Meeting Agenda
Community Advisory Council and the Board of Governors

Friday, May 24, 2019

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?*

The Council members are privileged to bring on-the-ground insights on current market conditions from their work and stakeholders. Overall, conditions are trending in a positive direction. This is due in part to a low-interest-rate environment, strong job growth, stable vacancy rates, and rising rents. That said, there are areas of concern. These include a lack of transparency in the pricing of financial products, threats to existing consumer protections, access to home improvement funds needed to maintain neighborhood stability, the disparate negative effects of low credit scores, and a lack of access to low-dollar mortgages that particularly affect low- and moderate-income (LMI) borrowers. Many credit issues affecting home and business development are exacerbated by the racial wealth gap. These and other issues are highlighted in a range of challenges the Council has identified for the most vulnerable Americans in both rural and urban environments.

Small Business Credit
Community Development Financial Institutions (CDFI) and local governments have provided critical matching funds to enable or enhance small business lending. For example, in the Greater Lawrence, Massachusetts, market, collaborative efforts by local nonprofit organizations, city government, and stakeholders are having a positive impact on small business lending conditions. As a result, LMI entrepreneurs that otherwise would not meet lending criteria at traditional banking institutions are increasingly able to access needed funds to start or grow their businesses. However, insufficient financial recordkeeping continues to be a challenge for small businesses, leading to greater demand for small business technical education and consultation programs. Some cities including El Paso, Texas, have funded innovative community outreach and support programs to address these needs.

In the Minnesota marketplace, community banks are taking greater risks and providing loans that traditionally have been made by community development organizations. In addition, community organizations are filling gaps in lending by putting a focus on low-dollar loans averaging $10,000 targeted to diverse low-income constituents and women-owned enterprises.

There continues to be a need for lines of credit for low-income and low-collateral clients. Banks rarely provide this type of financing to this cohort, and CDFIs do not generally provide operating lines of credit in both urban and rural areas. An additional challenge is the presence of high-cost lenders, which small business owners sometimes use when they do not have other options. Policymakers should encourage more transparency in the pricing of financing products, including requiring the collection of small business lending data that captures the race and gender of the borrower.[1]

[1] The Council supports CFPB's implementation of section 1071 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (i.e., the Small Business Data Collection rule).

Mortgage Credit Availability

Generally, credit standards remain stable, with some stretching of debt-to-income ratios for homebuyers pursuing properties in higher-cost markets. However, some distressed markets continue to struggle with mortgage appraisal gaps and have lower levels of mortgage lending than before the housing crisis. LMI borrowers often need “compensating factors” to be approved. Overall, lenders are maintaining relative flexibility while continuing prudence and responsibility with “ability to pay.”

Demand for mortgage credit is high in many markets. Lower interest rates are one factor driving demand. A strong job market, growing housing demand as millennials become first-time homebuyers, and modest increases in the number of homes on the market will also support growing purchase originations over the next several years. However, in some markets the need for smaller loan balance mortgages, for both purchase and rehabilitation, is going unfulfilled by traditional mortgage lenders.

One area where mortgage credit constraints remain extremely challenging is in home improvement lending. A recent Federal Reserve Bank of Philadelphia report analyzing home improvement lending identified high rates of loan denials in the Philadelphia region.[2] Denial rates were particularly high among nonwhite applicants at 73 percent. Access to capital for home improvements is critical for preserving value in older homes, especially among lower-income homeowners and those in rural areas.

Multifamily markets remain robust, with vacancy rates stable and rents rising in excess of inflation. The pace of both apartment property sales and multifamily loan originations are expected to plateau at the current record levels for the next couple of years. Limited multifamily financing could be another contributing factor to housing stock shortages that are expected to worsen going forward. Credit access is a challenge for developers and owners of affordable housing needing varying levels of subsidy in their projects, many of whom are constrained in their activities by the difficulty they face refinancing properties. In distressed areas, where suitable comps for homes in need of renovation are unavailable, access to mortgage debt is constrained by loan-to-value policies. In Baltimore, for instance, one developer of single-family naturally occurring affordable housing properties reported that banks had difficulty lending to owners of multiple non-owner-occupied properties because of the lack of a secondary market for these loans.

Consumer Protection and Financial Education

Challenges remain with consumer protection and access to safe, affordable financing products and services for consumers. The payday lending industry is notoriously predatory and especially harmful to LMI households and households of color, routinely charging triple-digit interest rates that trap working families in cycles of debt that strip wealth and undermine financial security.[3] The Consumer Financial Protection Bureau’s (CFPB’s) proposal to significantly weaken the payday lending rule released in fall 2017 prioritizes the interests of lenders over the safety of consumers.[4] In addition, the proposed rule released by the CFPB in February 2019 would remove critical elements of the original rule, including the requirement that lenders determine whether a borrower can afford to pay a particular loan before issuing one—a standard underwriting practice—as well as the limits on repeatedly rolling over debt. Just a decade after the Great Recession, it is alarming that the reckless underwriting policies that contributed to that crisis are being re-enabled by the CFPB. In addition to consumer protections, it is critical to equip LMI customers with the knowledge and skills they need to assess borrowing terms and fees related to payday or gap loans. Policymakers should continue to devote resources to support financial education of

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[2] See https://www.philadelphiafed.org/-/media/community-development/publications/cascade-focus/home-improvement-lending/cascade-focus_7.pdf?la=en.
[3] See https://files.consumerfinance.gov/f/ 201304_cfpb_payday-dap-whitepaper.pdf.
[4] See https://prosperitynow.org/blog/two-years-after-it-finalized-rules-curb-predatory-lending-cfpb-now-wants-roll-them-back.

prospective homeowners, since subsidies are generally necessary in order to make housing counseling fees affordable.

