Record of Meeting
Community Advisory Council and the Board of Governors
Friday, May 4, 2018

1. **Current Market Conditions:** *What is the Council's view of the current condition of, and the outlook for, loan markets and financial markets generally? Has the Council observed any notable developments since its last meeting for loans in such categories as (a) small business, (b) home mortgage, (c) multifamily and affordable housing, and (d) consumers? Do Council members see economic developments in their regions that may not be apparent from the reported data or that may be early indications of trends that may not yet have become apparent in aggregated data?*

Small Business Lending

Small businesses face unique and disproportionate challenges to providing good jobs. A recent analysis from PolicyLink[1] has identified that one major barrier to creating quality jobs is short-term operating expenses. Capital and credit for costs such as training and health care coverage are very limited, particularly for women, people of color, and rural and low-income business owners. They often must turn to high-cost lenders or credit cards, or risk losing their personal assets as collateral. Addressing this problem is important because businesses owned by women and people of color are helping to fuel the national economic recovery: they created 1.3 million new jobs between 2007 and 2012. In fact, businesses owned by black women are the fastest growing segment of businesses nationally.

Several studies have documented the challenges small businesses face in accessing credit, particularly those that are women-owned and minority-owned. These challenges include receiving smaller loans than requested, higher loan denial rates, and higher rates and fees on loans. Fair lending enforcement by regulators requires detailed information about products and pricing as well as about loan applications and denials. In addition, the Council urges full implementation of section 1071 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), requiring lenders to publicly report the gender and race of the small business loan applicants.

The average Small Business Administration (SBA) 7 (a) loan rose to $500,000 in 2017. These (partially) government guaranteed loans represent 5 percent of bank small business lending, but 20 percent of all small business loans to minorities. Seventy percent of all SBA 7(a) loans are now being made to purchase or refinance real estate, whereas in the past, these loans were used to finance business startups, provide working capital, purchase equipment or inventory, or make leasehold improvements. Driving this trend is the secondary market-derived income banks can make on the sale of SBA loans (the guaranteed portions), sometimes at a significant premium. The loan size limit was raised to $5 million to incent banks to make SBA loans during the financial crisis, but the former limit of $2 million better aligns the original intent of the program with the target borrower—and some members of the Council believe this lower limit should be reinstated. It is also worth noting that SBA preferred lenders, as well as nonbank lenders, enjoy guarantees up to 90 percent and lend without any affirmative community reinvestment responsibilities despite the major federal subsidy.

[1] See www.policylink.org/find-resources/supporting-small-business.

Access to responsible, appropriate credit is vital to communities and to low- and moderate-income (LMI) and immigrant borrowers. This is especially true in rural communities, where entrepreneurship is often chosen over salaried employment out of necessity. Many people start businesses without technical knowledge and business experience, resulting in an inability to obtain available business loans from local banks and leading them instead to turn to underregulated, non-depository lenders. Capacity-building resources are needed to provide technical assistance and support that can help give rural communities and LMI and immigrant entrepreneurs more access to credit and the ability to use available capital effectively.

The University of Washington (in partnership with several other universities, community development financial institutions (CDFIs), and nonprofit technical assistance organizations) is providing a promising solution: training focused on the "3 M's"—management support, money (capital), and markets to small business owners of color. This is an effort to eliminate the major barriers to success. Along with this effort, some CDFIs are working to reduce the barriers created by typical underwriting by redefining and utilizing reduced documentation. The goal is to increase access to capital and reduce underwriting time in order to provide a safe alternative to predatory lenders.

The growth of Merchant Cash Advance lenders like OnDeck and Kabbage, as well as the growth of technology-based working capital products (e.g., PayPal, Square, Intuit), is making capital more readily available and deploying innovative repayment mechanisms —although their long-term impacts on small businesses' financial health remain questionable. Many businesses enter into merchant cash-advance agreements with insufficient information or no alternative, which can leave them with little or no cash flow to operate and manage their business, jeopardizing their firms. There is some concern about the performance of online lender portfolios when the next recession occurs, as few have yet weathered a down cycle. Careful attention should be paid to the positive and negative impacts of these newer forms of financing in the coming years (e.g., through the Federal Reserve System Small Business Credit Survey).

Home and Multifamily Mortgage Credit

The housing market for LMI households in many markets is characterized by constrained supply, rising prices, stagnant wages, and restrictive underwriting. According to the 2018 Prosperity Now Scorecard, half of renters and 28 percent of owners are housing-cost burdened—a moderately improving but still worrisome trend. Evidence shows that new construction is focused on the higher end of the market, which does not address the demand from LMI households. Rising interest rates impact affordability for the LMI market most, discouraging some borrowers from entering the market, reducing home turnover, and thereby reducing starter home stock. Rising rates also reduce home refinancing, which could aggravate the finances of cost-burdened owners.

Alarmingly, the Department of Housing and Urban Development (HUD) recently suspended the implementation of the Affirmatively Furthering Fair Housing (AFFH) regulation, an essential component of the Fair Housing Act. On January 8, 2018, 76 national civil rights, faith-based, affordable housing, and other organizations sent a letter to HUD voicing their strong opposition to HUD's decision to suspend the regulation. The letter emphasized that "the AFFH rule provides a structured process to change the trajectory of growing poverty and inequality."

The Community Reinvestment Act (CRA) is another critical tool to catalyze community development activity nationwide, in part by encouraging banks to ensure that all creditworthy borrowers have access to fairly priced credit. The U.S. Department of the Treasury released its long-anticipated memorandum recommending changes and updates to the CRA in early April. The National Community Reinvestment Coalition (NCRC) analysis of that CRA report articulated these key points:

- The Treasury memorandum correctly urges the federal agencies to update assessment areas on CRA exams to include areas with branches and also other areas where banks gather deposits or conduct substantial business.
- The Treasury memorandum also recognizes community benefits agreements; urges more real-time communication among banks, regulators, and community groups; and advocates for more-objective measures of performance and more regular and timely release of CRA exam results.
- The Treasury memorandum errs in providing too many escape hatches from penalties for either poor CRA performance or discrimination. The memorandum also advocates that CRA exams deemphasize the importance of branches, which remain vital in LMI communities for accessing loans and basic banking services.

