Record of Meeting
Community Advisory Council and the Board of Governors
November 1, 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?*

Overview
Before the start of the Great Recession in 2007, banks reported over $400 billion in lending to small businesses. By 2009, that had fallen to $230 billion, and 10 years later, the amount of lending remains stagnant at just $237 billion. The number of loans has sharply declined as well, from 13.5 million business loans in 2007 to just 6.2 million in 2017, a 54 percent decline. The number of banks that reported small business loans has fallen by two-thirds since 2003. Mortgage loans from banks also failed to rebound, falling from a 2005 high of nearly 16 million home purchase, refinance, and multifamily loans to average just about 8 million per year for each of the last 10 years. However, there are large and growing racial disparities in homeownership, and African American homeownership is at a historic low.[1] Meanwhile, bank deposits increased from $6.8 trillion in 2007 to $11.1 trillion in 2017. In other words, banks had 40 percent more capital to lend or invest in 2017 compared to 2007, but small business and mortgage lending declined rather than increased in alignment with deposits.

Access to Capital for Businesses
Lending by banks to small businesses in 2017 stood at 42 percent below pre-crash levels. Recent data from the Small Business Administration (SBA) show that only 32 percent of loans made through the 7(a) program have gone to minority-owned businesses, and only 15 percent to non-urban markets.[2] Women entrepreneurs are also consistently underserved, with women-owned businesses accounting for just 14 percent of 7(a) lending in 2016, compared to 70 percent for men-owned businesses.[3] Loans of $150,000 or less accounted for just 8 percent of 7(a) lending this year. Given that a large number of all microbusinesses—which make up most of the nation's small businesses—earn less than $50,000 annually, it is likely that only a small fraction of the SBA's support is reaching them.[4] In addition, the most recent Small Business Credit Survey from the Federal Reserve found that 52 percent of surveyed small businesses face shortfalls or unmet financing needs, with more-pronounced gaps for newer businesses and those with black or Latinx owners.[5] Lack of access to working capital further exacerbates these shortfalls.

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[1] See https://www.urban.org/urban-wire/these-five-facts-reveal-current-crisis-black-homeownership.
[2] See https://www.sba.gov/sites/default/files/aboutsbaarticle/WebsiteReport_asof_20190816.pdf.
[3] See https://cdn.www.nwbc.gov/wp-content/uploads/2018/03/28215658/NWBC-Report_Understanding-the-Landscape-Access-to-Capital-for-Women-Entrepreneurs.pdf.
[4] *Microbusinesses* are defined as firms with one to four employees and nonemployer firms; see https://scorecard.prosperitynow.org/data-by-issue#jobs/outcome/microenterprise-ownership-rate, https://www.sba.gov/sites/default/files/advocacy/Frequently-Asked-Questions-Small-Business-2018.pdf, and https://prosperitynow.org/sites/default/files/resources/Enhancing_Support_for_Lower-income_Entrepreneurs.pdf.
[5] See https://www.fedsmallbusiness.org/medialibrary/fedsmallbusiness/files/2019/sbcs-employer-firms-report.pdf.

Policymakers should encourage the SBA and the private sector to provide greater support to these entrepreneurs with products that build credit. Policymakers also should support more transparency in the pricing of credit products, including requiring the collection of demographic data that includes the race and gender of the borrower.[6]

The challenges facing women and minority entrepreneurs extend to the landscape of venture capital (VC) and start-up funding. Entrepreneurs from communities of color often have less wealth to draw on from personal networks, as the data documenting the nation's racial wealth divide reveals. Further, black and Latinx communities, especially women in these communities, are underrepresented among VC firms, creating additional barriers to financing opportunities. Female-only founder teams accounted for just 2 percent of VC in 2018 compared to male-only founder teams, who received 76 percent of VC funding.[7] Less than 1 percent of VC-backed founders are black.[8] There are also significant geographic disparities in the flow of VC funding, with the vast majority reaching the San Francisco, New York, and Massachusetts markets. California start-ups raised a staggering 59 percent of all VC in 2018. New York and Massachusetts accounted for another 20 percent, leaving the other 47 states and territories with just 21 percent of VC investment ($27 billion out of $130 billion total).[9]

In Wisconsin, despite solid sales reports from the manufacturing sector, many business owners are reluctant to incur new spending. Business analysts predict slower growth ahead, the result of much caution around ordering. Global trade policies have also impacted the agricultural sector, presenting another challenge to already struggling small farms.

Access to Mortgage Credit

Although aggregate data suggest that the share of mortgage loans to low- and moderate-income (LMI) borrowers is historically high, access to credit remains uneven in many cities. Black and Latinx prospective homebuyers are also more likely to be denied a mortgage than similarly situated whites, and are more likely to be steered to higher-cost products.[10]

With constrained access to credit, LMI households cannot purchase property in their own neighborhoods or benefit from the wealth-building power of homeownership. For example, in Philadelphia's middle range of housing markets, fewer than half of property transactions between 2015 and 2017 were completed with a mortgage. In the city's most distressed markets, just 14 percent of home sales involved a mortgage. In Detroit, limited access to mortgage credit creates a thriving market for land contracts, a type of seller financing where the seller holds the deed (and all equity) until the contract amount is paid in full. These contracts hold the promise of homeownership but, absent protections afforded by mortgage contracts, can lead to a high proportion of foreclosures. Under these contracts, the burden of substantial repairs falls to buyers.[11]

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[6] The Council supports the Consumer Financial Protection Bureau's (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).
[7] See https://fortune.com/2019/01/28/funding-female-founders-2018/.
[8] See https://www.forbes.com/sites/forbesnonprofitcouncil/2018/02/15/founders-and-venture-capital-racism-is-costing-us-billions/#43e7f0f42e4a.
[9] See https://nvca.org/8-takeaways-8-graphics-historic-2018-venture-capital/.
[10] See https://www.revealnews.org/article/how-we-identified-lending-disparities-in-federal-mortgage-data/.
[11] See https://www.crainsdetroit.com/article/20170521/news/628861/loose-regulations-make-land-contracts-tool-exploit-low-income.

