have the greatest impact with respect to revitalizing low-income communities, providing goods and services to community residents, or providing economic opportunities to families. For example, some specific areas of focus could include:

1) **Serving the underserved:** CRA potentially could be leveraged in ways that better serve unbanked and underbanked consumers by promoting affordable transactions, encouraging savings, helping build individual wealth/assets, and increasing access to affordable small-dollar consumer loans and business loans. More analysis and better use of data around the underserved and access to financial services and credit, including the role of technology, will enhance the ability to precisely serve this market.

2) **Product standards:** CRA examiners could potentially consider whether the products being offered are truly customized to best serve low-income borrowers, and could also reward banks that are providing more flexible and innovative criteria in their underwriting.

3) **Equitable economic development:** Regulators could consider providing more scrutiny of loans that automatically get CRA credit to ensure they are truly creating quality jobs and economic opportunities for the people and communities that most need them.

4) **Small business lending:** More attention should be given to lending that is truly benefitting small businesses in underserved communities, especially as more data is likely to become available in the wake of new regulations. Regulators should amend the rules to clarify that small business lending, for the purpose of the CRA, means loans to businesses that are small, not small loans to businesses of any size. Efforts should be made to support Community Development Financial Institutions (CDFIs) and other non-traditional lenders lending in underserved areas and to underserved populations.

5) **Re-examine the service test:** The efficacy of the service test as a method for producing impact in LMI communities should be reviewed for improvement. The service test lacks data on how many LMI consumers banks are serving with basic deposit accounts and savings accounts.

6) **Capacity building for emerging CDFIs:** The CRA gives specific benefit to banks that invest through a CDFI. Capacity-building efforts with mission-focused lenders that have not yet achieved CDFI status should also be recognized.

<u>CRA Examinations</u>

CRA enforcement is not nearly as strong as it could be, and a big cause of the problem is that there are insufficient nuances in the current grading system. Across all of the regulatory agencies, the vast majority of banks are falling into a satisfactory rating, which is so broad and covers so many institutions that it has no real value as an assessment measure. Regulators should consider whether there would be value in creating a more nuanced rating scale as a way to incentivize more CRA activities across the board. There is a current point scale from 1 to 24. Points are never shown on CRA exams with ranges of points corresponding to the various ratings. Regulators need to establish a new point scale from 1 to 100, which would allow regulators and the public to clearly see which banks had satisfactory ratings (over 90 percent have satisfactory ratings) and to distinguish a range of performance within the satisfactory classification as revealed by the score.

More guidance and training is needed to improve the consistency and the depth of understanding brought by the examiners. There is a widespread belief that CRA is applied differently depending on the examiner. Regulators may wish to consider whether this concern can be addressed through a combination of interagency training, development of a new training curriculum, documentation, and dissemination of best practices, or other similar activities that include exposure to practitioners and models for effective community reinvestment.

One element critical to the success of CRA is the ability for banks to collect and disseminate data with respect to where they are making loans, investments, and otherwise engaging in activities and for regulators and the public to be able to review that data to be able to make determinations as to whether the banks are fulfilling their obligations to serve LMI communities. Ready access to meaningful, accurate, and timely data is critical to assess a bank and the industry, and regulators should consider whether it would be a worthwhile endeavor to standardize data (such as HMDA, small business, community development lending, and investments) and make it available to the public on an annual basis.

Similarly, regulators should encourage more public participation in the CRA evaluation process. Currently, there is too much reliance on waiting until a merger or acquisition is planned, and then inviting the community to react. Regulators may want to consider ways to proactively solicit community input from a wide variety of stakeholders throughout the exam cycle. In addition, regulators may want to consider whether it would be appropriate to require banks to develop and submit for public comment forward looking, multiyear "CRA Plans" that outline the bank's strategy for meeting its CRA obligations.

4. Current Lending Conditions: *Please describe any significant changes since the November 2015 meeting in the overall availability or terms of credit in the following areas of lending, focusing on the impact to consumers and communities.*

a. Small Business Lending

Small businesses are essential economic drivers, and are often especially critical drivers of economic opportunity in low-income and immigrant-dense neighborhoods. But credit availability from banks continues to be tight. Traditional lenders do not have the right mix or size of products that are flexible for local small businesses. In contrast to national banks, community bank approval rates are significantly higher. As community banks are sold, access to local credit could be adversely impacted.

It is also increasingly the case that traditional banks are moving out of the business of making small business loans based on actual cash-flow-based underwriting. This drives small businesses to either treat their credit cards as a vehicle for regular loans, or pushes small businesses toward the higher-cost marketplace lenders. Both options are higher cost and greater risk to the borrower.