In addition, the CRA modernization effort should include CRA obligations for online banks that collect deposits and deliver loans virtually across America without the use of branches. This activity was not contemplated when the CRA regulations were written in 1995. By the same token, traditional branch-based banks are embracing online deposit taking and lending beyond their assessment areas—all of which needs to be taken into consideration as the CRA regulation is modernized.

While CRA needs to be updated to reflect technologically driven changes in the banking industry, the Council sees potential risks in deemphasizing the importance of branches in CRA exams. For many rural and LMI populations, bank branches remain critical for the provision of bank loans, investments, and services.

Credit scores also matter. While conventional credit models consider traditional information such as payment history and length of credit history, newer models that look at a broader range of data (such as mobile phone, utility, and rental payments) are currently in the marketplace but are not allowed by the government-sponsored enterprises (GSEs). As the February 2018 issue of *Realtrends* newsletter reports, "A 2017 [Consumer Financial Protection Bureau (CFPB)] study found that 26 million consumers are credit-invisible [i.e., no credit history with a major credit reporting agency] and that another 19 million consumers have a credit history that has gone stale or is insufficient to produce a credit score under current models," as used by the GSEs.

Additionally, tax reform is generating worrisome reactions across the affordable housing development industry. Although federal tax credit programs such as Low Income Housing Tax Credit (LIHTC) and Historic Tax Credit (HTC) survived in the final tax reform bill, the significant reduction of tax liability to corporations and high-income earners will reduce investor appetite for the credits, with an estimated reduction of 14 percent of equity purchased,[2] and ultimately lead to less funding for affordable housing development.

[2] See Novogradac and Company's "Two Steps to Ensure Affordable Housing Production Is Not Lost," www.novoco.com/periodicals/articles/two-steps-ensure-affordable-housing-production-not-lost.

It is also true that there remains an uneven distribution of community development and small business lending in smaller cities and rural communities, particularly in persistent-poverty regions that lack priority in large bank CRA assessment areas. Gaps exist in traditional lending products from banks and intermediaries like CDFIs that could be augmented with creative, integrated approaches to unlocking capital.

While the overall economic indicators (unemployment, income, wealth) are signaling positive trends, many LMI and rural families and families of color have not gained from the nation's economic growth. Costs of housing, health, and child care have continued to far outpace wage growth.

Consumer Matters

Council members wish to express our unanimous alarm at the attacks on the CFPB, which we believe will reverse a prudent regulatory response to past and continuing abuses. The Council members are concerned that companies will perceive that it is again acceptable to deceive and gouge, with grave and wide-ranging consequences for American consumers. The Council encourages the Federal Reserve System to conduct research on the economic impact of repealing consumer protections.

Payday Loans

HR 3299, which has now passed in the House of Representatives, would make it easier for predatory payday lenders and other nonbank entities using rent-a-bank arrangements to override usury laws in 42 states and the District of Columbia.

Council members believe there are alternatives to predatory payday loans. A February 16, 2018, *New York Times* article described extensive Pew research on "underbanked" consumers, who often turn to payday lenders. Such borrowers, who often have poor credit, can be kept in the "financial mainstream," Pew reported, if traditional banks and credit unions would offer small installment loans with safeguards that would protect both the banks and the borrower. The discussion went on to say that "banks are in a good position to offer such loans, if regulators approve." It added that "the average payday loan customer borrows $375 over five months and pays $520 in fees, while banks and credit unions could profitably offer the same amount over the same period for less than $100."

In May 2018, online marketplace lender Oportun will begin testing a potential alternative to predatory payday loans, providing a free $100 cash advance to borrowers. This is a significant experiment given the income volatility challenges faced by so many Americans. The Council encourages the Federal Reserve System to track the outcomes of this experiment, as well as other experiments that facilitate emergency savings to mitigate income volatility.

Retirement Savings

Consumer advocates are very concerned about the 18-month delay in effectuating the Department of Labor's Fiduciary Rule–landmark protections to ensure that investors saving for retirement receive only sound advice that places their interests ahead of their advisers'. The delay is widely understood to be a step toward killing the rule entirely and leaving retirement savers vulnerable to abuse. Building wealth continues to be a challenge for LMI families, and the realities of limited income and immediate day-to-day necessities make long-term savings a difficult goal. Many households lack fluency with even basic investment vehicles, and if offered, administrators of employer plans provide inadequate information, leading to either inaction or inappropriate investment decisions. A 2015 paper released by the White House quantified annual investor losses from a lack of a fiduciary standard at $17 billion.[3]

2. Housing Markets: *How have house prices and rental rates changed since the November 2017 meeting? Have there been any new developments in housing activity for LMI communities in Council members' regions?*

In many markets, housing prices have increased to pre-bubble-era highs. Additionally, housing costs have continued to increase faster than wage growth over an extended period, exacerbating the affordability gap. There is a fundamental lack of supply in the affordable end of the market across the nation. The capacity of subsidized housing production is tremendously outsized by the unmet demand. A stunted supply of affordable homes is in part influenced by rising construction costs, builders' focus on products with higher prices and wider profitability, exclusionary zoning, and segregation. Supported by continued economic growth, historically low but rising interest rates, and a shortage in affordably priced homes, prices have reached a point where fewer can afford to buy. Not surprisingly, rental demand remains very high.

State and local efforts to encourage affordable housing development have had only marginal success, and this is especially true in California. San Francisco, with arguably the biggest affordability challenge nationwide, has created a Small Sites Development program.[4] This program provides housing to residents with income levels of 120 percent of area median income (AMI), who are being pushed out of the city because of rising rents.