In August 2019, the U.S. Department of Housing and Urban Development (HUD) released a new rule around disparate impact that would change the way the government enforces the fair housing law. If finalized, HUD's new rule would make it much more difficult for people to bring forward discrimination complaints under the Fair Housing Act.[12]

Government Sponsored (GSE) Reform

The U.S. Department of the Treasury and HUD have released a Housing Finance Reform Plan, which includes mutually exclusive policy concepts, stresses legislative action, and has few detailed recommendations. Treasury officials also emphasized their non-legislative options, but overall, the document outlines stances that would attempt to reduce the government's role in housing finance and end the GSEs' conservatorship. The Council believes that our federal government has an essential role in the smooth operation of our nation's housing finance market to ensure that such fairly priced credit is widely and equitably accessible. The GSEs' Duty to Serve and the Community Reinvestment Act (CRA) are two policies that keep housing finance accessible and equitable, and any providers of private capital and insurance must be subject to these rules.

The Council has previously stressed the importance of the GSEs' Duty to Serve and Affordable Housing Goals as well as the Housing Trust Fund and the Capital Magnet Fund. The Council believes that these mandates and programs should be featured more prominently in the obligations of the GSEs and should survive any of the policy transitions described by Treasury and HUD. Finally, the expiration in 2021 of the GSE Qualified Mortgage rule patch will reduce access to mortgage loans for LMI communities and communities of color.[13]

Consumer Finance Protections

The Consumer Financial Protection Bureau (CFPB) is considering policy changes that would weaken key protections for consumers with respect to payday lending, overdraft fees, Home Mortgage Disclosure Act (HMDA) data collection, and reporting and debt-collection practices. Although the CFPB's own research indicates that low-income households are least able to afford overdraft fees and end up paying a disproportionate share of those fees, earlier this year it announced that it was considering weakening the 2009 Regulation E overdraft "opt-in" rule under the Regulatory Flexibility Act.[14]

The CFPB has also announced plans to reduce the number of home loan data points that banks report under the provisions of HMDA, and to significantly curtail the public's access to all HMDA data. The CFPB has suggested that some of the new data points required by the Dodd-Frank Act, such as the number of loans with interest-only, negative amortization, and balloon payments, may not be necessary to collect and make public. The agency has also shut down its HMDA Explorer and the Public Data Platform Application Programming Interface that powers this critical tool. These actions go against the express intent of HMDA to provide citizens and the marketplace with the information to determine whether banks are meeting their obligations and for organizations and governments to make informed economic decisions. There is an ongoing need for consumers to have protections from discrimination and abusive practices in the home loan arena.

[12] See https://www.citylab.com/equity/2019/08/fair-housing-act-hud-disparate-impact-discrimination-lenders/595972/.
[13] See https://www.bloomberg.com/news/articles/2019-07-30/expiration-of-a-qualified-mortgage-rule-may-hurt-housing-prices.
[14] Approximately 80 percent of overdraft fees are charged to those with a median account balance of less than $350; see https://files.consumerfinance.gov/f/documents/201708_cfpb_data-point_frequent-overdrafters.pdf.

Alternate Credit Scoring

Access to credit with affordable terms and conditions supports long-term household savings and facilitates wealth building. The CFPB should conduct and publish updated research measuring the number of Americans with thin credit files or no credit files at all, which totaled approximately 45 million adults according to earlier research.[15] Thirty-one percent of Americans with credit scores have "subprime" scores; they are disproportionately households of color and low-income families.

Policymakers should craft guidelines for consumer credit bureaus, landlords, utilities, and other companies to furnish, collect, and use alternative data legally. In addition, policymakers should examine legislation, such as the Credit Access and Inclusion Act (S.1828), aimed at increasing access to credit by encouraging that alternative data be incorporated into reporting models to ensure consumers are accurately and fairly scored.

2. ***Housing markets:*** *How have house prices and rental rates changed since the May 2019 meeting? Have there been any new developments in housing activity for LMI communities in Council members' regions?*

The lack of new affordable housing (rental and for-sale) continues to be a significant hindrance nationally. Despite unemployment being at a historic lows, it remains difficult for many to find living wage jobs that support the cost of housing that is decent, safe, and affordable. According to a National Low-Income Housing Coalition report, the typical hourly wage needed to afford a modest two-bedroom apartment is $22.96 at the national level, whereas the estimated average wage for a renter in the United States is only $17.57 per hour. "A worker earning the federal minimum wage of $7.25 per hour must work 103 hours per week (more than 2.5 full-time jobs) to afford a one-bedroom rental home at the national average fair market rent," the study said.[16]

Lack of Appropriately Priced Housing Supply

The current crisis is driven in part by low numbers of newly constructed housing units and by higher land and material costs.[17] Developers are struggling with diminishing funding from community development block grants and other sources.[18] Much of the development in the multifamily space has targeted higher-income households, and supply remains very limited for LMI households. In the single-family market, there is a limited supply of starter homes in many markets—a significant barrier for first-time and LMI homebuyers.