Debt Collection Rules

Some of the most common consumer complaints received by the CFPB are for debt collection practices, and there are significant weaknesses in how the industry is currently regulated.[5] The CFPB intends to release a proposal for regulating the debt collection industry this spring. The proposed rules will apply to third party debt collectors only, not the original debt holders, and will likely address issues related to communication practices and consumer disclosures. Regulatory fixes could include rules to require better documentation to validate debt, improved notice to debtors of the nature of their debt, clear disclosure of their consumer rights, and prohibiting collection of expired debt.

Credit Reports and Credit Scores

The foundation of the loan underwriting process is credit reports and credit scores, yet our credit reporting systems in some ways function as a barrier to economic inclusion, serving to maintain racial wealth gaps. Strong scores open doors to affordable credit, while people with low or no scores can only access the most expensive credit, if any.[6] Low-income families and households of color are particularly disadvantaged given that the payment histories regularly reported to the credit bureaus are mortgages and credit card payments, which only apply to those who can afford a down payment for a home and have access to credit cards. Solutions include crediting individuals for rent and other debt payments they make that are not typically recorded and counted in the scoring process. The Council suggests the inclusion of these types of “alternative” data to create and improve scores for many individuals without weakening the predictive power of scores through the reintroduction of the Credit Access and Inclusion Act.[7] The Federal Housing Finance Agency is considering new ways to update the credit scoring models used by Fannie Mae and Freddie Mac in their purchasing decisions and underwriting processes.

Trends Affecting Rural Areas

The stresses of housing, health, and employment conditions facing residents of rural America today are dire. Rural communities suffer with many of the same issues faced by their urban counterparts, but the solutions need to be different. Universally applied fiscal policies can make the situation worse by creating dependence, eroding institutions, and stripping local communities’ ability to adapt to change. Persistent-poverty regions need opportunities that will allow them to build wealth over time. This is not necessarily to keep pace with urban centers but to create resilience through investments in basic infrastructure, broadband, housing, and other community assets not currently feasible within the confines of traditional public or market-based solutions. Policy decisions that prioritize growth through forgone tax revenue can fill short-term needs, but rural communities are seeing long-term impacts on people and infrastructure from these decisions.

2. ***Housing markets:*** *How have house prices and rental rates changed since the October 2018 meeting? Have there been any new developments in housing activity for LMI communities in Council members’ regions?*

[5] See https://files.consumerfinance.gov/f/documents/bcfp_50-state-report_complaint-snapshot_2018-10.pdf.
[6] See http://scorecard.prosperitynow.org/data-by-issue#finance/outcome/consumers-with-prime-credit, http://files.consumerfinance.gov/f/201505_cfpb_data-point-credit-invisibles.pdf, and http://assetfunders.org/images/pages/AFN_The_Power_of_Credit_Building.pdf.
[7] See https://prosperitynow.org/files/resources/Alternative%20Data%20Fact%20File_September%202017.pdf.

Home Prices and Supply

There is an affordable housing crisis in America in every state, metropolitan area, and rural community, and it has various causes and no single solution. Price increases and limited supply are fueling housing cost burden, evictions, displacement, and homelessness. Some regions are expanding the supply of affordable housing, but these efforts are not nearly sufficient to close the gap between the number of extremely low-income households and the number of affordable rental units for such households.[8] Racial disparities in homeownership, housing stability, and cost burdens persist in many markets.[9] Other communities are facing issues that are caused by lack of jobs, low-quality housing stock, exclusionary zoning, and expensive permitting. As a result, solutions that solely address supply are not enough to mitigate this crisis.

Housing stock shortages are a significant contributor to housing affordability challenges in many metropolitan areas.[10] Single-family housing starts are well short of need.[11] Multifamily housing starts were strong in 2019, though the National Association of Homebuilders predicts a drop-off in 2019.[12]

One major, but often overlooked, source of unsubsidized affordable housing is manufactured housing. Often mischaracterized as "mobile homes," data from the most recent American Community Survey suggest that roughly 50 percent of manufactured housing is affordable for households, compared to just 26 percent of all housing.[13] Manufactured homes also make up over 9 percent of the country's current affordable housing stock, despite being just 6 percent of the total.[14] However, depending on state titling and finance laws, many manufactured homeowners must rely on high-interest personal property loans instead of traditional mortgages, and many residents in land-lease communities lack basic protections against predatory park owner behavior or displacement. The Council is very concerned about recent reports that Fannie Mae and Freddie Mac are financing mobile home parks without appropriate tenant protections.

Many cities have identified affordable housing gaps as a challenge but struggle to fill them. In New Orleans, for example, HousingNOLA, a public-private partnership, developed a 10-year housing plan that would create the 33,600 affordable housing opportunities needed to end the city's housing affordability crisis.[15] As a result, the City of New Orleans crafted an interagency policy to increase cooperation between the various city and state housing agencies and create 7,500 units in the first five years of the plan. Unfortunately, the public partners fell woefully short of their target of 7,500 units, and many policy initiatives stalled. However, the community-driven process has allowed for adjustments and calls for increased accountability.

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[8] See https://reports.nlihc.org/gap.

[9] See http://scorecard.prosperitynow.org/data-by-issue#housing/outcome.

[10] In Baltimore, Philadelphia, Pittsburgh, and Richmond, only 1,559 B/C class rental units have been created since 2007, far below the number of A class units. At the same time, vacancy rates in these units have declined between 1 and 3 percentage points, indicating growing demand.

[11] See https://www.nahb.org/en/news-and-publications/press-releases/2019/02/headwinds-will-limit-single-family-gains-in-2019.aspx.

[12] See https://www.nahb.org/en/news-and-publications/press-releases/2019/02/multifamily-housing-production-to-start-leveling-off.aspx.

[13] Housing is defined as affordable if total housing costs account for 30 percent or less of household income for households earning at or below 50 percent area median income. See https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_pums_csv_2013_2017&prodType=document.