In other West Coast cities such as Seattle, the increase in property taxes on rapidly appreciating homes is forcing middle-income homeowners to sell and move—many from cultural enclaves, which means historic, cultural communities are being lost to gentrification. For instance, the proportion of black residents of Seattle's Central Area has dropped from 80 percent to less than 15 percent in roughly 30 years.

In Appalachia, the cost of constructing a new home typically exceeds the appraised value by $10,000 to $15,000. Here, changing priorities in energy production, manufacturing, and agricultural markets—coupled with very low levels of educational attainment and low population density—create headwinds for growth. In places across Appalachia, AMI is so low that households considered moderate-income would be low-income almost anywhere else in the nation. Persistent poverty has resulted in a broken housing market with poor housing stock, which all but eliminates feasibility of new construction.

Rural communities in Kentucky face two challenges when trying to develop affordable housing. One is the "appraisal gap" and the other is the "affordability gap."[5] The cost to develop modest, high-quality, energy efficient housing exceeds appraised home values. A development subsidy needs to cover the difference. A typical borrower can afford (at current rates) to finance about $70,000 through a U.S. Department of Agriculture (USDA) 502 loan, but requires a grant, a deferred loan, or non-amortizing forgivable loan for the balance.

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[3] See https://obamawhitehouse.archives.gov/blog/2015/02/23/effects-conflicted-investment-advice-retirement-savings.

[4] See http://medasf.org/programs/community-real-estate/small-sites-program/.

[5] The affordability gap is the gap between what the house sells for and what the homebuyer can afford to finance.

Overall, housing markets remain very active and supply—especially livable supply—continues to fall drastically short of homebuyer demand. Median home prices continue to trend upward. For example, median home prices in Lawrence, Massachusetts—one of the state's poorest cities—have increased 10 percent over the last year.[6] Median prices for single-family homes and condominiums in Massachusetts rose 4.2 percent and 6.1 percent, respectively year over year.[7] The rental market in Lawrence was once considered relatively affordable, but has become expensive to LMI households. A majority of Lawrence residents are housing burdened and in great need of affordable housing. When Lawrence CommunityWorks, Inc. completed a 73-unit affordable housing project in 2016, it received over 800 rental applications.

Eastern Massachusetts is facing a worsening housing crisis as both prices and rents continue to increase. The result is fierce bidding activity for existing homes. As compared to the period before 2007, the current surge is driven by a steep supply-and-demand imbalance. Rents continue to increase, making home ownership a natural but cost-burdened choice.

Meanwhile in Connecticut, there has been a net loss of affordable housing units (8,000 units) due to expiring subsidies. High demand has increased average median rents across the state.

Borrowers in other communities are being adversely affected by another problem: during and after the recession, many mortgage lenders disappeared and have not returned. A large set of institutional practices, policies, and memory was lost at the GSEs, the Federal Housing Administration, and mortgage originators. While underwriting a mortgage loan that had one or more subordinate liens and/or deed restrictions had been a normal practice, we now see a great deal of confusion and delay from originators on these matters. For instance, many LMI buyers in Philadelphia have experienced difficulty obtaining financing to purchase or renovate a home because of this issue. And in Baltimore, it can take nine months or longer for an LMI-mortgage commitment to close.

This loss of memory (and policy in practice) is also seen in public-sector lenders, resulting in outdated income certifications and credit reports, which traps new LMI buyers in a cycle of re-certifications. There is now a great deal of confusion and delay from originators when dealing with FHA or GSE loans, which in turn discourages prospective homeowners and impedes developers (of new housing).

Strong housing markets like Phoenix are seeing a significant rise in home prices as median prices near their peak. Again, consistent with observed national trends, the combination of rising home prices, low inventory, high labor costs, and high materials costs are creating significant impediments to ownership. Further, prices of the most affordable homes are increasing, pushing some prospective buyers out of the market. In the largest LMI community in the Phoenix region, the average per square foot price of homes sold between November 2017 and February 2018 rose 5 percent. The contract ratio[8] in those same zip codes increased 20 percent in the same period—basically representing a buying frenzy. Market and median rents remained stable in the period.

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[6] See www.movoto.com/lawrence-ma/market-trends/.

[7] See www.marealtor.com/news/press-releases/2018/02/14/massachusetts-pending-single-family-home-sales-up-while-prices-rise-year-over-year.

[8] The contract ratio is equal to the number of homes under contract divided by the number of homes listed for sale in a given geography.

Home prices are also rising in Detroit, a comparatively weak housing market. In high-demand areas, houses sell quickly and competition remains fierce. Properties that sold for $60,000 in 2016 and $130,000 in 2017 are now selling for over $330,000 in neighborhoods such as Indian Village, Sherwood Forest, Palmer Woods, and Boston Edison. Less-affluent yet safe and stable neighborhoods are also starting to see home price increases. Much of the Detroit market growth appears to be driven by a combination of suburbanites moving into the city and young professionals from the greater region seeking professional opportunities in Detroit. While home prices continue to increase, rental rates throughout most of the city have remained relatively stable, even though vacancy rates citywide are historically low and some multifamily properties in high-demand areas have a waiting list of 4–6 months.

