UNDERWRITING FOR RACIAL JUSTICE

PILOT LENDER PROGRAM GUIDE

A PUBLICATION BY

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Purpose of this Guide

This guide provides a comprehensive description of the Underwriting for Racial Justice Program and directs lenders on how to implement underwriting pilot programs as part of this initiative. The guide introduces the initiative, explains the various elements of the lender pilot program, and offers detailed descriptions of each element to help lenders create their own programs. It includes checklists and links to templates and examples.

Of course, nothing in this guide should be considered legal advice, and lenders are encouraged to build the various elements of their pilots with their compliance and legal teams, as well as their regulators.

URJ Program Overview

Underwriting for Racial Justice is a program of Beneficial State Foundation. Beneficial State Foundation is the primary and founding shareholder of a social impact bank, as well as a social- and environmental-justice nonprofit whose goal is to advance racial justice by changing the banking system. Beneficial State Foundation is committed to developing solutions to increase credit access to people — particularly communities of color — who are rising from long-standing systemic inequities and barriers. Our bank ownership and commitments uniquely position us to support lenders during their process of exploring and implementing new underwriting practices.

One of our significant efforts to achieve equitable banking is the Underwriting for Racial Justice program. Since launching in 2021, we have held monthly working group meetings with over 100 lenders, community-based organizations, policy advocates, regulators, and researchers to discuss how to dismantle the underwriting practices that exacerbate racial inequality. Now we are inviting lenders to engage more deeply with this program by implementing loan pilots to test new or different underwriting practices to see how well they can increase capital access for people of color. This planning guide is intended to support participating lenders. One of URJ's intentions is to create a big tent which includes banks, credit unions, CDFIs, technical assistance providers and DEI advocates. While the purpose of this Guide is to support active participation in the Pilot, URJ realizes lenders are at different stages in their movement toward racial justice. We welcome anyone interested in racial justice financing to participate in URJ general meetings. If you would like to be added to our general meeting reminder list to be notified of general meetings, please email Elsie Howard at ehoward@beneficialstate.org.

Rationale — Why Is this Needed?

For four-hundred years, the U.S. system stripped people of color of their land, homes, and wages. This history of systemic racial injustice created real economic consequences, resulting in today's uneven playing field.

As a result, people of color still earn lower wages on average, hold vastly less wealth, are charged higher interest rates on loans, and are provided with less information and assistance in choosing financial services.

Our credit systems rely on an equal assessment of people on collateral, capital, credit scores, lower debt, and years of experience, portraying people of color as higher risk. These risks mean higher-cost loans and a higher rate of denials. Equal treatment for people at unequal starting points perpetuates inequality.

Most solutions to these disparities have focused on individuals, in the form of financial education and credit repair. The Underwriting for Racial Justice program recognizes the financial industry must also focus on solutions to the system itself. We must do more than ask folks to adjust to the way things are. Instead, we must ask ourselves: "How can we adjust the ways we set up our systems so they can truly support people of color?" Working through this program together, we will dig into relevant resources, learn from and with each other as we test and build new systems, share our learnings across the industry, and create meaningful impact to support generations of people.

We trust you are reading this guide because you want to help change the system. That change starts with you, your institution, and the people you serve. People cannot work their way out of systemic inequality if the system itself doesn't change. We are excited to partner with you in making this happen.

While the changes are systemic, the impacts are personal. Our work together with this pilot can open the doors to new credit access for entire groups of people, and for generations of families. We believe this work can change individual lives, and one person, family, and business at a time, it can start to lift entire communities. Your efforts can help people follow their dreams of starting a business, or buying a house, or supporting their growing family. We hope you find this guide helpful as you walk this path with us. Please reach out with any questions, comments or suggestions. We're in this together and want to hear from you.

About the Authors

Beneficial State Foundation

Beneficial State Foundation is a 501(c)3 nonprofit that works to advance financial justice and impactful systemic change in our communities and in the banking system. The foundation is the founding investor of Beneficial State Bank, a triple-bottom-line certified Community Development Financial Institution, and the administrator of the Clean Vehicle Assistance Program which provides grants and affordable financing to help income-qualified Californians purchase clean vehicles.

The Underwriting for Racial Justice Working Group

Beneficial State Foundation convenes underwriters, impact leaders at financial institutions, regulators, innovators in alternative underwriting, and borrowers of color from across the country to develop solutions to increase credit access to people rising from long standing systemic inequities and barriers, particularly those from POC communities.

The URJ Program Guide came together with the help of many contributors.

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Pilot Lenders

After 18 months of working sessions with thought leaders, subject matter experts, regulators, and credit and risk professionals across the US, we are launching the Underwriting for Racial Justice (URJ) Pilot Program to support the banks and community-based lenders who are interested in piloting new underwriting approaches to increase capital access to people of color.

The program will include approximately 20 lenders across the country who will implement new underwriting approaches explicitly designed to increase access to fair loans to people of color. Participating lenders will then share their experiences and results to help learn from each other. The program will support lenders with tools, templates, technology, and convene peer group spaces where they can share their practices. Learnings will be shared across the industry to incite change nationwide, and to determine whether U.S. lenders need to implement any policy or regulatory changes to foster more equitable practices. Details about each of these program elements are provided below.

The primary URJ program goals are to:

- Meaningfully increase the amount and proportion of fair credit acquired by People of Color (POC) in the U.S. by dismantling and replacing inequitable practices; and
- Increase awareness within the banking industry of the systemic reasons for racial wealth inequality, and reduce corollary bias, focus, and blame on the individual.

To accomplish these goals, we will:

1. Support participating financial institutions to pilot new practices, standards, and products that increase capital access for POC;

2. Facilitate sharing of practices, experiences, and results among the participating lenders;

3. Gather aggregate- and institution-level data and stories to document:
    a. Whether and how these new practices are working to increase access, create good borrower experiences, and ensure positive loan performance;
    b. Resources needed;
    c. Challenges encountered; and

4. Spread the learnings broadly across the industry to encourage more financial institutions to pilot new, similar programs and implement more equitable policies and procedures;

5. Increase diversity throughout the credit decisioning process, from the people who consider loan applications, up to the people who write the policies themselves; and

6. Identify and advocate for any critical changes to law, policy, regulations, or guidelines to enable more racially-equitable underwriting practices.

7. (Please see the impact-measurement section for information on how we plan to measure our success.)

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Lender Roles, Responsibilities, and Requirements

Lenders participating in the pilot will:

1. **Implement a loan program with a new underwriting approach** based on the specific, stated goal to meet the needs of, and increase capital to, borrowers of color. The program should be designed to ensure that the majority —or all— of the loans go to borrowers of color. Programs using geographic criteria (a focus on lending to predominantly POC neighborhoods instead of people) will not be accepted in the pilot;

2. **Provide pricing and terms that are equal to, or better than, their other loan programs;**

3. **Commit to deep stakeholder-engagement,** working closely with members of the intended beneficiary group in the design, delivery and decision-making of the program;

4. **Commit to develop technical-assistance** offerings, creating a strong internal program or referral program for training and coaching to help maximize success for applicants and borrowers;

5. **Collect and share program data and stories;** and

6. **Participate in a community of practice with peers.**

The toolkit and appendices below provide details, ideas, and examples to help lenders with each of these program elements.

Lender Benefits

Pilot participants will connect, share and learn together about challenges and successful approaches. They will also have access to examples, templates, and aggregate results from the various programs.

Immediate benefits provided to participating lenders:

1. **Implementation community of practice —** Learn from and with peer lenders undertaking innovative racial-equity lending. Share ideas and problem solve together through:
   a. Recurring peer-group discussions,
   b. Individual ad-hoc access to others in the group,
   c. Slack channel.

2. **Templates, tools and examples —** this guide offers a toolkit to help lenders create a pilot plan. In Appendix B, you will find:
   a. Links to helpful data sources to build a plan,
   b. A template for a Special Purpose Credit Program plan*, and
   c. Examples of underwriting approaches from other lenders.

3. **No-cost access to enhanced risk and decisioning tools that help lenders:**
   a. Determine underwriting criteria that can increase lending to applicants of color while managing for risk,
   b. Analyze baseline data, and
   c. Analyze program results.

4. **Reporting and insights —** Quarterly reports on your loan portfolio's performance, aggregate performance for all participating lenders, and insights from group data.

5. **Underwriting for Racial Justice logo and branded materials for communication with community members, partners, and investors.**

6. **Regulatory insights —** BSF staff will stay in contact with regulatory agencies to get insights and ask questions where needed to help inform pilot programs.

7. **Promotion —** the opportunity to be featured, if desired, in publications created and distributed by Beneficial State Foundation.