[14] See https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_pums_csv_2013_2017&prodType=document.

[15] See http://flux.modiphy.com/files/view/14208.

Solutions must take into account local context. Detroit was, and continues to be, an outlier in its extremely low level of mortgage originations and extremely high mortgage denial rate. Only 21 percent of all housing sales in Detroit involve mortgage financing, compared to 77 percent nationwide, in part due to an appraisal gap, housing stock conditions, and borrower credit issues. The Detroit Home Mortgage Program is combatting the negative effects of cash sales and expanding ownership opportunities. The program includes city agencies, the Detroit Land Bank Authority, foundation guarantees, and banks. Forgivable second mortgages of up to $75,000 help cover the gap between the sales price and appraised value of a home, funds for necessary renovations, and down-payment assistance. As a result, in 2018, more than 1,100 mortgages were originated in the city, compared to 490 in 2014.

Protecting Access to Affordable Housing

Access to affordable housing remains a significant challenge for LMI households. Around the country, small developers are working to rehabilitate existing single-family homes in "middle neighborhoods" to rent or sell at rates affordable to LMI households (generally those earning 60 percent to 120 percent of AMI) without the use of federal housing subsidies.[16] This activity has the potential to help address the substantial affordability challenges facing households across the country. It could be aided by specifically targeted policies related to utilities, taxation, zoning, and land use.

The Council notes that there is a range of policy options to protect access to affordable housing, though local politics and legal barriers often impede affordable housing development. Policies to protect access to affordable housing include giving tenants right of refusal when their building is being sold or foreclosed (which would give them the right to partner with a developer to purchase their own building when it is put on the market) and giving tenants facing eviction the right to legal counsel.[17] Comprehensive zoning reform could enable incentives and penalties to municipalities to encourage new housing construction.[18] In certain markets, restrictions on Low Income Housing Tax Credit financing may drive new construction toward sites in high opportunity communities, limiting the ability to serve low-income neighborhoods. The Council supports regulations that protect owners of manufactured homes, ensure that the quality of manufactured housing stock is maintained, raise the visibility of manufactured housing as a viable affordable housing option, and encourage resident ownership of manufactured housing communities. Finally, programs to restore abandoned and blighted housing in weak housing markets are critical. Increasing funding for neighborhood stabilization and development in these markets will support housing production and preservation as well as much needed economic development activities.

An additional challenge is that subsidies for affordable housing often target households of specific income ranges, drawn from Area Median Income (AMI). The use of a regional AMI within a neighborhood where incomes are substantially lower than the regional average can result in an investment strategy that fails to serve local residents. For example, the "affordable" units are not affordable for those of modest means in the City of Milwaukee, which is substantially less affluent than the surrounding area. In Baltimore 100 percent AMI is $91,100, but the city's median income is $58,613. In Philadelphia, the same numbers are $83,200 (AMI) and $54,431 (city median).[19] State and local programs providing down-payment assistance to LMI borrowers play an important role in access to homeownership, but some of these

[16] See https://www.reinvestment.com/research-publications/west-philadelphia-scattered-site-model-affordable-housing-impact-study/.

[17] Public court filings may be creating problems for renters involved in eviction proceedings. Legal eviction proceedings can cast a long shadow on a renter's ability to secure housing, regardless of the outcome of the proceeding.

[18] See http://www.southwestjournal.com/news/city-hall/2018/09/minneapolis-could-require-affordable-units-in-new-development/.

[19] Analysis of market data from REIS Metro reports included in the Reinvestment Fund's "Maybe It Really Does Take a Village: Supporting the Creation of High-Quality Unsubsidized Affordable Rental Housing in Legacy Cities," working paper presented at the 2019 Federal Reserve System Community Development Research Conference in Washington.

programs are limited or shrinking in capacity. Reductions in HOME and CDBG funding have impacted affordable housing supply. The American Housing and Economic Mobility Act would address America's housing affordability crisis by providing greater access to homeownership, reducing overall rental costs and expanding the Community Reinvestment Act (CRA).[20]

Housing Finance Reform

Key policymakers have expressed interest in government-sponsored enterprise (GSE) reform and ending the conservatorship of the GSEs, calling for minimum capital requirements, increased competition among private guarantors, and replacing the affordable housing goals as well as the Duty to Serve (DTS) underserved markets requirement. The Council is particularly concerned about what is proposed for the affordable housing goals, DTS requirement, and the Housing Trust and Capital Magnet funds, and believes it is critical to preserve access to the 30-year fixed-rate mortgages. These programs provide much needed housing for chronically underserved communities, and the Council opposes steps to eliminate or make them less effective.

3. ***Labor markets:*** *How have the labor markets in which Council members operate changed since the October 2018 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?*

Labor Supply Issues and Opportunities

Since October 2018, the general sentiment from both employees and employers has been that the market continues to tighten. Businesses are complaining about the limited quantity and quality of job applicants. Adding to the hardship of small businesses, workers are leaving jobs with little or no notice. Shortages are present across most job titles, from entry level to senior roles, but they have been most acute for those in the skilled trades. While considerable resources and effort from government, NGO, and labor organizations have gone into recruiting entry-level skilled trades-people, it will be years before the supply and skill of these workers increases to a significant degree.

The labor shortage continues to be the largest concern of the construction industry, though the problem extends to other sectors as well. According to construction industry survey respondents in Minnesota, availability of skilled workforce is the number one factor impacting businesses negatively, and the skill level of the workforce was second. Project managers/supervisors and estimating professionals remain the most difficult positions to fill. In the second quarter of 2018, Minnesota saw its highest number of construction job vacancies since 2001.