Increasingly, LMI families that own homes are seeking to cash out or are being pushed out due to rising property taxes. Detroit has a history of displacement fueled by high property taxes. According to the Coalition to Stop Unconstitutional Tax Foreclosures, a grassroots initiative aimed at fighting Wayne County and City of Detroit foreclosure practices, between 2009 and 2015, over 100,000 working families in Detroit lost their homes. About 36,000 Detroit properties that are at least two years behind on their taxes received foreclosure notices in late 2017, according to the Wayne County Treasurer's Office, which has not yet determined how many of the foreclosed properties are occupied. Using assessment and sales data from 2009–15 for the entire City of Detroit, Loveland Technologies found that property tax assessments are substantially in excess of the state constitutional limit of 50 percent of a property's market value.[9] To remedy inflated assessments, in 2014 and 2015, Detroit's assessor implemented assessment decreases ranging from 5 percent to 20 percent for select districts, but Loveland found that systemic assessment inequity persisted for lower-valued properties despite these reductions. Many of the LMI families impacted by this practice are black. The coalition is working to stop unconstitutional property tax assessments, seek compensation for Detroit residents who have already lost their homes through illegal tax foreclosures, and suspend pending property tax foreclosures until there can be independent confirmation that delinquent taxpayers have not been unconstitutionally assessed.[10]

In Wisconsin, the lack of inventory of for-sale homes remains a big challenge to home buyers. A February 21, 2018, *Milwaukee Journal Sentinel* article described the situation at the state level: "The median price of homes sold in Wisconsin in January was $168,500, 6.8 [percent] more than in the same month a year ago.… The limited supply is putting upward pressure on prices. The $168,500 median home price was the highest January level since the Realtors began tracking housing metrics in 2005." Comparing the numbers to January 2016, sales were up 12 percent (to 933 sales). Meanwhile, the development of affordable housing units continues, but at a pace that does not nearly address the needs of LMI renters. However, on February 26, 2018, the City of Milwaukee announced it will build or improve 10,000 housing units over the next 10 years. The mayor's plan includes building new affordable housing developments throughout the city. Those developments would be funded with tax incremental financing (TIF) districts, an economic development tool that Milwaukee hasn't historically used for residential projects.

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[9] See https://www.citylab.com/equity/2017/03/detroit-foreclosure-housing-crisis-loveland-open-data/517737/.
[10] See http://illegalforeclosures.org/.

3. **Rental Cost Burdens and Homelessness:** *How have changing rents affected communities the Council members' organizations serve? Have increased rent burdens contributed to homelessness or are there compounding contributors? What types of policies and practices have aided in reducing homelessness in the Council's communities?*

An unprecedented affordability crisis is unfolding across America, for a variety of reasons. Nationally, 51 percent of households that rent now pay too much for housing (more than 30 percent of their income on rent and utilities)—up from 39 percent in 2000. Low-income renters and renters of color, particularly women, have felt the impact of cost burdens most severely. Rental housing cost burdens exacerbate economic and housing insecurity. Low-income households regularly face balancing housing costs with buying food, medication, and other daily necessities. Any disruption, such as a medical event or reduction in work hours, has the potential to result in homelessness. Further, this potential represents a greater concern in the face of the weakening of consumer protections; fair housing regulations and their enforcement; and trends of growing evictions, wage stagnation, displacement, and gentrification.

Homelessness often stems from limited access to health care and poor health. Today 4.7 times as many of the poorest 20 percent in the U.S. are uninsured compared to the richest 20 percent, with 13 percent of U.S. adults reporting that they could not see a doctor due to cost. In addition, 6 percent of low-income children lack health insurance. Homelessness is growing rapidly, causing several West Coast cities and states to declare a state of emergency due to exploding homeless populations.

Recently, there has been a realization that the homeless are no longer just the chronically homeless.[11] Homelessness now includes far more families with children and working individuals. It is important to distinguish between the experience of chronic homelessness on the one hand, which affects individuals who may have specific conditions that lead to long and/or frequent instances of homelessness, and the renter affordability crisis on the other, which is spreading across the country due to high cost burdens that contribute to eviction, economic instability, and homelessness. Many of those impacted by the affordability crisis are working families that can no longer afford to live in gentrifying neighborhoods near jobs and public transportation.

Rental cost burdens remain a challenge throughout the country. In Massachusetts, even in small, mostly low-income communities, rental costs are extremely high—especially for people making minimum wage and supporting two or more children. It is unlikely rents will stabilize or decrease without a major increase in new housing supply. The low housing inventory in Massachusetts, particularly in the Greater Boston area, has caused an increase in homeless families.

Addressing the housing affordability challenge would increase economic security, shrink inequities, and contribute to shared prosperity. Nationwide, if renters paid only what was affordable for housing, they would have $124 billion extra to spend every year, or $6,200 per rent-burdened household.

U.S. Citizens from Puerto Rico Moving to the Mainland Face a Severe Housing Shortage

The unstable situation in Puerto Rico caused by the devastation of Hurricane Maria in September 2017 has resulted in a wave of Puerto Ricans displaced to the mainland. Local resources are not sufficient to meet current needs, straining existing programs, services, and resources further.

[11] HUD defines a person that is chronically homeless as "an individual with a disability who has been continuously homeless for one year or more or has experienced at least four episodes of homelessness in the last three years where the combined length of time homeless in those occasions is at least 12 months." For the first time since 2010, chronic homelessness has increased in the U.S. In 2017, there were almost 554,000 chronically homeless people.

This recent wave has particularly impacted housing markets, and is contributing to increased rental costs in various areas of the country, especially in Florida and the Northeast. Some new arrivals move in with other family members, leading to overcrowded housing conditions, while others end up living out of vehicles, "couch-surfing," or homeless. Waiting lists for public and other subsidized housing have grown sharply. Yet other families are being temporarily housed through FEMA's Transitional Shelter Assistance (TSA). These displaced families are housed in motels and hotels in the metropolitan areas where they have arrived. With the impending expiration of the TSA program, municipalities where these families are residing now face a possible upsurge in family homelessness. Given that the entire island of Puerto Rico is an Opportunity Zone, the Council encourages investments to address the housing, energy, and economic challenges facing the American citizens living on the island. These investments should be tailored to the island's residents in order to address the needs of the LMI families in Puerto Rico.

Evictions Are Increasing

Evictions are on the rise in the U.S. Collateral impacts of evictions include difficulty in finding a home, leading to homelessness; loss of personal possessions because they are often put on the street; and difficulty in acquiring new housing because an eviction is a legal proceeding resulting in a legal record that landlords consider in underwriting potential renters. In addition, the stress of evictions often leads to mental health issues.