Price increases in markets long considered affordable, such as Lawrence, Massachusetts, and southern Indiana, have placed more pressure on policymakers and housing organizations to meet the needs of low-income residents. Some more-expensive markets, such as Boston, have continued to see significant increases in prices and rents, placing immense pressure on LMI families to afford the cost of rent and making homeownership further out of reach.

Exclusionary zoning policies contribute to the limited supply of affordable housing, and need to be the focus of local and state policy change. These policies inhibit construction of new affordable housing across the board, including in neighborhoods of opportunity and higher value. The Council would like to

[15] See http://files.consumerfinance.gov/f/201505_cfpb_data-point-credit-invisibles.pdf.
[16] See https://reports.nlihc.org/sites/default/files/oor/OOR_2019.pdf.
[17] See https://www.corelogic.com/insights/home-price-index.aspx and https://news.yahoo.com/u-housing-market-mired-weakness-163326663.html.
[18] See https://news.yahoo.com/u-housing-market-mired-weakness-163326663.html.

highlight examples of innovative zoning practices, such as Minneapolis' "upzoning" single-family neighborhoods; Denver and Napa's policies allowing accessory dwelling units; Detroit and Austin's policies encouraging tiny houses; and mandatory inclusionary zoning in over 130 jurisdictions.[19] In other markets, there are signs of prices finally starting to cool down. We believe this can be attributed in part to two factors: (1) an increase of new rentals over the last four years, which in turn is reducing rental costs and steering people away from ownership; and (2) government policies, particularly at the municipal level, passed or implemented recently that address affordable housing needs for low- and moderate-income communities. These trends illustrate solutions that have the potential to help address this national crisis.

Many of the levers used to support and expand affordable housing are ineffective or unavailable in rural places. For example, lower interest rates will not stimulate a market where the issues are affordability due to extremely low area median income (AMI) or appraisals based on markets that have been depressed over generations. There is a false narrative that rural people and rural communities lack capacity and technical expertise, when it is really a case of the solutions not fitting the problem. We need programs that offer deeper subsidies or leverage high-quality, lower-cost solutions that contribute to local economies.

Private equity and other sources of capital have moved aggressively into the manufactured and mobile home park market, which has led to significant lot rent increases. These increases can potentially lead to eviction of the owners of the manufactured homes. The HUD Manufactured Housing Modernization Act (S. 1804) would require that jurisdictions receiving HUD funds review the role of manufactured housing in their communities' affordable housing plans, raising the visibility of manufactured homes as an affordable housing option. This legislation would likely attract new resources for first-time manufactured homebuyers or community infrastructure improvements.[20] In addition, social ventures and other ownership structures such as land trusts can help to promote shared and resident ownership of manufactured homes and manufactured housing communities. Technological advances in manufactured housing can also play an important role in disaster planning, response, and recovery.

Discrimination is another barrier to accessing affordable housing for many communities. In August 2019, HUD released a new rule around disparate impact that would change the way the government enforces the fair housing law. If finalized, HUD's new rule would make it more difficult for people to bring forward discrimination complaints under the Fair Housing Act, putting the onus on the plaintiff to prove discrimination. In response to this change, regulators will need to consider how lenders automate decisions for credit risk and loan pricing.[21]

Homelessness and Evictions

The risk of homelessness continues to rise for low-income working families. The Council believes that more affordable housing is needed to address this ongoing issue, despite the newly released report by the Council of Economic Advisors, *The State of Homelessness in America*, which states that removing regulatory barriers, increasing the policing of homelessness, and encouraging more "self-sufficiency" are the keys to ending homelessness.[22] Policies that facilitate the creation of more affordable housing have been effective at reducing homelessness in some areas, such as El Paso, Texas, where the city and local

[19] For Minneapolis details, see https://www.nytimes.com/2018/12/13/us/minneapolis-single-family-zoning.html; for Austin details, see http://austin.culturemap.com/news/real-estate/10-08-18-four-tiny-home-projects-neighborhoods-in-austin-that-open-the-door-to-affordability/.

[20] See https://shelterforce.org/2019/08/02/how-to-temper-the-influence-of-private-equity-in-manufactured-housing/.

[21] See https://www.citylab.com/equity/2019/08/fair-housing-act-hud-disparate-impact-discrimination-lenders/595972/.

[22] See https://www.whitehouse.gov/wp-content/uploads/2019/09/The-State-of-Homelessness-in-America.pdf.

HUD Continuum of Care have identified permanent supportive housing as a priority for the use of federal dollars. The depth and breadth of the homelessness crisis in California, on the other hand, highlights the need to dramatically increase the supply of affordable housing to address homelessness.

Evictions are a significant driver of housing instability, including in the many regions represented by Council members. African American households are disproportionately at risk for eviction, even after controlling for income and other differences.[23] While the reasons for initiated evictions vary, the vast majority derive from the increasing rents trend as a root cause. As rents continue to rise, more families are surpassing their financial sustainability breaking point. To blunt the effects of the problem, some programs and policies provide assistance to tenants at risk of eviction even before an eviction process has begun, including legal aid, rental assistance, and case management.