In many regions, communities of color are comprising growing shares of the workforce. For example, Latinos accounted for about 60 percent of all population growth in the state of Massachusetts from 2010 to 2017.[21] Some employers are hiring bilingual supervisors to benefit from the growing and diversifying workforce. The Council also notes challenges with incorporating undocumented persons into the workforce. In areas with large immigrant communities, unemployment data may understate actual labor market slack given the presence of undocumented persons in the region. Labor shortages are also exacerbated by strict immigration enforcement standards and raids on existing businesses that employ undocumented persons, creating additional insecurity in hiring and employment practices.

One important factor contributing to labor shortages is the low labor force participation rate. From a high of 67 percent in the late 1990s, it has dropped to 62 percent over the last few years (this compares to 79

[20] See https://nlihc.org/sites/default/files/Warren-HEOM-Bill.pdf.

[21] Phillip Granberry and Trevor Mattos, "Massachusetts Latino Population: 2010–2035" (Boston: Gastón Institute, 2019), 241.

percent in the United Kingdom and 72 percent in France). The Council emphasizes the interconnectedness between low labor force participation and other issues raised in this document, including the opioid crisis, the scarcity of affordable housing, and poor health-care outcomes driven by worsening economic inequality. Some individuals who are currently out of the workforce often face difficult decisions in transitioning to low-wage employment if that risks a significant loss of supportive benefits such as subsidized housing, health care, child care, or nutrition assistance.

Under-resourced public transportation in various parts of the country, including Milwaukee; Essex County, Massachusetts; and Greater Boston continue to present barriers for LMI working families. The limited schedule and limited routes hinder individuals from achieving mobility and well-being, both economically and physically. For Lawrence, Massachusetts, residents, some good, decent paying jobs are available but are located outside city limits; accessing these jobs can become expensive and therefore unreasonable for LMI families. Meanwhile, Milwaukee employers have been struggling with insufficient transportation challenges for over a decade.

Child-care deserts exist in both rural and urban areas, and are associated with fewer mothers in the workforce. The maternal labor force participation rate in child-care deserts is 5 percentage points lower than in communities with adequate licensed child care. Between 50 percent and 75 percent of rural residents live in a child-care desert, which disproportionately affects low-income families by negatively impacting early childhood development and readiness for later learning and adversely influences health outcomes for children in their youth and beyond.

Limited Wage Growth

Despite very tight labor markets, the Council sees little evidence of wages increasing significantly. Some members feel that employers are fighting back against the type of wage increases that would attract more workers, a factor contributing to some recent union strikes. Workers and worker organizations in several cities and states are advocating for increases to minimum wages. However, other members point out that pay increases are not economically feasible for many employers. Contractors are paying more for project management and supervisory positions, but are constrained by competitive cost pressures, especially in states considered “low-bid” for government work. Some employers have increased wages but still report challenges in finding reliable workers. While there is still no broadly accepted research, we do know one thing definitively: it is driving economic inequality.

Distinguishing Employment from “Good Jobs”

In the context of historically low unemployment rates, it is important to consider the changing quality of jobs of employed people in addition to the unemployment rate. LMI people are finding it difficult to obtain “a job they want” or “a good job”—described as a job that pays adequate wages that support living needs, offers schedules that fit family needs, and is located within a reasonable commute time. According to the *Prosperity Now Scorecard*, 23 percent of jobs in the United States are low-wage jobs.[22] Even many of those who are currently employed are dissatisfied with their employment and continue to seek “better jobs”—jobs that they can consider to be a career.

Labor Market Impact of Incarceration

Criminal records represent a major barrier to employment for millions of working-age people. A report by the Center for Economic and Policy Research estimated that in 2014 there were between 14 million and 15.8 million working-age people with felony convictions, of whom between 6.1 million and 6.9 million

[22] See https://scorecard.prosperitynow.org/data-by-issue#jobs/outcome/low-wage-jobs.

were former prisoners.[23] The report estimates that this translates to a loss of 1.7 to 1.9 million workers, and a loss to the economy of about $78 billion to $87 billion in annual GDP. Due to racial discrimination in the criminal justice system, African Americans have a rate of incarceration five times that of whites, and therefore are particularly impacted by the incarceration penalty placed on them upon reentry. Promising strategies to address this include increasing employer incentives, such as the Workforce Opportunity Tax Credit, and adopting trauma-informed recruitment, onboarding, and retention practices in the workplace to support formerly incarcerated employees. The Council finds that in many regions, employers are increasingly willing to hire formerly incarcerated workers, especially in the building and construction industry. Adjustments to CRA guidelines could help to promote reentry of formerly incarcerated people into the workforce.

Impact of Financial Wellness on Labor Markets

Financial wellness is gaining traction as a trend in the workplace.[24] Financial wellness refers to programs that provide employees access to financial capability products and services, such as financial counseling, accrued wage advances, and safe credit-building products, among other supports. The top reasons for offering financial wellness services are to improve overall worker satisfaction (currently at 54 percent), reduce employee financial stress (currently at 48 percent), and improve employee retention (currently at 47 percent).

Workforce readiness programs are seeing the benefits of these interventions on job placement and retention rates, hours worked, and hourly wages. For example, the Local Initiatives Support Corporation (LISC) found that clients who enrolled in financial wellness programs had higher rates of job placement and retention. A 2014 report by the CFPB suggests that financial wellness programs can also benefit employers by decreasing employer health costs and increasing employee engagement.[25]

The Federal Reserve can raise awareness of best practices to connect employees to financial products and services that improve their financial stability and increase research on the value and impact of these programs on local economies.