Opioids Are Contributing to Homelessness

Opioids have contributed significantly to homelessness. In some parts of the country, opioids have gotten so out of control that first responders are running out of Narcan, a drug used to treat opioid overdose, before their shift ends. Many people who find themselves homeless due to opioid addiction have used up their support network and their resources.

Housing Insecurity Harms Local Economies

Not only has the crisis in affordable housing harmed renters, it also has adversely affected municipal finances. Research from the Urban Institute shows how renters' economic and housing insecurity drains city budgets.[12] In a typical year, one in four households experiences an income disruption due to a job loss, health incident, or pay cut of 50 percent or more. This trend has major cost implications for cities when it comes to homeless services, unpaid utilities, and uncollected property taxes.

Policies Are Needed to Address Cost Burdens and Homelessness

A variety of policies can help address rental cost burdens and homelessness. Policies to address the renter affordability crisis include tenant protections like "just-cause eviction," rent control, mediation, and free legal representation to low-income tenants. Increased HUD funding also plays an important role so that Housing Choice and Section 8 vouchers remain available. At this time, the budget for HUD is in line for drastic cuts. To address housing shortages without federal assistance, various states and municipalities have put housing bond issuance referenda on voter ballots; these referenda include taxing authority to pay bond interest.

Other helpful policies include community land trusts, increasing zoning densities, public support of affordable housing development, preservation of single room occupancy (SRO) housing, inclusionary zoning, and impact fees that subsidize affordable housing units. Appropriate and adequate

[12] See www.urban.org/sites/default/files/publication/87726/new-york-cost-eviction-and-unpaid-bills-financially-insecure-families-city-budgets.pdf.

wraparound services, including mental health, support the transition from homelessness. Of course, nothing helps more than ensuring that workers earn a living wage.

4. **Labor Markets:** *How have the labor markets in which Council members operate changed since the November 2017 meeting? To what extent is a tight labor market leading employers that Council members are in contact with to scope in applicants who would not have been considered a few years ago? To what extent have employers adjusted by expanding training?*

The labor market has clearly improved. Employers are beginning to hire workers that they used to turn away, such as people with criminal records and other barriers to employment (e.g., poor credit history or those who may need on-the-job training). While there are many more workers entering the labor market, persistent racial barriers and inequities in the labor market continue to leave on the sidelines people who are seeking full-time work. For example, in December 2017, black unemployment levels reached a historic low of 6.8 percent (before increasing to 7.7 percent in January). Yet, this rate is still twice as high as the rate for whites; indeed, a white unemployment rate at this level would qualify as a crisis. In addition, rural regions continue to be challenged by high unemployment despite national trends, with unemployment rates in central Appalachia and many other rural regions experiencing unemployment rates 2 to 8 percentage points higher than the national rate.

Tighter labor markets help reduce unemployment, and racial disparities begin to close as the unemployment rate drops because employers don't have the "luxury" of discriminating as much when labor is in higher demand. There is still significant slack in the labor market, particularly for blacks and Native Americans. The Federal Reserve should pay attention to the labor force participation rate, rates of involuntary part-time employment, labor share of income, and persistent wage stagnation to see how much room remains for the economy to grow. When the Federal Reserve chooses to raise interest rates, among the other results is higher unemployment levels and preservation of racial inequities in employment. There should be a very high standard with respect to raising interest rates for fear of inflation, since the consequences are dire for the most vulnerable in our society.

Momentum is growing for more direct job-creation policies, including a federal job guarantee. From economists William Darity and Darrick Hamilton[13] to former Treasury Secretary Robert Rubin[14] to the Center for American Progress (CAP), many are proposing different versions of a federal job guarantee to address structural unemployment and take action to address the loss of good blue-collar jobs due to automation. Recently, legislation was introduced for a job-guarantee pilot. Under a federal job guarantee, the government would provide jobs to all those who seek work. The jobs would include physical infrastructure and public works as well as human infrastructure such as child care and elder care work, and proposals would come from state and local governments, which would also administer the program. The proposals from Darity and Hamilton, the Levy Institute, and CAP would ensure that the jobs pay non-poverty wages and provide benefits. The Darity and Hamilton version also focuses on public employment, thus setting a new, higher floor that the private sector would need to compete with in order to secure workers.

[13] See www.rsfjournal.org/doi/full/10.7758/RSF.2018.4.3.03.
[14] See www.nytimes.com/2017/11/08/opinion/federal-jobs-program-payouts.html.

True full employment for all via a job guarantee would produce multiple benefits for workers, families, communities, and the economy as a whole, both by abating the negative costs of joblessness and meeting neglected community needs. In 2015, PolicyLink and the University of Southern California Program for Environmental and Regional Equity (PERE) conducted a data analysis to estimate how much stronger the economy could be under true full employment, in which everyone who wanted a job could find one—regardless of race, ethnicity, or gender. This analysis is being reproduced for five southern states: Alabama, Georgia, Louisiana, Mississippi, and North Carolina, along with the largest metropolitan areas in these states. These states are in critical need of employment solutions. They each have large black populations (between 21 percent and 37 percent of their total populations), and collectively, they account for 23 percent of the total black population in the United States.[15] They also face some of the highest levels of black unemployment as well as high racial inequities in employment between their white and black populations.[16] Other communities of color in these states also face high unemployment.

PolicyLink modeled a full-employment scenario that set the unemployment rate at 4 percent maximum with labor force participation rates of at least 71 percent for men and 57 percent for women.[17] A recent report[18] shows that achieving full employment for all in Georgia would bring billions of dollars in increased economic output, increased employment and income, decreased poverty, and more tax revenue. The same analysis for Alabama[19] and a forthcoming one for Mississippi show similar benefits.