Other potential benefits

These potential benefits are being explored and or/designed for participating lenders:

1. **Access to loan-guarantee funds to support risks of new underwriting practices.**

2. **Trainings, including:**
   a. Introductory training — race, banking, and the need and opportunity for banks to innovate to support racial justice;
   b. Implementation overview training — getting started with a pilot at your institution (overview of ideas and approaches for underwriting, product design, community engagement, and technical assistance);
   c. Stakeholder engagement training— Co-designing with community members to determine what they need to know and understand to participate most fully in your loan program.

3. **Consulting and facilitation support.**

4. **Fellow or intern to provide market research, marketing or other ramp-up support.**

Additional intrinsic benefits to participation

1. Creating social impact and providing capital to people of color in your community,
2. Deepening relationships in your community,
3. Supporting Federal regulatory and program requirements for CRA, CDFI, and ECIP,
4. Growing your loan portfolio and interest income,
5. Promotion and recognition to build relationships with regulators, funders, investors, and racial-justice groups,
6. Helping advance the movement for racial justice in the financial industry,

**Special Purpose Credit Programs (SPCPs) allow lenders to take an existing product and modify its policies and procedures to extend credit to an identified group, including a specific race or ethnicity that has a history of being denied equal access to credit. Regulators openly encourage lenders to create these programs which do not need Consumer Finance Protection Bureau approval. Please see Appendices B & C for more information.*

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Racial Justice Work at Your Institution

Education, Culture, and Commitments

For institutions engaging in a pilot, here are some key internal and external questions to address, and suggestions to consider. Lenders do not need to complete all of the steps we suggest before launching an URJ pilot. Get started exploring, and as you move forward consider where and how, over time, you can integrate the steps we outline here.

What is the history of your institution's lending to people of color?

Racial-equity-focused lending usually requires an organization to review its history with lending to people of color, consider its engagement with community organizations of color, and examine its internal processes, such as hiring and promotion of POC staff.

We find that most lenders who are not already POC-led or -focused, or those who are stepping into this arena for the first time, need to frankly assess their past and present intentions, goals, activities, and loan data to become aware of blind spots and recognize institutional norms that might stand in the way of success.

What are your institution's leadership's attitudes and commitment to racial-equity lending?

A lender's motivation to expand its racial-equity lending can arise from various places. It might start with front-line staff who witness a pattern of denials. It might come from outside entities requesting change. It might come from just one or two members of leadership.

However the initial spark arises, it takes unified internal understanding and support to succeed.

Consider holding facilitated meetings at each level of the organization to collect perspectives, float ideas and address concerns. If your institution doesn't already have a culture of, commitment to, and comfort with racial equity, a key step is to provide training for all staff members. Once staff and leadership learn and explore systemic bias, institutional bias, and wealth inequality, they can begin to create a shared understanding of the problem and identify potential solutions.

Lenders could also schedule discovery sessions with community POC organizations to understand their view of the issues and hear suggestions for new roles for the lender. Community discovery sessions support the institution in its learning journey, build buy-in for racial equity goals throughout all levels of the institution, and, most importantly, begin the work of building authentic community relationships to ensure that future products meet real needs.

How strong are your institution's partnerships with the organizations and individuals who are deeply involved with the communities you might serve?

We have conducted many interviews with lenders working to increase racial-equity lending. We learned that it's essential to create and maintain strong relationships with organizations and individuals in the bank's priority community. Without community involvement, lenders develop the wrong program, can't market it successfully to the intended recipients, or both.

Communities that have historically been left out of financing opportunities might, rightly, distrust an initiative developed without their participation. Co-creating a loan program together with the intended beneficiaries is much more likely to meet real needs, land in effective ways, and succeed.

Relationships and mutual trust take time to build. They can't be built in a transactional or utilitarian way. This approach turns the typical financial product development process inside-out, and may feel longer than usual. But lenders who successfully expand their racial-equity lending have, across the board, told us this is the type of process they undertake to succeed. See Appendix F: Stakeholder Engagement for more information.

Your Priority Clients (Intended Beneficiaries) for this Program

Your institution's focus will be to increase capital to people from one or more racial or ethnic groups that experience discrimination and oppression in the U.S. Most lenders partner with organizations deeply embedded with the intended beneficiary community to build trust, to create an application pipeline and to ensure program success. How will your institution ensure the loan program's features are a good fit for your intended borrowers, and that the loans are actually made to these borrowers? Three key methods will help achieve these goals:

1. **Design and develop the program in collaboration** with people from the intended groups. This will ensure that it is a relevant and helpful product. Your community collaborators will advocate and spread the word. See Appendix F: Stakeholder Engagement for more information.

2. **Direct your marketing and outreach efforts** specifically to the intended beneficiaries. Your goal will be to have the majority of loan inquiries and applications come from the priority audiences.

3. **Create eligibility criteria** to ensure loans go predominantly —if not only— to the intended beneficiaries. Regulated institutions can achieve this in a legal and compliant manner by following the guidelines of the Special Purpose Credit Program (SPCP), as outlined in Regulation B of the Equal Credit Opportunity Act. Many banks and credit unions in the U.S. have successfully implemented SPCPs, extending credit directly to people of a specific race or ethnicity rather than simply a geographic location. See Appendices B and C for the specific regulatory language that states how you can do this, too.

These three methods are not mutually exclusive; lenders can do all three to ensure they are meeting their priority communities' needs and distributing their loan dollars properly.

The third method listed above —using eligibility criteria— is the best way to ensure your loan dollars go to the right people, but it is not absolutely necessary. We expect many of the lenders in this pilot to choose this route, so we have provided examples, templates, links, and information to help design a loan program in accordance with the Special Purpose Credit guidelines for those who seek to take advantage of this approach.

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Getting Started

Here are few tips that URJ participants have shared to help foster institutional buy-in and support for the program:

1. **Start with why —** as we share throughout this guide, training on the history of systemic racism and its impact on credit and assets increases understanding and helps make the reason for implementing a race-based program very clear and compelling.

2. **Start slowly —** If needed, start with a few loans to test, evaluate and learn how things are going, so that you can pivot based on the data you find.

3. **Start with small dollars —** Building the program with a specific amount of loan capital and/or small dollar loans (assuming they are a good fit for the intended borrowers) can also help minimize risk, and potentially increase institutional support for piloting new policies and processes.

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Assembling Your Team

Staff

As with any loan program or specialized offering, several team members should be resourced and trained commensurately. This guide suggests the specific roles and types of knowledge needed to successfully develop and deliver a URJ pilot.

1. **Representation —** Seek to fill loan program roles —particularly underwriters and loan officers— with people from your program's priority population.

2. **Knowledge and experience —** Above and beyond representation, ensure you have staff (or a consultant) with deep training or experience in the Critical Knowledge Areas listed in Figure 1 of this section.

3. **Initial training —** In addition to bringing on someone with longer and deeper knowledge of this work, it is important to provide training on the Critical Knowledge Areas to underwriters, loan officers and other staff involved in the program, and ideally to all staff and board members at your institution.

4. **Ongoing learning —** As a society, our understanding of racial-equity work will continue to evolve. Consider hosting ongoing community meetings to discuss racial- and ethnic- economic inequality and pertinent financial tools to help staff and your institution stay connected and informed. Include your stakeholders—your Applicants of Color Advisory Council, if you have one—to co-create the content, outreach and format of these meetings.

5. **Some considerations for specific roles —** In addition to ensuring that staff are trained on the Critical Knowledge Areas, some positions will have more specific requirements related to URJ that they should follow. **These include:**

    a. ***Community engagement —*** Plan and implement ways to connect with the priority community members, including building direct relationships with community members, hosting community events, and conducting focus groups. When feasible, connect community members to product-development and credit/risk teams to help these teams design and implement your loan products and programs.

b. ***Compliance and Regulatory teams —*** Ensure your institution is up to speed on all race-related regulations, including Section 1071 for small business lending and Special Purpose Credit Programs. Work with development and credit teams, and with regulators, to ensure all plans are compliant.

c. ***Product development —*** As described above, should work directly with community members to determine and develop the new or redesigned loan program.

d. ***Risk management, credit officers and credit policy committee members —*** Participate in URJ sessions to develop new policies and procedures for the pilot.

e. ***Underwriters and credit approval committee members —*** Participate in training on the new underwriting criteria and protocols, and determine how to put them into practice.

f. ***Data, systems and reporting staff —*** Use URJ data requirements to identify what forms and systems need to be accessed and/or modified to submit quarterly data; create and implement borrower experience surveys; and complete or coordinate with colleagues to complete URJ surveys.

g. ***Lenders/relationship/business development managers —*** Participate in training on the eligibility criteria, outreach strategy, and underwriting criteria and protocols; outreach to and connect with priority community members to ensure the program is serving the people intended.

h. ***Technical assistance staff —*** Ensure that appropriate and effective technical assistance is provided to applicants and borrowers pre- and post-loan decision. If the lender is outsourcing technical assistance, ensure the TA partner is vetted for quality, capacity, and connection to the stated beneficiary community. Offer any outsourced TA organization compensation that is commensurate with the services provided.

i. ***Marketing —*** Facilitate and/or engage in community meetings and focus groups, conduct research, develop strategy, materials, and events to ensure the priority community

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members are connected, aware, and engaged.