4. ***Community Reinvestment Act:*** *How should community development (CD) activities definitions be revised or updated under the CRA? Are all appropriate CD activities covered? If not, what else needs to be included? Are there certain CD activities or organizations that should always eligible for CRA consideration? Should different weights be given to CD loans and investments, and should additional weight be given to certain high-impact, responsive, and/or difficult-to-provide activities? If so, what factors could be used to determine the level of responsiveness to community needs of different CD activities?*

The Council supports and agrees with the points laid out by Governor Lael Brainard in her recent speech that the CRA should better reflect the way in which banking products and services are delivered. We continue to have concerns about changes that may be applied to the definition of CD, what activities are CRA eligible, and the weights that may be applied to various activities. As an increasing portion of our financial services industry falls outside of CRA, the activities that are monitored under CRA provide an ever-more critical financial lifeline. The Council supports continuing the tradition of the federal banking agencies working together to have one set of rules, consistent interpretive guidance, and regular examiner training to ensure that the CRA is implemented consistently across the agencies. The Council also

[23] See http://cepr.net/publications/reports/the-price-we-pay-economic-costs-of-barriers-to-employment-for-former-prisoners-and-people-convicted-of-felonies.
[24] See https://www.forbes.com/sites/alankohll/2018/12/12/7-employee-wellness-trends-and-opportunities-for-2019/#3895e7d934d5.
[25] See https://files.consumerfinance.gov/f/201408_cfpb_report_financial-wellness-at-work.pdf.

supports increasing transparency and consistency regarding the assignment of CRA ratings, which would require concrete guidance on how points are applied under each performance test and what factors are used to determine scores.

Today, technology and changing consumer preferences enable banks to gather deposits and make loans far away from their physical branches. With an increasing number of digital banks and fintech providers, it is critical that these institutions invest in all communities. Accordingly, examinations should assess performance both within and outside geographies defined by branch and ATM locations, as long as the activity benefits LMI individuals and/or communities, which will require better and more refined metrics for some business lines, including small business loans. Wholesale finance of nonbank financial institutions and the effects of this credit within communities should also be assessed. In terms of expanding populations served by CRA, exams must explicitly evaluate bank lending and service to people and communities of color. Senator Proxmire and the other members of Congress who drafted the CRA and secured its passage noted disparities in lending in minority communities, especially inner-city neighborhoods, during hearings on the legislation. This higher sensitivity to need and awarding of CRA credit may necessitate creating a more comprehensive and flexible test that encompasses a broader array of CD activities.

Agencies Should Provide Clarity, Update Definitions, and Retain Focus on Credit

Over the years, the Interagency Q&A document has refined an approach to focusing on LMI communities or people adopted by the 1995 final rule implementing the current CRA regulations. Developed and refined after the 1995 final rule, the Interagency Q&A provides exceptions to the focus on LMI people, such as including mixed-income housing as an example of CD.[26] The Council agrees, but exceptions need to be narrowly targeted to promote positive outcomes like economic mobility that might provide low-income residents affordable housing in high-opportunity areas. The impact on LMI people must remain fundamental to CRA eligibility and also be clear and measureable. Again, the point is that it is acceptable for CRA activities to not exclusively benefit LMI areas, but activities must have a significant benefit for LMI areas or people. However, CRA credit should only be given to those that benefit LMI people.

Moreover, the definition of CD should be updated to include activities that promote racial and economic desegregation and prevent displacement and loss of affordable housing. Activities that promote desegregation include financing affordable housing for LMI people in middle-income neighborhoods, including those in the suburbs, and also preserving affordable housing in gentrifying neighborhoods in urban areas.

Assessment area definitions and performance tests for retail activities and CD activities should be tailored to banks based on their size and business strategy. Small banks, which tend to operate locally, could have their lending and retail services evaluated under the retail test, while larger banks could be evaluated under both the retail and CD tests. The Council would like modernization in CRA assessment areas to consider areas of persistent poverty, natural disasters, and banking deserts.

In sum, the statutory language, the regulatory history over 41 years, and the economic reality in LMI communities suggest that CRA exams providing positive consideration for diffuse activities spread across LMI and non-LMI areas, and for other than credit and CD activities, is not consistent with the intention of the CRA. If the Office of the Comptroller of the Currency proposes and adopts a final rule not reaffirming LMI people and communities as the target of CRA activities, it would be in violation of the purpose of the statute and how the agencies have interpreted the statute over 40 years.

[26] "Interagency Q&A," *Federal Register*, July 2016, Q&A, §_.12(h)—8:, 48,530.

Weighting What Qualifies

The Council believes that weights should be given based on the responsiveness to community needs, which varies based on local performance context, not on the basis of certain nationally defined activities. Different weights should be given to different CD activities. It's obviously difficult to strike the right balance between accommodating the needs of local communities and streamlining the costs/process of collecting the inputs, but the Council considers this an important evolution, as the most community-responsive investments will look very different in rural Appalachia than in San Francisco. Because racial disparities in lending remain stubborn and persistent, the CRA must include lending, investing, and service to people and communities of color in its evaluations. A potential compromise might be to update the weightings periodically, with care taken to gather feedback from diverse groups and not just from the most vocal ones.

One measure that could be weighted is the extent of the effort the bank goes through to be responsive to community needs. In that vein, the Council supports giving more weight to activities of multiple community-based organizations in the bank's assessment area. Banks should liaise with local stakeholders, including local municipal CD departments and nonprofit organizations, in face-to-face meetings with CRA staff and banking leadership.

Federal Reserve research could identify best practices in these areas as an informal guide to CRA activities. Given the current affordable housing crisis, extra weight should be given to related lending and investment. Banking deserts in persistently poor communities, in contrast, require a heightened focus on the services test. The Federal Reserve should promote best practices and innovation via its convening power, bridging banks and nonprofits.

Community Development Data

Collecting and reporting CD data could have a significantly positive impact on public and private investments made in LMI areas, especially in communities of color. Banks made more than $1 trillion in CD loans from 1996 to 2017,[27] benefiting LMI communities, as a result of CRA requirements. However, we do not have the data that enables us to determine whether this investment is targeted effectively to the neighborhoods most in need. We recommend CRA regulators collect and report CD data as is done with the Home Mortgage Disclosure Act.