The eastern Massachusetts regional labor market (Lawrence/Merrimack Valley) continues to be strong; hiring is active and demand is high, particularly in the health, advanced manufacturing, and customer service sectors. Due to the tightening labor market, employers are finding it difficult to fill openings and are loosening hiring requirements and increasing their willingness to invest in job training. Over the past three years, collaborative efforts such as the Lawrence Partnership and Lawrence Working Families Initiative (LWFI) have been formed to address hiring challenges job needs of the labor force. The collaborations have led to a lab-like culture of designing and testing innovative and collaborative strategies. More employers are engaging with local job training providers, supporting internships, and engaging in “post-hire” training programs.

Unfortunately, while the supply of jobs is ample, challenges in skills, qualifications, and worker access to training and English for Speakers of Other Languages (ESOL) programs persist. A significant number of LMI working families are only accessing low-skill/low-wage jobs. Part-time employment in working households is prominent, particularly in retail and food service jobs, with many income earners in the household working two to three part-time jobs. In the Lawrence market, English proficiency continues to be a major barrier to employment because Latino immigrants make up a large segment of the population. Through the City of Lawrence’s ESOL Task Force, the LWFI, and the Lawrence Partnership, a great deal of focus has been given to expanding ESOL education opportunities and capacity as well as to the development of contextualized job training programs.

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[15] 2010 Census data via https://en.wikipedia.org/wiki/List_of_U.S._states_by_African-American_population.
[16] See www.epi.org/publication/state-unemployment-rates-by-race-and-ethnicity-at-the-end-of-2015-show-a-plodding-recovery/.
[17] For detailed methodology, see http://plcylk.org/2ApazHr.
[18] See http://nationalequityatlas.org/sites/default/files/Employment%20Equity-Georgia_11.24.17%20%285%29.pdf.
[19] See http://nationalequityatlas.org/sites/default/files/Employment_Equity-Alabama_04_03_18.pdf.

For a third consecutive year, there have been job quality increases in Boston—better hours, higher wages, and better benefits. Previous gaps in employment rates by neighborhood have closed as employers reach further for workers. A tight labor market is actually hindering business growth in food services and health care. In response, employers are looking at different populations and recruitment strategies. Changes in immigration policies are creating some real problems (e.g., removal of temporary protection services for Haitians and Nicaraguans, which will affect the long-term care industry). Massachusetts seeks to help people attain higher-quality jobs through skill development, but its efforts have been hampered by a flat budget for the past 10 years. Workforce training funds would like to target not only incumbent workers but also new employees, to address concern over low labor-market participation rates, especially among young adults.

By and large, job opportunities and (some) corresponding wage increases are happening in the Kansas City metro area. Yet manufacturing is an exception here: Proctor and Gamble announced plant closings in Kansas (and in Iowa) that will eliminate 780 jobs and 100 contract workers. Harley Davidson announced plans to close its final assembly plant in Kansas City, which employs around 800 workers, and shift those operations to a combination of 450 full-time, casual, and contract workers in York, Pennsylvania. Harley Davidson and other manufactures are moving to a new strategy in which only products sold in the U.S. will be made here.

More applicants with criminal violations and in some cases felony convictions are finding work. There are fewer reports of employers checking credit reports and a decrease in pre-employment drug testing, with three states dropping cannabis from their drug tests. Anecdotally, required years of experience are being lowered or waived. Employers are expanding recruitment and training in large part due to the decrease in union apprenticeship programs. The attacks on organized labor and subsequent loss of work and dues resulted in fewer programs, which typically took 4 to 5 years to complete. Now that the workforce is aging and there is increased demand for skilled workers, many are calling for a return of the apprenticeship program.

In Minnesota, the tight labor market is having a negative impact on employers' ability to attract workers and to grow. In particular, small businesses cannot compete with a large business in terms of pay and benefits, so the shortage is particularly difficult for them. Beyond wages, health insurance, retirement, and life insurance are costly for small businesses. Additionally training can be risky for small businesses. If they invest in employees to give them viable skills, they risk losing those employees to more competitive larger companies.

Labor markets in Detroit are extraordinarily challenged, and employers have expressed considerable concern about filling vacant positions. Employers are struggling with the tension between retention of quality employees, recruiting beyond the local market, and capacity building. These factors are driving up costs significantly. Employers are frustrated at rising labor costs stemming from increased health-benefit costs, the need to provide competitive retirement savings plans, and the push for higher salaries to keep the most productive and in-demand employees. As one employer noted, "I pay less than my competitors because I invest so much in developing my workers. So, it really makes me upset that my employees are the target of all of my competitors because of the investment I've made in their skills and training."

Several large employers in New Orleans have hundreds of vacant positions with limited prospects to fill the slots. These employers encompass health care, large utilities, and on a slightly smaller scale, manufacturing. Employers have not decided to hire candidates who have little experience in the field, but instead have opted to make significant investments in workforce training and partnerships. The EMPLOY collaborative, run by the Cowen Institute at Tulane University, is building out an ecosystem that encompasses workforce training, leadership, and retention as well as expansion services for opportunity youth—that is, 16- to 24-year olds who have finished high school but are not enrolled in college or gainfully employed. Tulane is working with 37 partners that include major employers, training programs, and the community college system to figure out how to leverage these youth to meet workforce demands in sectors including hospitality, health care, construction, and manufacturing.

In Detroit, initiatives such as Focus Hope are partnering with employers and the community college system to provide targeted and accelerated training in manufacturing and health care. There seems to be a tension between employers and workforce training providers around how to most efficiently and quickly help employees reach their potential. That is, employers would prefer to provide all of the training in-house and exclusively to their employees, but have cost limitations that make partnering with other organizations—and at times competitors—necessary. Employers are also demonstrating a trend toward retaining older employees on a part-time or consultant basis post retirement.