Not all lenders may have staff capacity for all of these roles. The URJ project anticipates offering consulting support to augment current staff knowledge and capacity in these areas.

FIGURE 1:

CRITICAL KNOWLEDGE AREAS

- History of racial injustice in U.S. policy, banking, and underwriting
- Racial and ethnic economic and wealth inequality today
- Unconscious bias in lending character-assessment and customer-service practices
- Stakeholder engagement / Participatory investing
- Technical assistance / financial education
- Racially-, culturally-, and trauma-informed service delivery
- Specific training on your institution's new criteria and processes for customer service, underwriting and any other areas updated in support of racial justice
- Change management and leadership to support the pilot implementation

Community

Your intended beneficiaries should be part of your internal product team and your community partners. Ideally, you will invite members of this group to help with design, testing, credit decisioning and outreach. Some lenders may be new to community engagement at this level, while others may already be working with priority community members to design, underwrite and evaluate their loans. More information about this is provided in Appendix F: Stakeholder Engagement.

Regulators

As mentioned above, your compliance and in-house legal teams can help your institution collaborate with your regulators to ensure the program design, delivery, and communications plans are compliant.

If you are planning to do a Special Purpose Credit Program, regulators can help with that planning process. While the CFPB's Agency Advisory option states " a creditor may initiate a special purpose credit program without the approval of the Bureau," regulated lenders who have implemented SPCPs worked closely with their in-house attorneys and regulators during the design process. Each agency has its own perspective and experience with SPCPs. Including your regulators during the design process will support your examination process and build support for the program within your institution.

Determining Your Loan Program Elements

Overview

You will collaborate with your intended audiences and use your individual institution's design, development and approval processes to determine the loan program elements. The following elements are required for an URJ pilot:

1. **Race-focused —** Your loan program has a specific, stated goal to meet the needs of, and increase capital to, borrowers of color. The goal and objectives should be measurable and measured against your institution's baseline data. See Appendix H for details on program measurement.

2. **Commit to stakeholder engagement —** Commit to building relationships with people from the racial or ethnic group you seek to serve. At minimum, pilot lenders should engage community members in a needs-analysis process, and should compensate them commensurately for this work. Ideally, the lender will develop permanent, official roles for community members with significant input or authority regarding loan program design, credit policy, decisioning and outreach. More information about how to engage your priority community is available in Appendix F.

3. **Underwriting innovations —** Change, employ new, and/or eliminate underwriting elements in order to address racial inequities and increase the number of approved applications. See Appendix E on underwriting for ideas.

4. **Equal or better pricing and terms —** Ensure pricing and terms are equal to, or better than, those your institution is offering for equivalent or similar loan programs.

5. **Underwriting and servicing processes —** Develop new processes that support application completion and approval, and payment success.

6. **Training and technical assistance —** Commit to providing high-quality and culturally-appropriate training and coaching to support applicants and borrowers with: loan package development, improving credit, creating high-quality supporting documents, managing cash-flow issues, and basic business-plan development for business

loans. Lenders can provide technical assistance directly or can partner with and fairly compensate organizations to provide it. See Appendix E for resources on building a technical assistance element for your program.

We have provided a checklist and template in Appendix F to help you cover all of the bases, including the elements you need to complete a Special Purpose Program Plan, should you choose to do one.

Capital and Reserve Sources

Many lenders are initiating racial justice products and SPCPs with existing capital and reserve resources. Others raise new funds to support these programs. Sources of capital for loans, operations, and reserves can be thoughtfully considered to help advance the goals of the pilot.

Banks and other lenders with policies governing capital and reserves can find sources of capital that will work within these policies. It is very likely that this new program will need to be reserved at higher rates than mature programs at first, and then be reduced over time as the loans prove not to be riskier than others.

Below are some considerations and innovations that lenders have shared with us about capital sources and uses for their programs.

Sources

In our society in which people of color have been denied wages, employment, education and even freedom over the course of our history, we as lenders and our providers of capital must consider whether we should expect to make the same returns on programs intended to promote racial equity and access to capital for people of color. Of course, every lender needs to make enough money to stay in operation and each lender will need to discuss and determine how to approach this topic. This section offers ideas around capital sources and structures that are mission-aligned and can offer opportunities to provide lower cost capital to the borrowers.

Social Impact Capital

While capital sources and types will differ depending on a lender's type of institution — bank, credit union, CDFI, or other for-profit or non-profit lender — there is an opportunity for each lender to explore the best forms of capital to deploy for this program. There are a variety of social-impact-oriented capital sources to consider.

It is critical to find capital aligned with the expected social and financial returns of the program. Ideally, a lender who designs the loan program with the community will have a clear articulation of who they seek to serve, the social impact they seek to have, the product- and financial-terms they need to meet these goals.

Many public and private sources have dedicated dollars to support social impact efforts and many of them can be used for operations, loan capital, or guarantees for programs. Lenders can look for entities focused on the following areas:

- **Racial justice / Closing the Racial-Wealth Gap —** Recently, many foundations and corporations, including large banks, made commitments and set aside funds to close the racial-wealth gap and/or advance racial justice more broadly. These sources are an obvious fit for an Underwriting for Racial Justice pilot.

- **Environment, Social, and Governance (ESG) efforts —** Even more recently, efforts and requirements to report on a corporation's social impact, often called ESG, have accelerated. Investors, government entities, and customers are expecting to see ESG reports to show that corporations are having a positive impact on society. Corporations that invest in an URJ pilot program will have a strong reporting item under the Social aspect of their ESG reports.

- **United Nations Sustainable Development Goals (UN SDGs) —** Entities often outline their efforts to help the planet meet the UN's global Sustainable Development Goals in an impact or ESG report. There are 17 goals, and an investment in URJ would help advance these goals, as well as others, depending on the specific loan program: 1 – No Poverty; 8 – Decent Work and Economic Growth; Goal 10 -– Reduced Inequality.

- **CRA —** Banks are always seeking qualified Community Reinvestment Act activities. Banks' investments in URJ programs can be an easy and effective way for them to receive CRA credit.

As lenders find investors in their URJ pilot and begin promoting the work, they will likely find more investors reaching out to them, as many investors like deep mission work and are looking for sound investment opportunities in this arena.

Expecting Different Returns

Providers in these areas are often willing to provide capital with low returns, zero returns or grants. They do this because they:

- Recognize the racial economic legacy and moral imperative to reduce the cost to people of color,
- Are seeking social returns as much or more than financial returns,
- Understand the costs of high-touch, community-driven programming, and
- See the investment as research and development and are seeking learnings as a return on their investment.

A number of capital sources share these goals and specifically invest with these goals in mind, often expecting lower than traditional, or even 0%, returns.

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Types of Funding and Specific Sources

Social impact investments can come in the form of grants, low- or zero-percent interest loans and lines of credit, or low- or no-yield deposits / CDs for depository institutions.

- **Your own institution —** A potentially obvious but useful place to look is within one's own institution and among your affiliates. Lenders such as banks and credit unions with multiple revenue generating programs may be able to fund this pilot through revenues from a high-margin program. Institutions with philanthropic programs may choose to deploy some dollars from the grant fund toward this program.

- **Larger banks —** Many larger banks are seeking ways to invest or partner with community-focused lenders to meet CRA, ESG, or racial justice goals and commitments.

- **Foundations —** Lenders can look for large, national foundations, community foundations, corporate philanthropy, and family foundations as potential funding sources. Foundations may provide grants or Program Related Investments (PRIs). PRIs advance the foundation's mission, rather than generate income, so have little to no expectation for providing any returns.

- **Government sources —** Local state and Federal governments provide funding. The best way to find these sources is to build relationships with your local officials —city, county, state, and Federal legislators, including:

  - ***Federal government*** — The Federal government has many ongoing and one-time funds that are worth exploring for a pilot investment. CDFIs can apply for and deploy various CDFI grants. A racial-justice-focused pilot aligns with the Deep Impact requirement for recipients of ECIP (Emergency Capital Investment Program) dollars. The US Small Business Association can be another source for small business-focused programs. Grants.gov provides a clearinghouse for Federal grant programs.

  - ***State, Territory and Tribal government programs*** — Many states have economic development programs, loan guarantee programs and other sources of funding. Many of these programs are Federally funded. Lenders can look for programs in their respective jurisdictions. One small business-focused program is the State Small Business Credit Initiative.

- **Impact investors —** As the field of impact investing has grown over the last 15 years, many impact investors –both individuals and firms– have emerged. They are seeking meaningful programs to invest in. Two good places to learn more about impact investing and find investors are Mission Investors Exchange and the Global Impact Investing Network.