3. ***The Community Reinvestment Act Service Test**: How do Council members view the effectiveness of the current approach to evaluating retail services? How can CRA more effectively measure bank performance in providing retail services? The current approach includes an evaluation of the distribution of branches in low-, moderate-, middle-, and upper-income geographies, the availability and effectiveness of alternative delivery systems to LMI individuals, and products and services tailored to meet the needs of LMI individuals. Are there other strategies the Council believes could be implemented to assess the availability and responsiveness of retail banking services for LMI communities? Are there additional retail services that should receive consideration under CRA?*

We believe that CRA can be reformed to better address the problems it was intended to address. In particular, we are concerned that any metrics used in the evaluation process should reflect overall community impact, and not simply the dollar amount of bank activities. A dollar volume metric, or "one ratio" approach, could have the effect of diminishing the service test and other critical aspects of CRA, in favor of activities that produce higher dollar volumes. Regulators should also consider new ways of pro-actively seeking community input on bank performance and giving community comments greater weight in the evaluation process. In addition, given the breadth and depth of the racial wealth divide in today's economy, CRA should more actively remediate those inequities.

Role of Bank Branches and Access to Retail Services

Branch locations must remain as a factor on CRA performance evaluations. The increasing use of online technology for accessing financial services has reduced the impact of, but does not eliminate the need for, brick and mortar bank branches in communities. Today's retail banking locations are often product touch points as much as they are direct service providers, and not analyzing their distribution under the CRA may result in a reduction in access to banking services in LMI places. Moreover, deemphasizing bank branching would be inconsistent with congressional intent as reflected in the comments of the CRA's chief sponsor, Senator William Proxmire (D-WI). The 1977 CRA hearings leading up to the enactment of the CRA presented evidence of fewer branches in LMI tracts and more limited hours and services at branches in LMI census tracts. Hence, the CRA needed to examine branches in LMI neighborhoods and needs to continue to do so today.

Banks must be proactive to attract the unbanked, whose services more often come at high cost from fringe providers (physical or online). As newly formed households are increasingly comprised of people of color, including immigrants, it will be important for banks to facilitate one-to-one dialogues with potential

[23] See https://www.reinvestment.com/wp-content/uploads/2019/10/ReinvestmentFund__PHL-Evictions-Brief-Oct-2019.pdf.

customers who need assistance establishing accounts and applying for loans.[24] One study found that in low-income census tracts, greater access to branches is associated with more loans and lower interest rates on the loans.[25] In addition, borrowers who obtain mortgages from banks with branches in their neighborhoods are less likely to default than homebuyers using banks without branches or using mortgage brokers. This is particularly true for borrowers with low credit scores. In contrast, there is no branch impact on the number of loans or loan performance in higher-income tracts.[26]

Banks could put more effort into reaching out and contacting their existing customers, through focus groups and surveys, to learn about their needs and how to better serve them. Many people of color have expressed concerns that banks do not pay attention to their needs. However, direct outreach advisory programs—respected and accepted community peers trained in financial information—have proven effective to engage both families and small businesses in becoming bankable.

Enhanced Data Collection

We encourage enhanced, timely, comprehensive, and detailed transactional and demographic data collection on the full range of CRA activities, including community development activities and retail services. We also urge the regulators to supplement the data with real time input from the communities banks serve, making use of social media, community outreach surveys, and other 21st century tools to solicit public comments.

The Council sees the need to add additional customer data to CRA exams to determine who is being served and how. The interagency regulatory guidance advises that CRA examiners will scrutinize whether a financial institution's alternative delivery systems are effectively delivering services to LMI populations by considering a variety of factors.[27] However, CRA exams seldom use these factors for evaluating alternative service delivery. Factors like the rate of adoption and use and the reliability of the system are best evaluated if exams collect and use data on the number and percentages of deposit accounts offered to LMI borrowers and communities. Data on cost could include descriptions of any products specifically geared to increase affordability to LMI customers and how many of these accounts are actually in use.

The Government Accountability Office (GAO) gathered a large amount of data on bank branches and census tract demographics to conclude that residents of LMI tracts have as much access to branches as residents in middle- and upper-income tracts in rural areas and large metropolitan areas but not in small metropolitan areas with populations of less than 100,000. LMI customers are less likely than middle- and upper-income customers to have a bank account and more likely to use alternative financial service providers for services like check cashing or obtaining small dollar consumer loans. The unequal access to

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[24] A recent report by Celent, an industry consultant, finds that 77 percent of adults prefer in-person interactions at a bank branch for complex matters such as applying for loans. The Federal Deposit Insurance Corporation's (FDIC's) unbanked and underbanked survey using 2017 data found that 73 percent of banked households used tellers in the last year. Moreover, 81 percent of banked households that use mobile banking as their primary means of account access visited a bank branch in the last year. A quarter of these households used a branch 10 or more times in the last year.

[25] O. Emre Ergungor, "Bank Branch Presence and Access to Credit in Low- to Moderate-Income Neighborhoods," *Journal of Money, Credit, and Banking* (September 2011): 1336, https://onlinelibrary.wiley.com/doi/pdf/10.1111/j.1538-4616.2010.00343.x.

[26] O. Emre Ergungor and Stephanie Moulton, "Do Bank Branches Matter Anymore?" *Economic Commentary* (Cleveland: Federal Reserve Bank of Cleveland, August 4, 2011), http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.645.1823&rep=rep1&type=pdf.