Subsidizing employers is a big issue in Wisconsin. In November, Wisconsin put new job requirements on a huge subsidy package for a Racine County flat-screen plant, drawing a personal guarantee from one of the world's richest men, under a contract approved behind closed doors. The Wisconsin Economic Development Corporation board approved the deal with Foxconn Technology Group of Taiwan. In exchange for the up-to $4.5 billion in state and local incentives, Foxconn has promised to invest up to $10 billion to create up to 13,000 jobs at the plant. A similar deal is being proposed to keep the Kimberly Clark plant open and jobs in Wisconsin.

A recurring theme in this section on labor markets, witnessed by every single Council member in their own communities, is the divergence between aggregate economic indicators, which highlight tight labor market conditions, and the actual experiences of individual populations—particularly rural, African American, Latino, and Native American populations.

5. **Changes in Retail Banking:** *How has access to banking (such as branch closures, branch additions, bank mergers, reductions in services provided at certain branch or ATM locations, and use of mobile or internet-based financial services) changed in the communities Council members' organizations serve? What types of outcomes on banking and access to credit have you witnessed in areas affected by branch closures or reductions in branch services? Does this depend on the number of remaining branches? Have Council members witnessed any innovative strategies to maintaining financial services in areas that have experienced bank closures?*

Negative Impact of Loss of Community Banks on Local Economies

Branch closures, including those due to mergers, are of great concern to both urban and rural communities. Several recent community bank sales in California underscore a longer-term trend of regional and large banks acquiring smaller institutions. A previous acquisition by a $22 billion bank of a $3 billion bank resulted in elimination of 10 of the bank's 11 branches. A recent report by the National Community Reinvestment Coalition (NCRC) found the following: "The decrease in bank branch locations in the wake of the 2007-2008 financial crisis and Great Recession has diminished access to financial services for people in both rural and urban areas. Loss of access to financial services has disproportionately increased the reliance on expensive alternative financial services by low-income working families and minorities. Additionally, the loss of branch banking access impedes small business lending, hampering capital availability to the primary engine of U.S. economic growth."

While demand for bank teller services has decreased overall due to online banking, demand continues for face-to-face consultation services for important financial transactions such as purchasing a home or automobile or borrowing for business. For these, customers prefer to speak to a professional in person rather than apply through online portals. Fewer community banks mean fewer lenders who understand the specific needs of the community. Additionally, per the NCRC report, "banking deserts"—the absence of a bank within 10-miles of a populated area—disproportionately impact minorities, "with 25 [percent] of all rural closures in majority-minority census tracts."

Since Hurricane Maria, there has been a massive exodus of Puerto Ricans to the mainland for a wide variety of reasons—from meeting their basic or medical needs to finding better job and economic opportunities. It seems like there's another exodus looming as well: banks. In the past 10 years, the number of consumer and community banks in Puerto Rico has decreased by half. Furthermore, international banks like Santander and Scotiabank are shrinking. This is creating concern in the overall financial system of the island, as fewer banks will end up controlling loans and deposits for over 3 million people, limiting the options that make interest rates competitive and negatively affecting individuals and businesses.

Impact of CRA Reform

Efforts to minimize the impact of the CRA on bank mergers threatens to gut the efficacy of the CRA. The act has brought communities that have been historically marginalized and denied access to banking services, and the organizations that represent them, to sit at the table with banks and regulators. This ensures that bank investments and lending and financial services meet the needs of the communities where they wish to do business. The risk is that too much regulatory relief may lock in the failure of the market to serve all consumers. Recent regulatory changes and proposed changes at federal agencies including the HUD, the Environmental Protection Agency, and the Department of the Interior point toward a trend where regulatory relief is disconnected from outcomes.

CRA reform poses both an opportunity and a risk to community development finance and investment. The opportunity is that with sensible and modest changes, including clarification of the Public Welfare (PW) Investment approval process, the CRA could again energize a higher volume of capital to connect with low-income communities. Federal Reserve member banks could make more CRA investments if applicable regulations were to make clear that if an investment is a "qualified investment" under CRA regulations, then it also qualifies as a "public welfare investment" for purposes of that bank having legal authority to make the CRA investment without having to obtain prior approval. Unlike current Federal Deposit Insurance Corporation and Office of the Comptroller of the Currency regulations, current Federal Reserve CRA regulations require Board approval for some PW investments. Presently, there are other factors that have reduced CRA investments. Banks that have suffered a CRA rating reduction due to foreclosure abuses cannot raise their rating through higher volumes of lending, for instance.

Access to Banks by Young People

In general, younger people (particularly in LMI communities) are not engaged with banks. This disengagement stems from (1) the 2008 financial crisis and seeing family and neighbors lose homes and jobs, (2) negative experiences of friends and family members from things like high overdraft and banking fees, 3) early student loan indebtedness, and 4) lack of youth-oriented financial tools. Additionally, most banks are unwilling to offer youth-owned (noncustodial) accounts, pushing young people to use high-cost check cashers and alternative financial services. Hundreds of thousands of youth are employed in summer and year-round part-time jobs, and need banking accounts for direct deposit or cash checks; why should they not have their own accounts? Services like direct deposit help establish financial security and positive savings habits. Early evidence from financial institutions that do offer youth-owned accounts shows that account abuse is no greater than among the general population and can be prevented with education about how to use the accounts. Youth of color face additional issues of conscious and unconscious bias in the use of mainstream retail services that is just now beginning to be addressed.

Some banks are seeing success with financial institutions sending representatives on site to community partners to discuss how banks work. People want to bank with people they know and trust, as Lisa Servon showed in the "Unbanking of America."[20] Some communities continue to look for ways to convince banks to locate in their communities, hire locally, and develop marketing approaches that address the cautious cynicism of local residents.

In Lawrence, (northeastern) Massachusetts, the market has experienced a rebound in financial institution presence. Some banks and credit unions have found new interest in the local market and/or have opened new branches in Lawrence over the past few years, while only one has closed. This could be partly because Lawrence has seen positive growth in business opportunities and partly because, for years, the community was underserved. Revitalized urban cores have similar experiences, while rural communities continue to see closures.