Uses for Funding

Program Development and Operations

Building out any new program requires additional resources, and your URJ pilot should be recognized and funded similarly. Lenders will need to deploy training, staff time, and technology to build and implement their pilot. If the pilot overlays with an existing loan product or program, some aspects should incur very few new costs. If you start the program from the ground up, some costs, such as racial equity training for staff and compensating community members for collaborating in the program design, will be new.

We encourage financial institutions to collaborate with their leadership, program staff and finance staff to support these efforts.

Loan Capital

- **Pricing for applicants and borrowers —** In response to the systemic inequities discussed above, some lenders argue for — and some implement — no-fee, 0% loans for their loan programs focused on borrowers of color. Others offer reduced fees and interest rates, while some do not offer any differentiated pricing.

- **Setting a specific source and/or amount —** Lenders might set aside a specific amount of capital for this program. Limiting the amount of money going to the program may lower the barrier to institutional approval at the outset. This approach could also bring in capital from other sources that can be earmarked for the program with specific expected returns. Finally, setting a specific amount commits the lender to deploy this amount of loan capital.

Guarantees and Reserves

Lenders must consider risk and default costs when implementing anything new. Anecdotal evidence from lenders within and beyond the URJ working group suggests that pilot program lenders should not expect high default rates.

As one of our working group members stated, “If we are not having any defaults then we are not pushing the boundaries. The credit policy and underwriting methodology are too strict if you do not have any defaults.”

With that said, your institution may require some additional risk mitigation for this pilot. You may want to raise funds to set aside higher loan loss reserves or a guarantee dedicated to this program. The ideas provided in the sources section above offer a good place to start.

Lenders should thoroughly explore any external loan guarantee program terms to ensure that when the guarantee kicks in, it isn’t harmful or burdensome to the borrower. Some guarantee programs are secured, requiring the borrower to liquidate and deplete all of their assets, including their home, before releasing the guarantee capital for the remaining amount. Obviously, this is damaging, especially in a program intended to build assets for communities of color who have already been denied access to wealth and income for generations.

Borrowers, Friends, and Family — Responsive Program Design

The large racial wealth gap in the U.S. means many URJ pilot program borrowers are not likely to have personal capital, or friends-and family-capital, or collateral. For those borrowers that can provide their own guarantees, lenders can design guarantees that are less risky for borrowers, such as:

- **A limited guarantee —** The guarantor only guarantees a percentage of the loan in proportion to their percentage of stake/ownership in the business;
- **No guarantee required at outset —**The guarantee only kicks in if a loan-performance issue triggers it;
- **Reduction with strong performance —** A limited guarantee amount could be further reduced and/or eliminated over time with strong performance; or
- **Forgo guarantees altogether at low dollar amounts.**

Tracking Outcomes and Data Collection

The key purpose of this project is to increase access to capital for people of color and therefore improve their financial wellbeing. Accordingly, we will collect data to evaluate the experiences and impact to applicants, borrowers, your institutions, and yourselves as URJ participants.

Those lenders implementing a Special Purpose Credit Program (SPCP) will be able to collect data simultaneously for both URJ and SPCP requirements.

We will be partnering with a mission-aligned, highly-regarded technology provider to collect, aggregate, and analyze data for the program. Lenders will provide their data to the technology partner on a quarterly basis. They will create reports both for our group as a whole, and individual reports for each lender. See Appendix I for report examples. Cost of these analyses and reporting services will be covered by Beneficial State Foundation.

In addition to the goals and data collection needs for URJ and Special Purpose Credit Programs, you will likely have your own goals. Here are some ideas to help you identify what you might like to measure:

- Increasing the number and/or proportion of loans and loan dollars distributed to your priority communities;
- Creating quality jobs for people in your program's priority group;
- Increasing Black homeownership or land ownership;
- Improving FICO scores of borrowers;
- Supporting POC leadership;
- Expanding partnerships with organizations serving your priority groups;
- Learning and changing practices within your institution.

More details about impact data collection plans and systems is provided in [Appendix H.]

IT and Systems

Participating lenders will, of course, already have their own IT systems, and no additional systems are expected to be needed in order to participate in the URJ pilot program. We have outlined the systems we expect lenders to use below.

Lender Systems

Necessary

Lenders will need to have their own staff and/or systems to execute:

- Applications, and applicant-data collection,
- Credit analysis,
- Loan document production,
- Loan balances, payments, performance, and
- Borrower surveys.

Optional

Lenders may also have, but do not need, systems or partnerships to:

- Aggregate the above data into one platform or reporting output;
- Provide project management for all elements of the pilot program;
- Connect the borrower's bank account, or other data, for cash flow underwriting;
- Conduct disparate analysis; or
- Conduct loan monitoring.

Analysis and reporting provided by the program

As mentioned in the Tracking Outcomes section above, URJ program participants will be able to analyze their existing data to determine changes they can make to increase racial equity in their underwriting criteria, and receive quarterly analysis and reporting on their portfolio performance at no charge. Lenders will be able to securely provide their (non-personally identifiable) loan data, via Excel, CSV files, or other means as determined by the lender and our technology provider.

Peer support

A critical part of the URJ Pilot Project is to provide a confidential and high-quality space for lenders to share, ask questions and learn from each other. We expect that as lenders meet and discuss their programs, you will share your technology needs and experiences with various systems, and perhaps upgrade some systems along the way!

PR and Communications Planning

In our current social climate, where many companies and financial institutions have made racial equity commitments, and where some groups claim that racial equity programs are discriminatory and illegal, you may want to plan ahead for reactions to your program launch. You may want to ask your priority community members to help guide you on messaging while also engaging a professional PR or strategic communications firm to help you place your messaging in the most pertinent arenas.

You can verify that Federal bank regulators support and advocate for racial-justice-focused programs by following the guidance referenced in Appendix B — Regulations. You can also reference the many initiatives, publications, and commitments provided by the FDIC, OCC, and the various branches of the Federal Reserve, such as these from Richmond, Atlanta, San Francisco, Minneapolis, and New York.

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Conclusion

Beneficial State Foundation and the Underwriting for Racial Justice Working Group team are excited to support lenders as they explore increased racial-justice lending. We look forward to working with you, introducing you to other lenders who are joining us, and supporting your success.

Together, we can address racial inequity and work toward a more equitable future where people from every ethnicity and background have access to the capital which can help them create better lives for themselves, their families, friends and their community.

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Appendices

Appendix A: URJ FAQs

Do we need a racial justice loan program in place already to join the pilot?

No, you can use the program tools and peer group to help create your program.

Can we join the pilot if we already started our program?

Yes, you can join the program, share your learnings, and make adjustments to your program along the way, if you like.

Will we get regulatory approval for our program?

Regulators will not provide approval for programs, including Special Purpose Credit Programs. However, we have interviewed several regulated lenders who worked closely with their regulators during the creation and implementation of their SPCP plan which paved the way for smooth examinations.
In addition, Beneficial State Foundation and URJ program facilitators are actively sharing our approaches with, and gaining insights from, regulators on behalf of the project.

What are the fees for lenders to participate?

None.

What are the time requirements for lenders?

Lenders join regular Community of Practice meetings with peers. We anticipate monthly meetings. Participating lenders will also need to make time to collect and provide data, as well as conduct and complete a small number of surveys for program evaluation.

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How long is the program?

The program lasts for two years, from Q2 2023 to Q2 2025. Lenders may start with a program already in place, or build a program as they go.

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Appendix B:
Special Purpose Credit Program Regulations — Reg B and Advisory Opinions

The Equal Credit Opportunity Act (ECOA) and Regulation B allow creditors to establish Special Purpose Credit Programs (SPCPs) for applicants who meet certain eligibility requirements.

SPCPs allow lenders to take an existing product and modify its policies and procedures to extend credit to the identified group, including a specific race or ethnicity that has a history of being denied equal access to credit. The CFPB Advisory Opinion states: “a creditor may initiate a special purpose credit program without the approval of the Bureau.” For those that are still concerned about utilizing this option to provide direct lending to their intended beneficiaries, it may be helpful to note that regulators have openly and repeatedly encouraged lenders to explore this option.

FDIC-regulated banks can work with the FDIC Fair Lending Examination Specialist in their region to get more information. See Appendix D for a list of these specialists, as well as a template that can be used for developing a Special Purpose Credit Program plan.

Use the links below to learn more about SPCPs.

- Please visit the Consumer Finance Protection Bureau for the most current version of **Regulation B and Regulatory Agencies Advisory Opinions**.
- Interagency Statement on **Special Purpose Credit Programs** Under the Equal Credit Opportunity Act and Regulation B, February 22, 2022.
- Please visit HUD’S Office of General Counsel Guidance on the Fair Housing Act’s **Treatment of Certain Special Purpose Credit Programs.**

Appendix C:
Special Purpose Credit Program Template for URJ Lenders

Special Purpose Credit Programs (SPCPs) are targeted lending products specifically designed to benefit economically disadvantaged groups of people. SPCPs can be created to serve designated, protected classes of people.