[27] Community Reinvestment Act; Interagency Questions and Answers Regarding Community Reinvestment Act Guidance, 81 Fed. Reg., 142 at 48,506, https://www.gpo.gov/fdsys/pkg/FR-2016-07-25/pdf/2016-16693.pdf.

bank services is probably influenced by a lack of consistent analysis by the service test of the provision of bank services. The GAO report included a survey of 219 CRA exams of banks of all sizes to see how often different aspects of banking services were examined. The report revealed that just 46 percent of large bank exams scrutinized bank provision of deposit products.[28]

Desired CRA Qualifying Product Characteristics and Other Innovations

The Council has witnessed a number of areas of need, currently not adequately supported by CRA-regulated banks. As such, the Council would like to highlight several activities for which banks should receive (or receive more) CRA credit. The following is not a comprehensive list:

- Providing products and services targeted to low-wealth, rural, and marginalized communities including immigrants and people of color, especially since some of the most financially underserved areas lack a bank footprint.
- Investing in capacity-building partnerships with local nonprofit/public housing counseling agencies, homebuyer education providers, financial education providers, community development financial institutions (CDFIs), community housing development organizations, and entrepreneurial support systems.
- Providing account structures that meet the needs of financially underserved populations, including Children's Savings Accounts (CSAs), on the model of the Federal Deposit Insurance Corporation's (FDIC's) SAFE accounts. Standards include low costs, no overdraft fees, robust transaction capabilities such as a debit or prepaid card, and online bill pay.
- Making investments in financial technology to target underserved populations with responsible, non-predatory financial services. CRA-regulated banks could be encouraged to partner with technology-focused nonprofits, such as Code for America, the Center for Urban Pedagogy, and Social Coder, to create user-friendly tools and portals for LMI savers and potential homebuyers.

The Council concurs that banks should not receive CRA credit for, or should be penalized for the following:

- Developing financial education curricula; there are many curricula available, including those developed by federal agencies such as the FDIC and CFPB. Financial education programs developed by financial institutions are often not tailored to the needs of low-income markets.
- Investing in payday loan operations.

Addressing Rural Areas and Other Banking Deserts

The Council feels that CRA assessment areas should be expanded to include more rural communities, and to allow banks with little to no physical footprint or few branches in rural communities to obtain CRA credit under certain circumstances for investments in areas of persistent poverty. The Council would like to highlight the following innovative examples and solutions to addressing access to credit in these places:

- Library and literacy organizations employing book-mobiles or mobile learning labs as potential models for the delivery of financial services.
- Donating bank branches to nonprofit partners. For example, HOPE Credit Union transitioned donated bank branches from Regions Bank into vibrant financial centers in the Mississippi Delta, a banking desert.
- Embedding branches in supermarkets, health facilities, and recreation centers; banks should be encouraged, through CRA evaluations, to innovate further.

[28] GAO, Community Reinvestment Act: Options for Treasury to Consider, op cit.

- Postal banking could help to provide essential low-cost banking services in rural and underserved markets.

4. ***Labor markets:*** *How have the labor markets in which Council members operate changed since the May 2019 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?*

Overview

The Council continues to see tightening labor markets across most of the country, with implications for employers and workers varying across regions. Rural areas, where unemployment remains high, face unique challenges in shifting markets and limited access to education and viable economic options. In other regions, where unemployment remains low, economic uncertainty is contributing to lower growth and employment than firms would otherwise maintain. Complex and inconsistent immigration policies and enforcement actions continue to put a strain on tight labor markets in multiple sectors across the economic spectrum.

Impact of Tight Labor Markets

The tight labor markets have resulted in economic challenges in many communities, while also spurring labor market innovation. Efforts to address shortages of available labor focus on recruiting workers to relocate from other areas and to engage potential employees earlier in the development pipeline. Employers have been more willing to hire individuals who are formerly incarcerated, removing times of release stipulations on potential employees and making accommodations for workers with disabilities. Changes in federal, state, and municipal laws are incentivizing employers to hire historically disadvantaged candidates. However, some regions and industries continue to see resistance to relaxing educational requirements, background checks, criminal records, credit scores, and drug testing requirements.

Employee retention is a significant challenge in the context of a tight labor market. To boost retention, companies are investing in innovative strategies, including

- offering paid time off shortly after hiring;
- onsite technology that workers can use to take online classes during the workday;
- reimbursement for daycare expenses and transportation;
- providing English classes for immigrants and other non-English speakers;
- assistance finding and keeping affordable housing; and
- recruiting foreign-born nurses and other professionals.

Finally, while many regions and industries are experiencing labor market tightness, there are notable exceptions, such as recent softness in employment and output in the manufacturing sector.

Persistent Income and Wealth Inequality

The continuing tight labor market has led to only modest increases in wage rates, and income inequality continues to worsen.[29] According to new data the U.S. Census Bureau released in September 2019, income inequality is the worst it's been in more than 50 years.[30]

[29] See https://tradingeconomics.com/united-states/wage-growth.
[30] See https://apnews.com/bfa51032ee27470c9f908914328eea99.

For example, while industries such as health care, building, and construction continue to grow in places like Kansas City, Missouri, threats—such as the potential for economic contraction and political uncertainty around the Affordable Care Act—has this growth leveling off. As this uncertainty looms, many employers across the gamut of job classifications—public and private—are either unable or unwilling to staff their workforces fully. Importantly, there are many factors contributing to the labor shortage, not just the level of wages. Some of the reasons for employers' inability to fill their staffing needs include skill gaps and outside economic factors such as the rising cost of child care or eldercare, which have workers opting out of joining the workforce to stay home with loved ones.