Bankers, lenders, and consumers have brought up concerns about alternative lenders, as we discussed more fully in our response to question 2 on small-dollar lending. There are some new efforts by mission-driven lenders that can provide useful lending models, although they will not be at the scale that can replace the banks that are leaving the space or that can compete with the high-cost, non-regulated lenders. For example, CDFIs are responsible, non-traditional lenders blending rigorous due diligence with flexible and creative underwriting, making credit available to businesses not served by traditional lenders.

The increasing proliferation of merchant cash-advance products by online and other alternative lenders is causing great harm to small businesses nationally and requires review, and potentially regulatory oversight, to avoid the sector turning to payday-lender-like abusive practices. Minimally, this sector should be held to an "ability to repay" standard, such as that promulgated by the CFPB for home mortgage lending.

The livelihoods of small businesses in many urban areas are threatened due to rising commercial rents and the lack of stable leases. In rural areas where agriculture is the main business, there has been a decline in commodity prices and deflation of farmland values, which results in a decrease of economic activity. The volatility of prices and uncertainty have negatively affected the ability of small businesses to sustain or expand.

Asians, Latinos, and African Americans are three times as likely as whites to start businesses. Given this fact, it is particularly concerning that businesses owned by people of color have a significantly lower participation in government-supported loan programs (e.g., Small Business Administration (SBA) 504 and 7(a) loans) than that for whites. This is a fact that is largely unaddressed by SBA and its lending partners. The cause of this disparity needs to be explored and the trend turned around. The American Recovery and Reinvestment Act (ARRA) of 2009 provided for an increase in SBA 7(a) loan limits that have resulted in the increase of average size SBA loans of almost $500,000; those limits could be revised down to pre-ARRA levels to encourage smaller business loans.

b. Home Mortgage Lending

Mortgages appear increasingly accessible for those with good credit and adequate cash for a down payment. In early 2014, nonbank lenders became the primary source of new mortgages, and in the time since have increased their lead over credit unions, large banks, and smaller traditional loan providers. Council members have shared concerns over less regulated lenders as they are increasing activities. While the larger share of home lending by non-CRA-covered lenders does not seem to have caused problems in the current market environment, the lack of oversight could put vulnerable populations at risk in the event of another economic crisis.

Racial disparities persist in home lending. With home prices going up and credit remaining somewhat tight, more LMI buyers have been excluded and relegated to renting. In New York City, African Americans and Hispanics received comparatively high rates of home-purchase loan denials: while only 13.7 percent of white applicants were denied citywide, 21.5 percent of African American and 20.3 percent of Hispanic applicants were denied.

Addressing disparities will require increasing the inventory of affordable housing for purchase, making credit available equitably and responsibly, and increasing financial assistance and access to prepurchase counseling. For instance, Minnesota Housing, the state's housing finance agency, continues to fund mortgages, largely for first-time homebuyers at roughly the same pace as in 2015: 90 percent of first-time borrowers are receiving some type of down payment/closing cost assistance.[7] In addition, Federal Housing Administration (FHA) loan products are safe and critically important tools for allowing access to homeownership for borrowers of color. The very high rate of FHA utilization among borrowers of color, however, may be an indication that the market is not serving borrowers of color with the same variety of borrowing opportunities as the rest of the market. For example, in New York City, non-CRA-covered lenders are growing in their share of lending in communities of color, even though many CRA-covered lenders have a superior and lower-cost product.

c. Multifamily and Affordable Housing Lending

The multifamily market remains strong. There is tremendous need for more multifamily lending, but making the deals feasible continues to be a challenge. The Association for Neighborhood and Housing

[7] Minnesota Housing Project, "MN Housing Discusses Senior Housing Pilot, Homeless Prevention Plan," MHP Connect blog, February 2, 2016, http://mhponline.org/blog/connect/655-mn-housing-board-minutes-january-2016.

Development (ANHD) studies 25 of the largest banks in New York City, and after a few years of increases, the number of multifamily affordable housing loans among the retail banks that ANHD studied declined in 2014 by 20 percent and by 13.5 percent in lower-income neighborhoods. Community development loans for affordable housing are available for some, but occasionally, local community development corporations (CDCs) face challenges accessing capital, particularly for smaller deals.

In many communities, affordable housing development remains overly restricted due to limitations in the supply of Low Income Housing Tax Credit financing. The availability of tax-exempt bond caps will also limit new affordable housing development. And, the severe shortage of Section 8 vouchers is a further factor limiting affordability in almost all markets. As much as more Section 8 support is desperately needed, there is also concern that there is a growing pattern of neighborhoods where landlords don't accept Section 8 vouchers, which raises concentrations of poverty and potential Fair Housing Act violations.

d. Consumer Lending

Topics are covered under question 2.