Lenders implementing SPCPs must create a plan containing the information discussed below. The Bureau of Consumer Financial Protection's Advisory Opinion states:

> *A for-profit organization that offers or participates in a special purpose credit program to meet special social needs must establish and administer the special purpose credit program pursuant to a "written plan" that identifies the class of persons the program is designed to benefit and sets forth the procedures and standards for extending credit pursuant to the program.*

The SPCP plan must specify these four points:

1. The class of persons that the program is designed to benefit;
2. The procedures and standards for extending credit pursuant to the program;
3. Either (i) the time period during which the program will last or (ii) when the program will be reevaluated to determine if there is a continuing need for it; and
4. A description of the analysis the organization conducted to determine the need for the program.

URJ is providing this template — and additional credit addendum prompts and regulatory guidance— to help prospective lenders use the SPCP option to start their planning process.

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Part I: Introduction, Product Description and Purpose

Prompts	Consumer Financial Protection Bureau Advisory Opinion Guidance

• Offer an overview of your institution's recent history regarding lending in general and, if applicable, racial equity in particular.
• Describe your institution's history with SPCPs or products like them.
• Describe your reasons for developing a new or revised SPCP.
• Describe the "class of persons" you aim to serve and why.
• Describe the loan product you designed for this project, which might include:
  o Applicant eligibility
  o Product type
  o Permitted uses of funds
  o Loan amounts
  o Interest rates
  o Terms
  o Fees
  o Lien requirements, including loan-to-value
  o Insurance requirements
  o Closing costs
• How does this product address a need of the "class of persons" for whom it was designed?
• Describe the outcomes you envision this product creating for those you intend to serve.
• Describe community partnerships that are part of the project, if applicable. Include descriptions of the partners' roles and responsibilities.
	"A special purpose credit program must be established and administered to benefit a class of people who would otherwise be denied credit or would receive it on less favorable terms, as determined by a broad analysis, and it must be established and administered pursuant to a written plan. The Official Interpretations to Regulation B further provide that a written plan must contain information that supports the need for the particular program. Thus, a for-profit organization's written plan must describe or incorporate the analysis that supports the need for the program."
	
	"To accomplish these goals a creditor may, for example, introduce a new product or service, modify the terms and conditions or certain eligibility requirements for an existing product or service, or modify policies and procedures related to certain loss mitigation programs, such as loan modifications. For example, a creditor may offer a new small business loan product for woman-owned businesses by relaxing its customary standard of requiring three years of experience in the industry to one year, if the creditor has determined that this requirement would probably prevent woman-owned businesses from qualifying for small business financing."

Part II: Class of Persons

Prompts	Consumer Financial Protection Bureau Advisory Opinion Guidance
• *Include a description of the "class of persons" the program is intended to serve. Options include:* o *Race* o *Gender* o *Age* o *Geographic location* o *Homeowners or first-time home buyers* o *Business owners* o *Or, a combination of these* • *Why can't traditional lending methods and/or products be used to reach the intended audience and outcome?* • *How will your loan product extend credit to those who would be otherwise denied?* • *Will your loan product offer credit on more favorable terms?*	*"The class of persons that a special purpose credit program is designed to benefit must consist of those who would otherwise be denied credit or would receive it on less favorable terms. A written plan must explain whether the class of persons will be required to demonstrate a financial need and/or share a common characteristic. Such a class could be defined with or without reference to a characteristic that is otherwise a prohibited basis under the ECOA. For example, a for-profit organization's written plan might identify a class of persons as minority residents of low-to moderate income census tracts, residents of majority-Black census tracts, operators of small farms in rural counties, minority- or woman-owned small business owners, consumers with limited English proficiency, or residents living on tribal lands."*

Part III: Data and Analysis

Prompts	Consumer Financial Protection Bureau Advisory Opinion Guidance
• *Provide supporting data to justify the need of the program. Lenders may use their own data or data from other studies.* • *For example, if a program is being used to increase lending to Black small-business owners, what data is available to show there is a need in this area? How else can this need be substantiated?* • *(See Appendix J for a list of data sources.)*	*A special purpose credit program must be "established and administered" to benefit a class of people who would otherwise be denied credit or would receive it on less favorable terms, as determined by a "broad analysis," and it must be "established and administered pursuant to a written plan." The Official Interpretations to Regulation B further provide that a written plan "must contain information that supports the need for the particular program."* *Thus, a for-profit organization's written plan must describe or incorporate the analysis that supports the need for the program.*

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Part IV: Credit Standards; and Underwriting and Servicing Processes	
Prompts	**Consumer Financial Protection Bureau Advisory Opinion Guidance**
Describe credit standards for this product, which might include: • *Credit history and score requirements* • *DTI requirements* • *Income eligibility requirements* • *Income verification* • *Asset verification* • *Use of funds estimates or verification (bids)* *Describe Underwriting and/or Servicing processes, which might include:* • *Property-lien search* • *Bankruptcy search* • *Appraisal* • *Modifications* • *Approach to delinquencies* *Additional process elements not typically included in an SPCP can be of great benefit to the class of persons. These might include:* • *Technical assistance or credit education* • *Augmented application support* • *Partnering with community organizations to build trust, focus outreach to the class of persons, support application success and provide technical assistance.* • *Post-loan servicing oriented toward repayment success.*	*Those procedures and standards must be designed to increase the likelihood that a class of persons who would otherwise be denied credit will receive credit pursuant to the program, or that a class of persons who would receive [credit] on less favorable terms will receive credit on more favorable terms pursuant to the program.* *The written plan must describe the procedures and standards adopted and explain how they will increase credit availability with respect to the identified class of persons. If the class of persons the program is designed to benefit will be required to share a common characteristic, the written plan may also explain whether the organization will request and consider information that would otherwise be prohibited under the ECOA.*

Describe how these standards and procedures will increase credit availability and successful repayment for the identified class of persons.	

Part V: Program Duration

Prompts	Consumer Financial Protection Bureau Advisory Opinion Guidance

• *How long will the program last?*
  ○ *When a certain volume is reached?*
  ○ *On a set date?*
• *What is the criteria for extending or ending the program?*
	The special purpose credit program could end on a set date, or when a pre-established origination volume has been reached, whichever occurs earlier. If an organization extends the program beyond what is set forth in its written plan, it must document the terms of that extension in order to ensure the program continues to be administered pursuant to a written plan.

Part VI: Evaluation

Prompts	Consumer Financial Protection Bureau Advisory Opinion Guidance
• *Ongoing Data Collection: What data points will be collected to assess the success of the program?* • *Will data be compared to benchmarks?* • *How often will the program be evaluated?* • *How will your institution decide on the continuation of the SPCP?*	*The SPCP regulations do not state any specific evaluation requirements. The FDIC Consumer Compliance Examination Manual states that SPCP portfolios are to be considered separately.*

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List of Fair Lending Examination Specialists from the FDIC

As FDIC-regulated lenders develop loan programs and processes, they can seek support around fair lending issues and compliance by contacting an FDIC Fair Lending Examination Specialist.

Region	Special Purpose Credit Program Contacts
Atlanta Region (Alabama, Georgia, Florida, South Carolina, North Carolina, West Virginia, Virginia)	**Fair Lending Examination Specialist** Connie Mayo, cmayo@fdic.gov **Regional Examination Specialists** Karen Boyd, kboyd@fdic.gov LaTonya Weems, lweems@fdic.gov
Chicago Region (Illinois, Indiana, Kentucky, Michigan, Ohio, Wisconsin)	**Fair Lending Examination Specialists** Daniel Peters, dapeters@fdic.gov Dawn Sleva, dsleva@fdic.gov
Dallas Region (Arkansas, Colorado, Louisiana, Mississippi, New Mexico, Oklahoma, Tennessee, Texas)	**Fair Lending Examination Specialists** Everett Fields, efields@fdic.gov Jeff Tate, jtate@fdic.gov
Kansas City Region (Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota)	**Regional Examination Specialists** Jaron Van Maanen, JVanMaanen@fdic.gov Jacqueline Kluver, JKluver@fdic.gov Joseph Fitzpatrick, JoFitzpatrick@fdic.gov

New York Region (Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Puerto Rico, Rhode Island, Vermont, Virgin Islands)	**Fair Lending Examination Specialist** Emma Cedar, ecedar@fdic.gov **Regional Examination Specialist** Christin Sutton, chsutton@fdic.gov
San Francisco Region (Alaska, Arizona, California, Guam, Hawaii, Idaho, Montana, Nevada, Oregon, Utah, Washington, Wyoming)	**Fair Region Lending Examination Specialist** Noah Way, nway@fdic.gov

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Appendix D:
Underwriting Ideas and Examples

Pilot programs include one or more elements that are explicitly intended and reasonably expected to increase approvals for applicants of color. While each institution must assess their priority community members' needs, the following underwriting approaches are utilized by lenders who are participating in URJ, or have been interviewed by our facilitators.