Innovation and Access to Credit

While the closing of bank branches poses short-term challenges to financial inclusion, there appears to be an opportunity over the coming decade for technology to address the significant challenges faced by unbanked and underbanked American consumers. The prevailing viewpoint among respondents about the role of technology and innovation is mixed at this time.

Innovative strategies seem to originate primarily from higher-priced, nonbank, tech-heavy companies seeking to use prepaid cards, mobile devices, and algorithms to provide nontraditional financing to urban and rural lower income communities. Community banks and credit unions are not positioned to develop similar innovations.

However, on a more encouraging note, adoption of new financial technologies (e.g., PayPal, Square, Venmo) appears to be increasing among LMI populations. PayPal has explicitly focused on improving financial inclusion (and financial health[21]) for working class Americans.

[20] See www.lisaservon.com/.

[21] See www.wsj.com/articles/dan-schulman-on-shifting-from-financial-inclusion-to-financial-health-1516201094.

6. **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?*

Consumer Protection

The Council is unanimously concerned about recent changes made by the CFPB. The Office of Fair Lending and Equal Opportunity was recently moved into the Director's Office, thereby limiting its ability to take enforcement actions and instead redirecting efforts toward education and advocacy. Prior to the reorganization, the office had returned more than $450 million into the pockets of approximately 1 million consumers who had suffered racial discrimination at the hands of financial institutions. Given that black and Latino households already face a massive racial wealth divide in the U.S., this reorganization is particularly concerning for individuals and institutions committed to racial and economic equality.

The CFPB recently dropped a lawsuit against payday lenders accused of engaging in predatory lending and announced that it will re-examine payday lending and mortgage disclosure rules. There are also reports that the CFPB may end its investigation into the Equifax data breach that exposed the personal information of more than 140 million Americans. In addition, efforts are underway to dilute the independence of the bureau by funding it through congressional appropriations rather than through the Federal Reserve. The Council encourages other federal and state financial regulators address the void in consumer financial protection.

Reducing Student Debt and Expanding Opportunity

Student debt burdens and the rising cost of higher education are fueling inequities in access to and completion of postsecondary education. For families with high-school-age children, the increasing cost of higher education is a major concern. Even with federally sponsored grants and financial assistance, many families may still need to borrow tens of thousands of dollars to send a child to a public university. As families incur significant education debt, the long-term consequences on cash flow and their ability to save or borrow for other needs poses a risk to long-term financial stability and progress. A promising practice involves community colleges establishing partnerships with four-year institutions to provide greater access and pathways to degrees at a lower cost. For example, Northern Essex Community College, with campuses in Lawrence and Haverhill, Massachusetts, has partnered with at least four four-year institutions to set up bachelor's degree programs and "education ladders."

Immigration

There is strong concern on the Council that the proposed additional census question on citizenship will have a chilling effect on the accuracy of the census. Given the central role of the census in the allocation of federal funding, this question could lead to a low/inaccurate count of immigrants, refugees, and communities of color, which, in turn, could result in increased income and wealth inequality.

Immigration policy is also affecting small businesses and educational opportunity. The stress and fear among business owners of losing employees due to deportation is real. In February 2018, the Minnesota Department of Employment and Economic Development (DEED) concluded that Minnesota needs more immigrants to fill job vacancies, sustain growth, and expand the labor market, which has been shrinking. DEED's study underscores the need to keep the immigration pipeline open to address the looming workforce shortage in Minnesota and other states.

In addition, the economy is not fully leveraging the talents of legal immigrants, as many arrive with degrees that are not recognized by American institutions. It is common to hear of janitors and factory workers who were attorneys, accountants, and medical doctors in their home countries. Yet some institutions are designing creative solutions, such as a community college in New England that is partnering with schools in the Dominican Republic to facilitate the transfer of credits.

Innovations in Savings

Expanding access to savings products for now, soon, and later and providing lower-income savers with incentives are essential steps toward addressing the widespread levels of financial insecurity in the U.S. Currently, 37 percent of U.S. households are in liquid asset poverty, meaning that they do not have enough savings to live at the poverty level for three months if their main source of income is disrupted. Yet, three decades of research with Individual Development Accounts and Children's Savings Accounts have demonstrated that when low-income people are provided with the structure and incentives to save, they will do so at rates equal to or greater than the general population. Thus, promoting innovation in savings products is an essential and complementary approach to increasing access to fair and affordable credit.

Many low-income workers endeavor to leverage technology to save money and build good financial habits. A San Francisco-based nonprofit, EARN, launched a program called SaverLife in 2017 that has resulted in the enrollment of over 100,000 people in all 50 states—nearly all of whom make under 80 percent of AMI—linking a bank account to the platform. SaverLife participants receive a $10 per month incentive to save and, to date, have saved an average of $465. This data suggests that low-income populations can make good use of savings tools—a positive alternative to expensive short-term credit as a means to cover income shortfalls. Recent data reporting the impact of climate change and weather-related events on household income volatility underscore the need to bring these savings innovations to these communities as well.

Matters Impacting Rural America

Rural regions continue to decline as a results of crumbling infrastructure, high unemployment, poor education, substance abuse, and poor health outcomes. These negative trends create a tremendous strain on the local, state, and national economies. Disability rates are as high as 38 percent in some counties. Data do not exist in a format that captures these economic realities in a manner that could influence policy and investment.

Opportunity Zones

Recent tax reform has created a new tax incentive to invest in disinvested communities. This law connects taxpayers with capital gains tax liability to business enterprises in designated areas that have certain characteristics (high unemployment, poverty, low incomes, etc.). This program allows state governors to designate eligible geographies to target these investments to; however, it does not have investment principles or requirements that would differentiate investments that have local, positive impacts and those that may be disconnected from the local community. Gentrification is a risk, and community benefit is not assured.