5. ***Health and economic development:*** *How has the Council observed health-care facilities and/or institutions as a driver of economic activity in their communities? How has the role of impact investing and investments in the social determinants of health improved the overall health, workforce, financial security, and CD activity in the Council's regions?*

Health institutions, including medical, behavioral, and public health agencies as well as Medicaid and private insurers, have been greatly influenced by the idea that fundamental social and economic structures, known as social determinants of health, have a significant impact on health. Research has shown that financial health and physical and mental health are highly correlated.[28] One-third of children in poverty are reported to have "less than very good health compared to just 7 [percent] of children who grow up in families with incomes more than four times the poverty line."[29] Poor financial health also limits people's ability to seek out health services. In 2017, approximately 14 percent of adults in United States could not see a doctor due to cost, and research using Internal Revenue Service data showed that

[27] See https://ncrc.org/the-community-reinvestment-act-vital-for-neighborhoods-the-country-and-the-economy/.
[28] See https://www.rwjf.org/en/library/research/2018/09/wealth-matters-for-health-equity.html.
[29] See https://www.rwjf.org/en/library/research/2009/04/beyond-health-care.html.

out-of-pocket health-care spending increases, especially in lower-income households, on average by 60 percent in the week following receipt of income tax refunds.[30]

The remainder of this section describes healthcare institutions' growing investments in employment, CD, and financial well-being and illustrates how stakeholders are attempting to influence the social determinants of health. The conclusion outlines what roles the Federal Reserve System can play in improving the social determinants of health and, consequently, the health of all Americans, in alignment with its dual mandate.

Employment: Health-Care Institutions as Employers

As demands for health-care workers increase, hospital systems are recruiting community members to fill new positions. University Hospitals (UH) in Cleveland began recruiting locally for frontline jobs and developed a process to move these workers to higher level careers. UH also provided start-up and operating funding while also contracting with Evergreen Cooperatives, which took over a local facility and created 100 jobs in the surrounding community, one of the poorest in the city. Evergreen is an employee-owned co-op that also helps its workers save to buy homes through payroll deductions. On a broader scale, the Democracy Collaborative, which represents 40 health systems that employ over one million people, is helping members determine how to hire from disinvested neighborhoods, what specific benefits and wages to pay, and how to use their supply chains and capital to create healthier communities.

Housing, Neighborhoods, and Food Access: Health-Care Institutions as Neighborhood Investors

Given the direct correlation between health, housing, and neighborhood conditions, health-care institutions are beginning to invest in quality housing and neighborhood improvements in a few markets. Some of these investments seek to directly reduce negative health outcomes that result from poor quality housing (e.g., asthma and lead poisoning), while others target neighborhood conditions as an upstream determinant of health.[31]

The Green & Healthy Homes Initiative is a national program that seeks to directly reduce negative health outcomes by financing more than a dozen sites focused on asthma prevention and lead remediation. In Massachusetts, the initiative is implemented through a partnership between Baystate Health, the largest regional hospital in western Massachusetts, and other organizations.

In Baltimore, Bon Secours Mercy Health, one of the nation's 20 largest health-care systems, is focusing on housing stability by developing 802 housing units in a neighborhood where 40 percent of families live in poverty. Bon Secours Mercy Health has also invested in the Maggie Walker Community Land Trust in Richmond, Virginia, which is the first time a health system has linked to a city land bank to bring foreclosed property back into productive use and ensure it stays affordable. Other housing-focused initiatives by health-care institutions include Kaiser's $200 million impact-investment Thriving Communities Fund to address housing stability and homelessness and Dignity Health's $1.2 million loan to San Bernardino's Arrowhead Grove Neighborhood Revitalization, which will develop "400 units of affordable and market-rate housing, community amenities, upgraded infrastructure, and an education village space."[32]

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[30] See, respectively, https://scorecard.prosperitynow.org/data-by-issue#health/outcome/forgoing-doctor-visit-due-to-cost and https://www.jpmorganchase.com/corporate/institute/report-deferred-care.htm.

[31] See https://www.rwjf.org/en/library/research/2017/03/improving-community-health-by-strengthening-community-investment.html.

[32] See, respectively, https://about.kaiserpermanente.org/community-health/news/kaiser-permanente-announces-200-million-impact-investment-partne (Kaiser) and https://www.dignityhealth.org/about-us/press-center/press-releases/2018-09-21-dignity-health-joins-san-bernardino-community-to-celebrate-arrowhead-grove-neighborhood-revitalization-project (Dignity Health).

Some health institutions are taking an active role in increasing access to healthy food. In Lawrence, Massachusetts, Lawrence General Hospital has invested $2.5 million in the Healthy on the Block/Bodegas Saludables Initiative, which supports the owners of small Latino grocery stores, or bodegas, to retrofit refrigeration equipment to accommodate additional fresh food.

Financial Well-Being: Health-Care Institutions as Connectors to Financial Services

Health-care providers are also beginning to integrate financial capability services—including those that help individuals maximize incomes, manage their finances, build credit and/or assets—into health-care settings. A prime example is Street Cred, which offers free tax preparation services in pediatric waiting rooms to increase access to the Earned Income Tax Credit (EITC). Another example is Johns Hopkins University's Financial Futures for Families Program, which administers a financial needs assessment to patients and connects those patients to workforce services and case managers trained to support financial goals. Many federally qualified health centers, like DotHouse in Massachusetts, offer a range of financial capability, housing, and legal services to their patients in addition to the full suite of medical and dental services. In Lawrence, Massachusetts, the Greater Lawrence Family Health Center has partnered with Lawrence Community Works, Inc. (LCW) and the Mayor's Health Task Force to create the Lawrence Physical and Financial Health Group to integrate their social needs screenings (patients who test positive for financial and housing insecurity) efforts with direct resource referrals to LCW's financial empowerment programs.