Before exploring ideas to change underwriting, pricing, terms, or servicing, we encourage lenders to step back and review our country's systems to understand better how racial injustice is reflected in conventional financial systems and underwriting methodologies. This examination helps reveal how equal treatment combined with unequal starting points continues to perpetuate inequality.

Pilot lenders can host and/or participate in trainings and discussions on these topics to ensure all staff and board members are operating with this knowledge and perspective. We also summarize some of the key concepts below. Our goal is to help lenders connect how the actions they are taking can begin to correct these historically rooted problems.

Reimagining Loan Readiness

It's critical for both lenders and borrowers to determine a borrowers' accurate ability to repay a loan. URJ Pilot projects can re-examine their current assessment methods by learning from mission-based lenders who have reinvented their understanding of "loan readiness" through many years of solid, successful repayments. This re-examination includes both the borrower and the lender, as shown below.

1. **Examine origins and paradigms —** Once lenders explore the history of racial injustice and examine the underlying assumptions of our current underwriting paradigms, it's time to take a deep dive into the details of their institution's underwriting criteria and assessment methods. Each of the 5 Cs —Collateral, Character, Capital, Capacity and Conditions— are used to evaluate applicants based on inherently unequal elements created by laws, policies, and systems. Basing lending decisioning on these elements perpetuates racial inequity. We offer ideas to help illuminate these origins and paradigms in the chart below.

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2. **Rethink character —** Especially problematic and prone to racial inequity, character focuses on the borrowers' history, often attributing a lack of credit or poor credit to the borrower him or herself rather than societal forces. By reimagining past payment issues as part of this historic inequality and not the person's "character," lenders can prevent much of the potential disparity created in the loan process.

   Our working group lenders asked broad questions about how they approach Character and Credit, including:

   - How can we help you get credit vs. do you fit our credit profile? This sparked conversations and revealed solutions that increased access to credit.
   - How can we discuss the details and context of your credit profile to get a real picture of your history?
   - How can we build on your community relationships to evaluate your character most accurately?

3. **Offer pricing and terms that meet borrower needs —** A lender should provide pricing and terms to meet the needs of the community the lender wishes to serve. Responsive product design can maximize a borrower's ability to repay. We offer ideas about product design in Appendix F.

4. **Provide technical assistance to support repayment —** Application assistance, credit education and repair, and financial management training have not been part of loan programs offered by most conventional regulated lenders. Research and experience shows this kind of assistance is key to addressing historic inequality and barriers to capital access. It must be a fundamental building block of loan readiness. We offer examples and ideas in Appendix H.

5. **Offer responsive and flexible options to increase repayment success —** Loan structure and repayment flexibility are predicated on practices and assumptions about capital, rates of return and managing risk. When lenders rethink their capital-structure sources and credit-enhancement policies, they can develop pricing and repayment terms and schedules that

maximize repayment success for the borrower. We offer ideas about this in the Capital and Reserve Sources section above.

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The 5 C's Reimagined

The 5 C's Reimagined	Description/expectations	Problematic because systemic racism has led to	Practices/innovations tested by mission-based lenders
Collateral	Asset as security for a loan: • Real estate • Vehicle, equipment • Cash, savings, personal assets of the guarantors	No, or reduced, home equity. Newer businesses with less equity Service businesses with fewer hard assets Different ownership models (e.g. Native Americans without access to private ownership on tribal land)	Borrowers of color have generally been denied the ability to build assets that can be used as collateral. Redlining prevented homeownership opportunities, discrimination reduced the appraised values of homes, and a lack of generational wealth and business ownership resulted in fewer people of color with established businesses that have acquired collateral over time. Lenders we interviewed shared the following examples of approaches to this issue: • **No collateral requirements —** Eliminate all collateral requirements • **Only collateral related to the loan purpose —** Only require collateral on items acquired through the use of the loan itself; in particular, no homes used as collateral for business loans • **Loan guarantees —** Use loan guarantees from outside sources to make up for lack of collateral requirements. Many lenders sought and provided these guarantees for their portfolios, rather than expecting borrowers to provide guarantees

The 5 C's Reimagined	Description/expectations	Problematic because systemic racism has led to	Practices/innovations tested by mission-based lenders
			• **Valuation and appraisal —** Ensure equity and accuracy when determining value and loan-to-value (LTV) requirements. In particular, ensure that home appraisals are equal for homeowners of color or appraise homes in majority POC neighborhoods as equivalent to homes with white homeowners or in majority white neighborhoods.
Capital	Money contributed by the borrower / downpayment • As a % of total need • "Shows lenders you're serious"	Lower wealth – homes, home values, savings, retirement accounts Less friends and family money Fewer networks with money and connections	Many communities of color have been denied the ability to make or save the money that would provide capital to put in as a downpayment on a home, or provide equity into a business. As a result, it is critical for lenders seeking to increase lending to people of color to lower or eliminate capital requirements. Many lenders we interviewed implement the following: • **Higher LTV —** increase their usual loan-to-value requirements from 80% up to 110%. • **Find or provide equity or subordinated debt (sub debt) —**Some lenders use grant dollars from public and or private sources, or sub debt from partners, to provide the equity normally asked of borrowers. This practice keeps the LTV on the loan the same or similar

The 5 C's Reimagined	Description/expectations	Problematic because systemic racism has led to	Practices/innovations tested by mission-based lenders
			to existing requirements without burdening the borrower with the need to bring in that money.
Character	Reputation for repaying debts based on credit reports. Credit reports, credit scores, payment history Perception + reputation for honesty and integrity Background, education, industry knowledge and experience, licensing Lack of criminal record	Lack of or little credit history (thin file) Lower credit scores Implicit and/or explicit bias Lack of relationships / different social networks from the lenders Targeted criminalization and incarceration	Borrowers, especially borrowers of color who face discrimination, experience barriers to income and therefore assets such as homes and investment accounts, education, fair credit, and healthcare. They are likely to have thin credit files or poor marks in their credit history that belie their actual character and commitment to repay debt. These long-standing societal inequities result in higher debt amounts, higher cost-predatory debts, and reduced income-security that would normally allow people to weather financial emergencies. Accordingly, any review of credit history should not punish applicants for thin credit files and should not assume that poor scores or payment issues are an indicator of future performance. Rather, lenders should review the details and context of an applicant's finances to determine their specific circumstances. At the same time, an applicant's character evaluation should not suffer due to lack of relationship with, or knowledge by, the lender. Lenders seeking additional character references should do so through

The 5 C's Reimagined	Description/expectations	Problematic because systemic racism has led to	Practices/innovations tested by mission-based lenders
			the local community and peers of the applicant. This is one of the most important reasons why the lender must engage in community relationship-building efforts. Here are some examples of the ways lenders can provide an equitable approach to credit history and character in underwriting: **Relationship only; no credit history —** Some lenders eliminate all review of credit history and use only character-based lending / strength of relationships to determine whether or not to approve a loan. Lenders can build relationships through pre-loan training and by providing technical assistance, or through referrals from other borrowers or partners. **No credit score —** Many lenders in our research eliminate credit scores as a factor in their underwriting. **Credit score for enhancement only —** Rather than requiring a credit score or minimum-expected credit score to act as a gatekeeper, lenders can use a good credit score as an enhancement-only mechanism. **Lower credit score —** For lenders who continue to use credit score, lower the required minimum.