Meanwhile, employees and unions are trying to address the issue of income disparity. Recently, the United Auto Workers negotiated a labor agreement with General Motors that moves to end to disparate pay scales negotiated during the financial crisis, increases wages, and maintains benefit packages. Coming after a 40-day strike that affected 48,000 workers, 30 facilities, and a large supply chain, the ratified agreement is seen as a template for negotiations with other large manufacturers. States are also addressing the issue of income disparity and lagging wages, with California recently passing laws including Assembly Bill 5, which reclassifies independent contractors working with app-based services that offer food delivery, mobility, home repairs, and other gig-based work as employees who have the protections and benefits that come with this designation—including a minimum wage. These events highlight just two manifestations of the ongoing issues of increasing income inequality but represent a subset of ongoing discussions, actions, and legislation throughout the country.

Finally, the Council encourages the Federal Reserve to invest in awareness, research, and convenings to advance workplace solutions to build emergency savings in low and moderate-income households. Forty percent of American households are liquid-asset poor, meaning they do not have enough savings to live at the poverty level for three months in case of a loss of income. New tools to encourage both short- and long-term savings in the workplace can help support the many American households that are liquid-asset poor and lack emergency savings.[31] Recent legislation such as the Saving for the Future Act and the Short-Term Savings Accounts Act would encourage both short- and long-term savings by calling on employers to provide workplace-based savings options to their employees.[32]

5. ***Labor outcomes and educational opportunity:*** *How have LMI students balanced increased demand for higher education and skills with rising tuition costs? What efforts are Council members aware of to help LMI workers receive special training or complete degrees? Are there jobs in the communities that the Council members serve that offer upward mobility or above-median wages without an advanced degree? Has the Council observed ways in which employers, community colleges, local governments, or other institutions have been working together to help those who want to work get and retain jobs?*

Overview

Many LMI families work very hard at lower-paying employment while trying to learn new skills and are in need of increased education, job training, workforce innovation, and other resources to clear the way toward higher-wage employment opportunities in their regions. In light of the tight labor markets, employers are increasing resources for innovative approaches providing training and education to LMI people. Community groups, community colleges, nonprofit organizations, and local governments play an important role in designing and implementing these programs. The Council recognizes that our formal and

[31] See https://scorecard.prosperitynow.org/data-by-issue#finance/outcome/liquid-asset-poverty-rate.

[32] See https://prosperitynow.org/sites/default/files/resources/Emergency Savings policy brief_May 2019.pdf.

informal educational programs are lagging the dynamic economy of the 21st century. Students who earn certifications or complete apprenticeships are often able to step right into a job and perform at the level of the credential earned due to the hands-on nature of their educational experience.

Innovative Approaches to Labor Training and Education

The Council has identified a set of programs that go beyond traditional four-year higher education programs by using innovative ways to provide job pathways to LMI individuals.

- One strategy that has produced positive results in Massachusetts is the Para-Educator training program offered by the Lawrence Working Families Initiative, which trains adults as assistant teachers. Participants receive certification test preparation, soft skills training, and financial coaching as well as funds for internships and exam fees, a college credit course, and job guidance and internship coordination by the Family Resource Center of the Lawrence Public Schools.
- In Detroit, with labor shortages in key sectors and unemployment higher than the national average, a Community Benefit Agreement Ordinance creates pathways in placement, search, training, career advisement, and other services. Detroit Employment Solutions Corporation, the lead agency for Detroit at Work, is modeling workforce innovation and opportunity using data analysis to initiate partnerships specifically tailored to place low-skilled workers on large-scale developments paying living wages.
- In the Twin Cities area in Minnesota, opportunities in registered apprenticeships and the building trades have long provided a pathway to the middle class with above-average wages. Today there are more than 12,000 registered apprentices, and an expansion of programs in construction, manufacturing, health care, and utilities continues. Many businesses are working to upskill their labor force through certifications and industry-recognized credentials as opposed to the full course of study offered by liberal arts and associates degrees.
- The Medical College of Wisconsin is offering several programs designed to expose Milwaukee Public Schools students to meaningful experiences in laboratory and clinical settings, with the goal of generating interest in health care careers. The aim is to provide a pipeline of health care professionals from underrepresented backgrounds to serve their own communities.
- Workforce El Paso, a workforce development board, is implementing new community engagement strategies in response to low utilization of their resource-center approach.
- There are more than 24 opportunity youth collaboratives nationwide that bring together multiple stakeholders (e.g., schools, community-based programs, etc.) to improve educational and employment outcomes for “opportunity youth”—those ages 16–24 who are out of work and school. Using a collective impact model, these collaboratives have helped 27,000 young people get jobs, finish high school, go to college, and attain degrees and other education and workforce experiences over three years—thereby decreasing the number of opportunity youth nationally by 1 million since 2010 (a 20 percent reduction).

Balancing Cost and Demand of Higher Education

From 2004 to 2017, student loan debt has increased from $260 billion to $1.4 trillion. The average debt has increased from $18,650 to $38,000; the number of people over age 60 with student loan debt increased from 700,000 to 2.8 million. This is disproportionately affecting black, Latinx, and Native American people; in 2018 for example, student debt for blacks was 85.8 percent more than for whites. The Council would like to highlight the following examples of innovative approaches for addressing affordability of higher education.