Other Strategies That Impact the Social Determinants of Health

CD practitioners, higher education institutions, and mortgage lenders are working to influence the social determinants of health, particularly through neighborhood revitalization and housing.

Among institutions of higher education, the Taubman College of Architecture and Urban Planning at the University of Michigan created a design and health degree program to foster cross disciplinary collaboration targeting communities where previous indicators like obesity, asthma, or heart disease are backsliding.[33] In addition, the Living Business Leadership Experience at the university's Ross School of Business links students to practitioners at one of the nation's largest affordable housing providers, the NRP group, to explore ways to change the state's Qualified Allocation Plans, which determine the allocation for housing credits and tax-exempt bonds, to incentivize integration of social services into affordable housing.[34]

In Detroit, mortgage lenders realize that the health of families, neighborhoods, and housing markets are jeopardized when homes cycle through the foreclosure auction process. Quicken Loans Community Fund, in partnership with United Community Housing Coalition, bought the liens of 80 occupied homes in 2017 and 300 homes in 2018 in advance of their auction. University of Michigan urban planning and public health researchers helped develop a process to scale the program, incorporate best practices, and track the health and neighborhood stabilization benefits as families are able to remain in their housing and move to homeownership.[35]

Future Directions for the Field

Despite growing awareness of implications of the social determinants of health, research, investment, and cross-sector collaborations are at an early stage of development. While hospital systems in urban areas have the resources to invest in improving the social determinants of health, rural health-care systems are too often financially fragile and lack the capacity to invest in housing, infrastructure, and other social

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[33] See http://internal.tcaup.umich.edu/architecture/programs/msc/areas_concentration/design_health/.
[34] See https://michiganross.umich.edu/graduate/full-time-mba/curriculum/living-business-leadership-experience.
[35] See https://www.detroitnews.com/story/news/local/detroit-city/2017/10/03/detroit-renters-become-homeowners-pilot-program/106279426/.

determinants; these investments require increased public-sector investment. There is also limited community input in the Community Health Needs Assessment process—which nonprofit hospitals are required to conduct every three years in compliance with the Affordable Care Act—in communities where health inequities are concentrated.

A leading social investment approach to advance this field is the Pay for Success Financing (PFS) model. PFS, or Social Impact Bonds, provide financing for projects that improve outcomes, especially health outcomes, while also lowering costs for local governments and other payers—through lower emergency room use, reduced homelessness, moving children out of foster care faster, and decreases in incarceration/recidivism, among other goals. These outcomes-based programs secure upfront investors who are repaid through the long-term cost savings of the selected social intervention. Health insurers are engaging significantly as investors in PFS and other forms of impact investing. For example, Amerigroup Maryland, the state's largest managed care organization, recently partnered with Green & Healthy Homes to support the delivery of in-home health services designed to address the environmental triggers of asthma using the Pay for Success model.[36]

Role for the Federal Reserve System

The Federal Reserve System has a unique ability to conduct research, assess community needs, and raise awareness of cross-sector innovations to the benefit of the communities it serves. Research should continue to focus on understanding the financial and economic impacts of health on labor force participation, economic development opportunities, and overall economic mobility in communities. The economic impact of health-care institutions at the local, regional, and state levels is also ripe for research, as is the likely link between investments, such as universal children's savings account programs and long-term health outcomes for children and their families.[37] In addition, the Federal Reserve can document and distribute best practices for how to engage community members in planning, design, and decision making around solutions impacting community health. We also believe this is an ideal time for the Federal Reserve Board of Governors, in partnership with the Federal Reserve Banks, to host cross-sectoral convenings that showcase innovations and promote collaboration on all the issues raised in this section.

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?*

Rural Communities

Economic globalization, declining investment in rural places, shifting energy and agricultural markets, and technological advances in manufacturing have resulted in widespread unemployment and crumbling infrastructure in rural communities across the nation. The disappearance of these 20th century jobs without regard to investments in any sort of 21st century economic transition has resulted in rising rates of early disability, an increasing reliance on Social Security for income, and multiple levels of exacerbated health problems. Coupled with the ravages of an opioid crisis brought on by a failing health-care system functioning at the mercy of a mammoth pharmaceutical industry, followed by an emerging illicit drug trade left to capitalize on the ruin, rural places nationwide are in desperate need of intervention.

Historic policies generating revenue for rural infrastructure and maintenance needs failed to create permanent solutions for small local governments or regions with vast amounts of tax exempt public land. Now, even those resources are declining along with severance taxes and other income derived from aging policies and economic transitions. Policy decisions that prioritize growth through forgone tax revenue

[36] See https://www.greenandhealthyhomes.org/press_release/green-healthy-homes-initiative-and-amerigroup-launch-new-program-to-improve-asthma-care-management-for-children/.

[37] See https://openscholarship.wustl.edu/cgi/viewcontent.cgi?article=1325&context=csd_research.

with job creation or environmentally damaging industries can fill short-term needs, but rural communities are seeing long-term impacts on people and infrastructure from these decisions.

Two additional challenges affecting rural areas are the decline in family farming and climate change. In Wisconsin, for example, hundreds of towns across the state depend on the money that dairy farmers spend at equipment dealerships, feed mills, hardware stores, cafes, and scores of other businesses. One in nine jobs are tied to the state's $88 billion agriculture industry, and dairy represents more than half of the industry's revenue. A new report from the Wisconsin Policy Forum underscores the severity of the dairy crisis, showing that Wisconsin farmers lost about half of their net income between 2011 and 2018, forcing many into bankruptcy. Climate change is also affecting communities across the country. Most recently, the "bomb cyclone" and flooding that damaged a huge section of Midwest farmland in March could cost consumers, as beef prices are set to rise and other damages and costs are still being assessed and monitored as spring rains continue.