The 5 C's Reimagined	Description/expectations	Problematic because systemic racism has led to	Practices/innovations tested by mission-based lenders
			Slow pays/delinquencies and collections — Some lenders allow minor delinquencies with reasonable explanations. Others overlook collections that have established collection plans, and many completely disregard medical collections. **Bankruptcies —** Many lenders allow bankruptcies that are two to three years in the past. **Alternative data sources —** Consider a borrower's history of recurring payments that are not tracked by credit reports, such as rent, utilities, etc. Research alternative credit models. Here are some places to start: National Consumer Law Center: Using Alternative Data for Financial Inclusion and Racial Justice American Business Law Journal: Who's Keeping Score? Oversight of Changing Consumer Credit Infrastructure Treasury Department, OCC, Alternative Credit Assessment Workstream Oliver Wyman: Alternative Data and the Unbanked

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The 5 C's Reimagined	Description/expectations	Problematic because systemic racism has led to	Practices/innovations tested by mission-based lenders
			Pamela Foohey & SARA Sternberg Greene: Credit Scoring Duality **Weighting —** Change the weights of various factors to provide a better and more equitable approach. **Criminal histories / background checks —** Lenders will need to discuss what is important for them in terms of criminal history. Recognize that our country has criminalized and over-incarcerated people of color, particularly Black Americans. Here are some potentially helpful considerations lenders can take: • Background checks should be done at the very end, after the entire loan package is considered as a whole first. • Criminal history does not necessarily correlate with character or likelihood to repay. Assess the true relevance of the record to likelihood of repayment, such as financial crimes and crimes related to the loan application, or acts of dishonesty or child support nonpayment. **Methods —** Thoroughly interview applicants to determine the cause of late payments. In general, lenders engage in conversations with borrowers to

The 5 C's Reimagined	Description/expectations	Problematic because systemic racism has led to	Practices/innovations tested by mission-based lenders
			understand the reasons and context behind any negative credit items in order to determine the importance to their evaluation. Build relationships in the community to get to know peers, the market for various industries and business types, and potential future borrowers in the same way that many existing lenders know and bring in relationships from their personal lives and histories. Training and Technical Assistance can play a role in character assessment. Lenders can review an applicant's completion of key training topics and programs and TA partner referrals to augment weak cash or credit elements as well as to meet character or conditions requirements.
Capacity	Ability to repay a loan Debt-to-income (DTI) ratio Length of time in business / employed at their current job and future job stability	Higher debt to income Higher cost of debt Lower appraisals Lower incomes and income stability Smaller/lower profit margin from newer businesses	**<u>Decision criteria</u>** **Cash instead of ratios —** Instead of using ratios, such as Debt-to-Income or Debt-Service-Coverage, use actual discretionary cash available after monthly payment to determine. Lenders from our interviews and research use bank statement analysis for a hands-on look at cash capacity.

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The 5 C's Reimagined	Description/expectations	Problematic because systemic racism has led to	Practices/innovations tested by mission-based lenders
	Payment history of current loans and expenses		**Changed ratios —** If using ratios, increase the allowed DTI or decrease the allowed DSCR. **Projections over historical —** Use projections / future income potential rather than —or in addition to— historical cash-flow analysis. Generate projections from historic bank statements and/or from materials supplied by the applicant. Personal income for business – Include personal sources of income for business loans. **Business Experience —** Assess credit and the age of the business by conducting a variety of credit analysis for startups, including: • Focus on more future income potential through business plans than what's claimed on taxes during the first couple of years. • Look at financials for more years prior than normal—from before COVID—to provide a more accurate and favorable picture of the business. Profitable and growing new businesses (started after 2020) are particularly promising. Many new businesses did not access emergency funds during COVID, so their balance sheets look cleaner. Profitability is a good sign of the management and business model.

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The 5 C's Reimagined	Description/expectations	Problematic because systemic racism has led to	Practices/innovations tested by mission-based lenders
			• Recognize when a startup has an overall capacity to repay, despite cash flow issues. **Methods** **Use bank statements for cash analysis —** Determine the borrowers' net income and expenditures from bank statements. Doing so provides useful data to understand the borrowers' financials, and also helps borrowers lacking expertise in preparing financial statements. Projections can be generated from bank statements or provided by the applicant to enhance cash-capacity analysis. **Risk Mitigation and Credit Enhancements** See the Guarantees and Reserves subsection of the Capital and Reserves section of this guide
Conditions	Loan interest rate and principal Loan use Economic trends Industry trends Legislative changes	Smaller, lower profit-margin, and newer businesses Different legal systems to navigate (Tribal governments)	To assess conditions, lenders must build relationships in the borrower's community and their market. Some small business lenders collaborate directly with local community members through advisory committees and other community-engagement methods to build a pipeline and learn about the local market. These practices provide lenders with new insights into applicants' viability and borrowing conditions.

The 5 C's Reimagined	Description/expectations	Problematic because systemic racism has led to	Practices/innovations tested by mission-based lenders
	Market potential for the particular product or service Competitive analysis		

Appendix E:
Pricing, Terms, and Servicing Ideas and Examples

One or more adjustments to servicing and program terms can ease hurdles and provide creative solutions to challenges regarding repayment. Each institution must assess their priority community members' needs. Lenders designing URJ pilots might find inspiration in the following pricing, terms, and servicing approaches that other lenders used to increase loan access.

Product Design

Design for borrower success by considering the following elements to promote borrower success in the program:

- **Pricing —** Adjust pricing to help reduce the customer's overall cost.
- **Equivalent pricing —** All URJ pilot program lenders must offer the same or better pricing as the same type of loan programs within their institution.
- **Favorable pricing - reduced interest rates —** Some lenders offer better pricing, including zero-fee or zero-interest-rate loans for their programs supporting borrowers of color. Some lenders offer this as a small act of redress owed to Black and Indigenous Americans for our industry's long standing record of redlining, predatory lending and pricing, and racial bias.
- Low-cost capital, grants, and credit enhancements can be used to cover the cost of this pricing approach, as discussed in the Capital and Reserve Resources Section of this guide.
- **Interest rates**
  - 0% interest loans
  - Forgivable loans
  - Reduced-interest rates compared to other programs
  - Price based on product, not borrower risk or credit profile. Apply the same price for all borrowers of the same loan type.

- If risk-based pricing is employed, consider performance-based pricing /automatic repricing as credit improves: lowering interest rates as payments are made on time, with the possibility and goal of making the total interest payments / cost of loan the same for all borrowers with on-time payment records, regardless of different starting interest rates. Disallow rate markup from third-party originators, such as car dealerships. Cost to borrowers should be correlated with the cost of funds.
- If operating costs are subsidized by grants, loans should be as close to 0% as possible.
- Factor in the benefit to the community as a positive social return on the investment.

- **Fees**
  - No or significantly reduced fees.
    - Consider waiving fees on the following:
      - Application fees
      - Credit-report fees
      - Origination fees
      - Extending a lock on a rate
      - Finder's or brokerage fees

- **Private Mortgage Insurance —** Consider offering a mortgage program without requiring PMI. This requirement can be removed without charging higher rates. Higher early rates get automatically adjusted at a certain LTV, and/or can include Lender-Paid Mortgage Insurance.

- **Terms —** Consider adjusting the repayment schedule.
  - Deferred first payments
  - Structure loans so that payments are affordable while keeping the overall loan affordable and the term an appropriate length for the use
  - Longer terms
  - Adjust terms based on the type of loan
  - Flexible repayment schedules that fit the needs of the customer
  - For example, larger payments during peak season and lower during off season.

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Servicing

After the loan is originated, there are proactive ways to redress economic harm with servicing aspects.

- **Borrower technical assistance —** Take a creative and proactive approach to ongoing assistance for current borrowers with both human and technology-based support
  - Get the customer started off right by setting up their bank online account together, where relevant.
  - Consider offering automatic-payment discounts.
  - Help borrowers build their credit files. To address the racial wealth divide and operate in our current credit system in the U.S., borrowers need to develop their credit files. Many immigrant- and/or minority-owned businesses have a history of receiving payments in cash. Develop a model to record this revenue to provide a clearer financial picture of the business.

- **Prevent payment issues —** Provide ongoing education, support and protocols to encourage borrowers and staff to communicate proactively and address or prevent payment issues. For example, with knowledge of the borrower's circumstances, payments can be adjusted during periods of tight cash flow.

- **Serving-related Fees —** Eliminate or reduce fees that may be incurred during the loan term, including:
  - Payment fees
  - Refinancing fees
  - Prepayment penalties
  - Reinstatement fees

- **Repayment Flexibility —** Work with customers to satisfy the loan agreement on a schedule that works for them. For example, a lender can consider offering:
  - Non-traditional payment schedules to meet borrower's reality
  - An interest-only period

- Emergency or courtesy skip-payments with no additional fee.

- **Modifications / Restructuring/Refinancing**
  - Free repricing as credit improves or repayment agreement is successful.
  - Proactively offer individualized modifications and solutions
  - Minimize modification fees

Appendix F:
Community Stakeholder Engagement

Pilot success depends on lenders engaging with their priority community members. Lenders start at different points, from those possibly reaching out to the community for the first time, to others who are already co-designing with community members. As part of the pilot program, lenders commit to build or maintain deep relationships and collaborate with community members. The ultimate goal is to have some form of an Applicants of Color Advisory Council. This appendix provides detailed information on how to start, design, implement, and evolve a council that works for each lender and their priority community.

URJ Applicants of Color Advisory Council Draft Design

Goals

Applicants of Color Advisory Councils help achieve the following goals:

- **Design —** Ensure products are designed to meet the priority communities' needs. Community representatives have a voice and possible vote in products' design.
- **Testing and revision —** Ensure ongoing input from the Council is used to test and revise products to make sure they meet the priority community's needs.
- **Awareness and information —** Ensure necessary and appropriate product information reaches priority communities.
- **Character, Conditions, and Context —** Ensure credit committees review priority community applicants using "character" assessments, community context, and other information and relationships from the local community.