5. Housing Markets: *How have house prices and rental rates changed since the November 2015 meeting? Have there been any new developments in housing activity for low- and moderate-income communities in Council members' regions?*

Affordability is a fundamental driver of where people choose to live, and where we live plays an important role in shaping our economic opportunities. As the Council observed in the November 2015 meeting record, America is in the midst of a profound demographic shift that will alter the racial and ethnic composition of our population. Importantly, this shift is bringing many more households into the prime first-time-homebuying age cohort, but they are more likely to be unemployed, live in poverty, earn low wages, and lack sufficient savings to invest in long-term assets. These dynamics cause concerns that current market conditions are presenting even higher barriers to households being able to build wealth and gain economic mobility through buying homes and moving to communities with higher opportunities.

Both housing prices and rental rates have generally increased since November 2015, to the detriment of LMI households. Of increasing concern in certain markets is the growing gap between housing costs and wages. For example, between 2005 and 2013, the median rent in New York City increased by nearly 12 percent, while the median income of renter households increased by only 2.3 percent.

The upward pressure on housing and real estate through the winter of 2015 has led to high rental occupancy rates and increased prices. Although the production of new rental units continues to be strong in many urban markets, the production and preservation of affordable rental housing is an increasing challenge, particularly in areas of high opportunity. Meanwhile, single-family new production is beginning to pick up in some markets, but there is virtually no new production of homes at the lower end of the price spectrum. And in many markets, the inventories of lower-priced existing homes are at historic low levels, with heavy competition for available units—making it difficult for first-time homebuyers to find properties to buy, just when they are beginning to return to the market in greater numbers.

Moreover, the National Association of Homebuilders/Wells Fargo Housing Opportunity Index (HOI) dropped from 77.5 percent in 2012 to 63.2 percent in 2015. HOI measures the percentage of homes sold that would have been affordable to a household earning the median income in 220 metro areas. In rural areas and metro areas, substandard conditions are one of the biggest housing challenges. The cost of living, in terms of rent and utilities, has increased but quality of living has not been maintained or improved. Compared to metro areas, rural housing prices have been more level.

With many local real estate markets heating up, affordable housing developers are finding it more difficult to compete with private investors to acquire properties and land. There are also concerns in certain markets that there may be a bubble developing in high-end residential and commercial markets, with residential vacancy rates actually starting to rise in some of the hottest markets. Further, while financing structures for large multifamily affordable developments are well defined (tax credits, bond financing, federally guaranteed loans, etc.), there are far fewer options for financing single-family and small multifamily development. On the other hand, private capital is available in hot markets for market-rate developers to acquire existing unsubsidized rental properties, with a business model that depends on high rates of turnover to quickly raise rents. This often results in the eviction of tenants paying lower rents as the properties are repositioned and higher-income tenants move in. Some of these properties have historically accepted Housing Choice Vouchers but are changing their policies to cease accepting vouchers after the properties are rehabilitated, thus displacing low-income tenants. Also, tenant screening criteria are often modified to completely exclude those with barriers such as a weak credit history or a criminal record of any kind.

6. Labor Markets: *How have the labor markets in which Council members operate changed since the November 2015 meeting? In particular, assess the degree of job loss or gain (how much and in which industries). What changes to wages for low- and moderate-income earners have Council members observed?*

As the Council noted in November 2015, workforce characteristics and labor market conditions in communities of color diverge significantly from aggregated indices. Thus, expanding on disaggregated data that detail conditions of workers within those communities is important to our understanding of labor markets. These disparities cannot be footnotes; rather, they need to be included as headlines (see data provided under question 1). Promoting and sustaining wage growth for low-wage workers should be a key indicator of broad-based strengthening of labor markets.

Labor unions have finally “emptied the bench” and begun hiring apprentices in some markets. While unemployment remains at a steady 5 percent, the wages for many in a gradually improving national economy since 2008 have been flat. Even in New York City and other large markets, wages have remained steady or have risen only very slightly across all growth industries. Within particular growth industries, such as technology, Council members are concerned about extreme compensation disparities by race and job type.