Children's savings accounts and baby bonds: Saving early in a child's life can help more children succeed in higher education and build aspirations for the future. Families can use savings, such as CSAs, to help their children pay for education expenses.[33] Building on the idea of CSAs, Baby Bonds not only can help families save, but also do it in a way that addresses racial wealth inequality.[34] The American Opportunity Accounts Act would not only ensure that all children have a savings account in their name as soon as they are born, but also that our most vulnerable children will have the necessary resources to invest in their future aspirations. The act would provide every newborn child a $1,000 savings account run by the Treasury and provide yearly deposits of up to $2,000—depending on household income—until age 18.[35]

Building financial capability: Poor credit, especially in young adulthood, diminishes opportunities for jobs and housing, increases the likelihood of being charged exorbitant loan interest rates, limits the ability to obtain a mortgage to buy property, and affects the ability to access credit to start new ventures or businesses. A recent study of young adults in Boston found that participants who received personal financial coaching rather than just classroom financial training fared better in terms of credit outcomes than a control group.[36] For example, initial six-month credit pulls showed several positive results regarding both credit use as well as loan payment history within the treatment group. Good credit scores grew by nearly 7 percent in this group compared to a decline of 0.7 percent in the control group. The encouraging results of this study have prompted the City of Boston and the United Way to collaborate with a local community development corporation to establish a financial capability program in two local community colleges. This pilot, based on the research model, will place a financial coach in each of the colleges to engage students in financial capability project and products. The goal is to positively impact young adults who are working on their higher education credentials to be able to establish credit and to manage their finances, higher education costs, and student debt.

Workforce development in rural areas: Rural counties and regions, especially those tied to energy markets, continue to suffer as those markets continue to shift. Financially neglected rural community colleges do not have the local tax base or private money available to teach technical and vocational skills that could help local economies. With workforce needs evolving, investments in skills training that meets the needs of business and industry is essential in rural regions that are additionally constrained by the lack of available resources to build and upgrade 20th century facilities in community and technical colleges.

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?*

The Council has identified four additional priority areas:

How Immigration Policies Contribute to Labor Shortages

In a tight labor market, the nation's birthrate and current immigration levels do not meet labor force needs. Historically, welcoming immigration policies have balanced labor force needs in a variety of industries. However, aggressive immigration policies enacted since 2017 continue to reduce labor force availability as well as to create fear and panic in hard-working immigrant communities across the nation. Family

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[33] See https://prosperitynow.org/sites/default/files/PDFs/expanding_educational_opportunity_through_savings.pdf.
[34] Darrick Hamilton and William A. Darity, Jr., "Can 'Baby Bonds' Eliminate the Racial Wealth Gap in Putative Post-Racial America?" *Review of Black Political Economy*, 37 no. 3-4 (September 2010): 207–16.
[35] See https://prosperitynow.org/blog/american-opportunity-accounts-act-bold-step-toward-wealth-equity.
[36] See https://s20289.pcdn.co/wp-content/uploads/2017/06/Boston-Youth-Credit-Building-Initiative_report.pdf.

separations at the border; recent Immigration and Customs Enforcement (ICE) raids; and divisive rhetoric and actions, which recently culminated in gun violence brought to El Paso, have created a toxic environment across the nation.[37]

Community impact: The impacts of immigration enforcement actions on local economies, especially in a tight labor market, have been and will continue to be severe. In August 2019, ICE agents raided seven food processing plants in Mississippi and detained almost 700 immigrant workers, the largest enforcement action in more than a decade. These raids swept through communities like a natural disaster.

Children arrived home after their first day of school to find their parents gone. While most of the abandoned children were cared for by community members within a day, two children were left without care for more than eight days. Nursing mothers were jailed without their babies for more than three weeks. Lawyers and others from across the region and beyond have organized to provide volunteer legal services and other basic supports. Around half of the individuals—primarily those who had unattended children—have been released on bond, but they are not permitted to work. School attendance has dropped off in and beyond the affected areas out of fear of more raids. Children traumatized by family separation will likely grapple with the effects for years, with schools and overstretched community organizations and churches dealing with related anxieties.

Immigration and public charge: With the newly expanded public charge ruling, many immigrants are now afraid to access needed services for fear of being deported or negatively impacting their immigration status.[38] This rule change will make immigrant LMI families less likely to participate in programs that offer important benefits and services. While the Department of Homeland Security (DHS) estimates this rule change could impact roughly 382,000 immigrants annually, advocates consider this estimate very low and suggest that millions of people could be affected due to the chilling effect of the rule on immigrant families' willingness to participate in government programs.[39] The Council would like to point out that safety net programs constitute the very first rungs of the ladder to financial security, especially for households of color, and protecting access is of utmost importance. A federal judge temporarily blocked the public charge rule on October 11, 2019, but we must continue to make sure that families can access the public benefits they need to fully participate in the economy.[40]

2020 Census: The Census drives the distribution of many public resources and programs, in addition to electoral representation. Many regions are difficult to count in the Census because they have large swaths of population that are less likely to respond, including renters, people living in group quarters (such as colleges), and recent immigrants. Additional challenges include lower federal funding for this Census compared to previous years, and the distrust and misinformation stemming from the proposed citizenship question among immigrant communities. Online data collection will pose a challenge given the "digital divide" experienced by many LMI and rural communities.