We urge the Board to consider the implications, applicability, and adaptability of fiscal and other policies in rural regions where a lack of population density, critical mass, and capacity are barriers to utilizing most macroeconomic models and tools.

Immigration Policy

Asylum seekers have overwhelmed communities along the border, including the El Paso region. The chilling effect of enforcement has reduced parental involvement in schools when a member of a family is undocumented. Long lines of trucks at international bridges create air pollution in LMI communities nearby. Asylum seekers are backed up at ports of entry, and so they go across the Rio Grande to the border fence where they surrender to Border Patrol officers. Customs and Border Patrol officers have been removed from their jobs to deal with the influx. Both the City and County of El Paso, as well as local foundations, have provided funds to nonprofits to assist in transitional shelters and travel support. However, the increasing numbers of asylum seekers—12,000 in 2017, 18,000 in 2018, and 50,000 since the beginning of the current fiscal year according to the City Fire Chief—are stretching all systems beyond capacity and draining funds from public and private sources. The Federal Reserve should direct research on the impact and implications of immigration policy on the rest of the economy, including supply chains.

Building Financial Well-Being

VITA expansion and permanence: The Volunteer Income Tax Assistance program (VITA) has provided free tax preparation services to lower-income Americans for half a century. But the program has not been formalized into law and lacks enough funding to meet the tax preparation needs of LMI households. There are 3,700 VITA sites, which prepared over 1.3 million tax returns in 2018. These sites generated over $1.8 billion in refunds to assist households earning less than $55,000 in annual income. Tax refunds can make up as much as 30 percent of a low-income family's annual income. The value of refunds, however, can be eroded by costly preparation fees (at an average of $273 per tax return, according to the National Society of Accountants) and potentially predatory tax time financial products. The VITA Permanence Act would permanently authorize the VITA program and allow funding for the program to go up to $30 million. VITA serves many important roles, including helping low-income taxpayers avoid costly tax preparation fees, increasing access to the EITC each year, and promoting emergency savings at tax time. The Council would like to bring to your attention the benefits of this program.

Emergency savings: Too many Americans lack the savings needed to ensure financial security. As the *Prosperity Now Scorecard* highlights, 40 percent of American households are liquid-asset poor, meaning that if these households lose their income due to a death in the family, a job loss, a hospitalization, or any other reason, they do not have enough liquid savings to live at the poverty level for three months. Liquid-asset poverty is even more prevalent in black and Latino households, 63 percent of which are liquid-asset poor.[38] This lack of a financial cushion was abundantly clear during the government shutdown, when countless families ended up at food banks or in search of other emergency services after losing two paychecks. Without that buffer of emergency savings, many Americans turn to predatory payday loans, spending an average of $520 in interest to borrow the average loan of $375.[39]

Households need to build emergency savings. Innovations, such as the fintech product SaverLife, and programs like Prudential's piloting of an emergency savings account paired with retirement savings, have emerged to address this challenge. The Council believes that policies supporting saving for emergencies at key moments, such as at tax time or in the workplace, should be expanded. The bipartisan Refund to Rainy Day Savings Act would allow working families to defer 20 percent of their refund by opting into the program, transferring the savings into their account six months later with interest. In addition, the bipartisan Strengthening Financial Security through Short-Term Savings Plans Act could make it easier for employers to offer rainy day savings accounts to their workers with the sole purpose of helping them save for unexpected emergencies. The Saving for the Future Act would require all working Americans to have a minimum amount of short- and long-term savings by helping workers access a safely invested, government-run savings account designed for short-term savings alongside a retirement account.

Racial Wealth Divide

The Federal Reserve's most recent Survey of Consumer Finances reports that white households at the median own nearly 10 times more wealth ($171,000) than median African American households ($17,409) and 8 times more than the median Latino household ($20,920).[40] When durable goods, such as the family car, electronics and furniture (assets that either depreciate or cannot be liquidated quickly to weather a financial storm) are removed from their wealth holdings, median white households own over *40 times* more wealth ($140,500) than median African American households ($6,300) and 22 times more than median Latino households ($3,400).[41] The task of bridging, let alone closing, this divide requires an analysis of how policy proposals and current policies impact households of color. Prosperity Now has called for—and the Council supports—a government-wide audit of current economic policies and programs to understand the role current federal policies are playing in perpetuating or closing the racial wealth divide. The Federal Reserve can also leverage its new Distributional Financial Accounts data to raise awareness of inequitable wealth distribution across racial lines.

Digital Divide

As "wallets" move to smartphones and payments increasingly become electronic, lack of access to debit or credit cards, current technology, and high-speed networks—coupled with the impact of low credit scores—can exacerbate gaps in wealth, knowledge, access, and pricing. The technological advances that have allowed access to lower prices and higher-quality services may often be out of reach for low-wealth communities. Research by the Federal Reserve could shed light on the extent to which low-income individuals and families are using digital platforms to pay family and friends, pay for mobility services, access lending products or credit, and make purchases at cashless stores.

Opportunity Zones

Currently, Opportunity Zone eligible investments have zero social impact requirements. The Council recommends developing social impact metrics based on the criteria for CRA evaluations to be applied to all Qualified Opportunity Fund investments. We also do not believe that any Opportunity Zone investment by a bank should automatically get CRA credit.

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[38] See http://scorecard.prosperitynow.org/data-by-issue#finance/outcome.
[39] See https://www.pewtrusts.org/~/media/legacy/uploadedfiles%20%20/pcs_assets/2012/pewpaydaylendingreportpdf.pdf.
[40] See http://apps.urban.org/features/wealth-inequality-charts/, chart 3.
[41] See https://prosperitynow.org/files/resources/Running_in_Place_FINAL_3.2018.pdf, 5.