At the same time, new research demonstrates an increase in all-cause mortality among U.S. middle-aged non-Hispanic whites between 1999 and 2013. The increase was largely attributable to drug and alcohol poisoning, suicide, and chronic liver diseases and cirrhosis, raising the possibility that many whites are feeling a sense of hopelessness about the future.[8]

Indeed, the adjusted median hourly wage for white men with no more than a high school diploma declined from $19.76 in 1979 to $17.50 in 2014. And although whites make up 42 percent of the overall poverty population, they represent 63 percent of the rural poor. For example, nationally, real earnings of those in the lowest 10 percent of workers were unchanged between 1979 and 2014.[9]

Underemployment is a growing concern in markets of all sizes and areas of the country. The nature of work is rapidly changing—from the growth in "fissured workplaces" that demand "just-in-time" work schedules, to "1099 workers" or independent contractors. In July 2015, according to the Bureau of Labor Statistics, there were 9.6 million unincorporated self-employed workers and 5.5 million incorporated self-employed workers in the United States, which together represent approximately 10 percent of all workers.[10]

The Bureau of Labor Statistics projects that over the next decade occupations requiring no more than a high school diploma will add 8.8 million jobs—56 percent of all new jobs.[11] These occupations—retail sales, home health aides, food service, landscapers, security guards, and childcare workers—will constitute the largest growth in the coming decade. These high-growth jobs, like those in high demand in large markets like New York City, are not only low-wage, they are often characterized by irregular and erratic hours, few employment benefits, and limited advancement possibilities. Employers are actively limiting frontline workers' hours to 30 per week to avoid payment of overtime, retirement, and other benefits due full-time employees.

7. Additional Matters: *Have any other matters affecting consumers and communities emerged from the work of the Council members that they want to present at this time?*

The Council has not identified any other matters for discussion at this particular convening, but would like to offer suggestions for topics that we believe might be appropriate for discussion at a future convening:

- **FinTech** – Short for "Financial Technology" companies, they constitute a rapidly growing sector of the industry that uses technology to offer products to consumers that historically had been offered by regulated financial institutions or at a point-of-sale location. There are concerns regarding the application of existing regulations in a consistent manner to FinTech companies, so it may be worthwhile for the Federal Reserve to undertake some kind of evaluation of these institutions and their practices.

---

[8] Anne Case and Angus Deaton, "Rising Morbidity and Mortality in Midlife among White Non-Hispanic Americans in the 21st Century," *PNAS* 110 (49): 15,078–15,083.

[9] Bureau of Labor Statistics, "A Look at Pay at the Top, the Bottom, and in Between," *Spotlight on Statistics*, May 2015, www.bls.gov/spotlight/2015/a-look-at-pay-at-the-top-the-bottom-and-in-between/home.htm.

[10] David G. Blanchflower, *flexibility@work 2015: Self-Employment across Countries in the Great Recession of 2008-2014* (Amsterdam: Randstad, May 2015); see also Bureau of Labor Statistics, "The Employment Situation—July 2015," Table A-9, www.bls.gov/news.release/empsit.htm.

[11] Emily Richards and David Terkanian, "Occupational Employment Projections to 2022," *Monthly Labor Review*, December 2013, www.bls.gov/opub/mlr/2013/article/occupational-employment-projections-to-2022.htm.

- **Pension plans** – It might be desirable to have a discussion regarding the underfunded and defaulting pension plans that are here now or on the immediate horizon, as these might threaten to overwhelm the Pension Benefits Guarantee Corporation and may have ripple effects across the economy.

- **Rural America** – Rural communities continue to be an under-resourced area of our country, with little recognition of the challenges, opportunities, and importance to the rest of our country. Branch closings and bank consolidation have had a disparate impact on rural communities. A recent presentation by the Federal Reserve Bank of St. Louis showed that loan approval rates of community banks were 75 percent while the corresponding rates for larger banks was 58 percent, which highlights the lower availability of credit in rural communities as banks close or are acquired. Any additional support, assistance, and emphasis the Federal Reserve can provide would be helpful.

- **Educational debt** – The costs of post-secondary education continue to skyrocket, putting education out of reach for many and saddling an entire generation of young people with debt. This ultimately causes a drag on economic growth, as well as on an individual's ability to save for a home purchase.

- **Retail and commercial services in low-income neighborhoods** – Analysis of consumer lending often demonstrates that needs for goods and services in low-income communities are not being met within those communities, a phenomenon known as "retail leakage." It might be worthwhile to discuss measures that can be implemented to foster more retail development in low-income communities.

- **Foreclosures** – It might be beneficial to have a conversation regarding lessons learned in the wake of the 2008 housing crisis, with respect to both keeping people in their homes and also removing or rehabilitating vacant properties.

- **Credit scoring** – While there is significant innovation with alternative credit scoring methods, the prevalence of mainstream credit scoring methods in accessing capital, rental housing, and even employment makes it very important to better understand how and when credit scoring is artificially distorting the market by overestimating and generalizing risks for low-income and minority populations.