Impact of Gun Violence on the Lives and Economies of Communities

The impact of violence stemming from racism and intolerance, as well as violence targeting any specific social group, is horrific. This type of violence creates individual and collective trauma, which affect all members of that group, reducing their trust and confidence in our society, and our country's promises of freedom and justice for all. There is ample research evidence that traumatic effects of violence have

[37] See https://www.dallasfed.org/-/media/documents/research/papers/2019/wp1905.pdf.
[38] For example, receipt of two benefits in one month counts as two months.
[39] See https://www.nytimes.com/2019/08/12/us/politics/trump-immigration-policy.html.
[40] See https://www.nytimes.com/2019/10/11/us/immigration-public-charge-injunction.html?action=click&module=Top%20Stories&pgtype=Homepage.

powerful, long-term impact even on community members who are not directly involved in the incidents of violence. Furthermore, children in communities impacted by trauma tend to have poorer educational and health outcomes. This type of violence reinforces those who share racist views and feel that certain groups are deserving of such violence. It promises a future in which every social group must live in fear of either revenge or further victimization. Its effect is cumulative on communities that have experienced historic violence. For example, El Paso families have grandparents killed in the 1918 Porvenir massacre in which Texas Rangers, U.S. Cavalry soldiers, and local ranchers killed 15 unarmed Mexican villagers, both men and boys. Attention to the causes and challenges underlying the events is diverted toward supposed "mental illness" of perpetrators—and to some degree, enhanced physical security in public places—with less consideration to the long-term effects of this violence.

The attitudes and contexts that generate perspectives of fear and mistrust often start very early in life—as do the contexts that allow for openness and engagement with others. One of the main focal points of much of current early childhood literature is the ability to engage with a broad range of cultures, appearances, and abilities of others. The Council feels that a renewed focus on the part of the Federal Reserve System on the economic benefits of early childhood learning programs could help address this crisis. Further, older children and students can be educated to see this dynamic for what it is and learn to challenge it in themselves and others. The Federal Reserve could look at the role of education in both formal and informal settings, afterschool programs, and other activities as an economic factor in developing a more flexible, tolerant, and culturally informed workforce and populace.

In response to this national issue, some have called upon lenders to aid community in addressing the trauma induced by gun violence. In response, two lenders, Citibank and Bank of America have enacted policies to limit their exposure with the gun manufacturing market. We urge the Federal Reserve to use its research capacity to determine the impact, if any, this kind of action would have on community. We believe it is imperative that the Federal Reserve examine the business practices of these two national banks and determine whether they are having impacts on markets and other economic issues.

Climate Change and Household Financial Security

As global temperatures rise, the likelihood of severe weather patterns and large wildfires has increased. In 2017 alone, Hurricanes Harvey, Irma, Maria, and Jose—along with the wildfires in the western United States—took the lives of thousands and left thousands without shelter, electricity, running water, and other unmet basic needs. Natural disasters change the amount of money flowing in and out of a household and get in the way of the household's normal financial routine. Families may spend additional dollars to prepare for the hurricane, protect their homes, evacuate, and repair homes when they return.[41] Natural disasters have a profound, negative impact on the financial well-being of all affected households. LMI households, which often lack the financial cushion to bounce back from a crisis, are particularly at risk. For example, federal benefits are designed to support homeowners and not renters, who tend to be lower income. In Puerto Rico, a nonprofit partner observed an increased interest in homeownership individual development accounts (IDAs) after the hurricane because residents realized they couldn't get federal benefits as a renter. Furthermore, if a house has a "pre-existing condition," which is more likely for LMI households, it is disqualified from federal benefits.

Financial institutions have an important role to play in disaster recovery. First, in the immediate response, they can provide people access to liquidity by being on the ground and putting money into small businesses and nonprofits. In Puerto Rico, a nonprofit partner observed five-hour waits at ATMs because banks did not have enough cash on hand. Second, they can invest in resiliency strategies using the CRA.

[41] See https://www.jpmorganchase.com/corporate/institute/document/institute-weathering-the-storm.pdf.

For example, in Miami, financial institutions and local foundations have funded community groups, like Catalyst Miami, to host meetings to prepare residents for hurricane season. The Dallas Fed has created a resource called *Weathering the Storm: A Framework for Meeting CRA Obligations*, which should be shared broadly to guide financial institutions in creating CRA-eligible strategies.[42]

Local policies also play an important role in building community resilience. For example, communities can suspend evictions after storms and change policies to protect tenants from slumlords. Long-term policies to protect residents include law enforcement not collaborating with ICE; energy efficiency and clean energy; increased funding for weatherization; emergency utility; disaster Supplemental Nutrition Assistance Program funds (including non-cumbersome application processes to apply); and housing policies that protects renters, not just homeowners. For example, Miami created a $400 million bond for affordable housing to address the housing crisis.

Racial Wealth Divide: Improving Measurement and Policy Analysis Tools

As was noted last year to the Council, the Federal Reserve's most recent Survey of Consumer Finances shows that black and Latinx households currently own, respectively, 10 and 12 cents in wealth ($17,409 and $20,920) for every dollar of white household wealth ($171,000).[43] Although federal policymakers have put forward several bold proposals to address this growing problem, such as the Baby Bonds proposal, these proposals tie their remedies to a household's income, rather than to a household's wealth. Research has shown that earning a middle-class income does not necessarily lead families of color to own comparable levels of wealth.[44] For example, a black household earning incomes considered to be middle class—between $41,869 and $125,609— has as little as one-sixth the wealth of a comparable white household. The Council recommends that the Federal Reserve develop measures and tools that would allow the government to more systemically determine a household's wealth position, providing policymakers better information to address the racial wealth gap.

[42] See https://www.dallasfed.org/cd/pubs/storm.aspx.
[43] See https://www.federalreserve.gov/econres/scfindex.htm.
[44] See https://prosperitynow.org/resources/road-zero-wealth.