- **Lender capacity and skill building —** Build staff capacity so they can center priority communities' needs.

- **Impact —** Meaningfully increase lending to applicants from communities of color to help dismantle racial-economic inequality.

Composition of the Council

Each participating URJ lender defines their local priority communities. Each lender must include one or more non-white racial or ethnic groups, and will likely include geographic, economic (e.g. wealth, income, credit), characteristics, and credit needs (e.g. homebuyers, entrepreneurs, car buyers).

The Council must be composed of members of the priority community. . For programs with multiple priority communities there must be at least one, but ideally more than one, person from each group.

- First and foremost, the Council should include the lenders' past or current applicants, and borrowers from the priority groups. When this is not possible, the lender should seek priority community applicants of other lenders and / or Technical Assistance providers.

- Ideally, each member should meet all of the defined characteristics of the prioritized group. For example, if the program seeks to support Latinx residents of the Fruitvale neighborhood with thin credit files, then Council members should meet that description.

- At minimum, each member must meet the race and/or ethnicity definition, know the geographic community well, work with or within the priority community, and have a good reputation with that community. They may be nominated or elected by the community as representatives.

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Before and Beyond the Pilot

Groundwork and long-term engagement in the community

- As early as possible, use pre-launch engagements with grassroots and community organizations to ground all new projects designated for community input.
- Provide pro-bono support for grassroots organizations with a power building lens. Beyond easy offerings such as building space for events, lenders can help educate priority community groups interested in engaging with capital.
- Create a community engagement team in your institution that cuts across all of your departments.

Preparation

Lenders should consider the following before launching the council:

- Survey banking staff on their experience with the priority communities to determine their need building relationships within the communities.
- Evaluate opportunities to identify community members or build an advisory council from your institution's existing customer-outreach programs.
- Staff on the Council must be supported by leadership and integrated into the loan process. Ensure staff are evaluated and compensated for this work.

Lender requirements / commitments

Lenders will

- Provide anti-racism and anti-bias training for underwriters, credit-committee members, and staff assigned to work on any part of the pilot;
- Utilize meeting protocols designed to create belonging, prioritize the voices of priority community members, and encourage and normalize dissenting voices;
- Share Council-related considerations, approaches, and learnings back with the larger URJ group;
- Set longer-term goals to hire people from priority community groups;
- Approach the work with an intention to create authentic relationships and to help build and share power with the community.

Outreach — Building the Council

Participants

Lenders should consider inviting the following groups to be potential participants:

- First and foremost, their own applicants — previous and existing priority group applicants
- Secondly, other local community lenders' previous and existing priority-group applicants
- Communities in most need, regardless of their potential to become clients
- Organizations working with and run by people from the priority groups, which could mean
    - Prioritizing grassroots organizations, such as social-justice organizations, tenant associations, and housing-rights organizations, and others working to change systems for the benefit of the community;

- **Prioritizing people from smaller rather than larger organizations and businesses.** Some possibilities include:
  - Ethnic chambers
  - TA Providers
  - CDFIs and other community lenders
  - Business associations
  - *Promotoras* in the Latino community

- **Generate recommendations and introductions through**
  - Employees — PoC executives, other leaders, and compensated program staff
  - Alumni groups from Historically Black Colleges and Universities as well as Black sororities and fraternities
  - Urban League
  - NAACP
  - Churches and other religious institutions
  - Local municipalities and nonprofits geared toward promoting credit access
  - Other CDFIs and lenders serving that community
  - Individual residents through community events and doorknocking

Note that not all community voices are representative of the community. Start small, and let a mix of early, trusted community stakeholders from the groups above define who should be prioritized for participation.

How to reach out and engage

Here are a few ways to seek Advisory Council members:

- First and foremost, reach out to former and current applicants and borrowers of color, if applicable.

- Start conversations with organizations like those above that you already have a relationship with, if possible.

- Invite staff at these organizations for 1:1 conversations to build relationships and understand their needs and perspectives.
  - Ask about their work, their plans, their needs, and any experiences with access to capital in their communities.
  - Share your goals for increasing capital for the community, mention URJ, describe the Advisory Council plan.

- Create an "open house" or other open opportunity for community members to meet with lender staff and board to discuss the issues they feel the lender could address. Actively invite major community players, such as business associations, housing-rights organizations, racial-justice and climate-justice organizations, etc.

- Determine whether partnership makes sense and what it includes — Advisory Council role, compensation, commitments, as well as support they are seeking.

- Compensate your staff of color if this is new work / additive to their job description.

- Important discussion points to consider:
  - Clearly communicate to community members why you are seeking to add their voice to the Council, and show the value that you expect to come from their participation. Track activities to ensure you meet the commitments made to the community.
  - Clearly establish what decisions they will make themselves, what will be in collaboration with your institution's staff, and what will be outside of their purview.
  - Communities have a hard time finding information about a lender's Community Reinvestment Act performance. Even just sharing a lender's CRA score with the communities served and highlighting the community engagement element of it, can help build trust.

Council roles, processes, and governance

Over time, the following Council roles can evolve and deepen.

- **Outreach —** Once Advisory Council members build trust and vet the product/program design for community needs and culture, they can proactively outreach to the priority community. The Council, as a body, should determine the channels and materials used for outreach. URJ can review and provide co-branded materials to foster trust and credibility.

- **Referrals —** Advisory Council members may also refer individual community members in need of loan capital to the program.

- **Existing product/program review —** Council members may participate in a review of the lenders' existing loan offerings to evaluate how well they serve priority community needs and circumstances: underwriting criteria, terms, customer experience, and results.

- **Product design and development —** Council members participate in the underwriting criteria and product design
  - **Level 1: Voice —** Council members provide input and ideas, and potentially liaise with other priority community members for input into the loan-product development
  - **Level 2: Vote —** (Decision model / veto)
    - Consent / Support (lack of support will lead to product failure through reputation)
    - Documentation of elements discussed and adopted, or discarded, and why
    - Avoid leading with pre-ordained ideas. Instead, make the process authentic by collaborating to come to a shared solution. Following this protocol will also help avoid pushback from key grassroots leaders later on.

- **Underwriting —** Individual applicants / loan opportunities
  - **Level 1: Inform —** Provide supporting information for applicants, community knowledge, market knowledge
  - **Level 2: Recommend —** Vouch for applicants
  - **Level 3: Vote —** Have a seat on a formal committee to approve or deny applications

    - Community members should not be expected to be able to make financial decisions immediately. Support community representatives by providing financial education. Give time for on-ramping to the banking process.

- **Technical Assistance Referrals and Support**
  - Council members may provide referrals and build relationships between the lender and organizations they know provide quality technical assistance for the priority community.

- **Evaluation**
  - Invite Council members to provide input on the evaluation process – surveys, interviews, and/or focus groups – for the program and to evaluate both applicant experience and lending goals.

Council member time-commitment

Lenders should determine and communicate the time commitment required by council members. This may include:

- Initial hours during pre-design and design phases
- When the program is in operation
  - Per week/month
  - Per year
  - Number of years (particularly for evaluation and if there are "terms")

Be mindful of "engagement fatigue" by maintaining dialogue to ensure community representatives feel that a reasonable amount of time and type of work is being asked of them, regardless of compensation.

Compensation

Lenders should compensate Advisory Council members for all hours worked at a market rate commensurate with the type of work they are doing.

Examples of community-engaged loan funds

- Olamina Fund
- Co-Op Capital, housed under the Nusenda Credit Union in New Mexico

Sources for First Draft

- URJ Working Sessions led by the team at CapEQ
- Beneficial State Foundation working sessions on Participatory Investing in banking led by Transform Finance, with Virginia Community Capital and Berkshire Bank.

Appendix G:
Technical Assistance Ideas, Examples, and Resources

Technical Assistance (TA) such as application assistance, credit education and repair, and financial management training, has not been part of the program design for most conventional regulated lenders. This assistance is key for addressing historic inequality and barriers to capital access. Training can be a fundamental building block of loan readiness and, in addition, function as additional 'collateral' for the loan.

We offer some ideas to guide lenders in developing their TA programs.

- Create a line item in your program design to fund TA. It is labor intensive (no matter how you go about it) and takes specialized skills, both technical and pedological. It requires significant staffing or contractor resources. Access-to-capital TA programs should offer training on:
  - Credit education and repair
  - Bookkeeping
  - Financial management
  - Tax-return preparation
  - Loan-application preparation
  - Best practices on bank account and credit card management

- Decide whether your institution will offer TA in house or provide it through partnerships with community organizations, such as Pacific Community Ventures, Alliance for Community Development, members of Credit Builders Alliance, and individual professionals of color that can be found through local chapters of organizations such as the Association of Latino Professionals in Finance and Accounting, and the National Society of Black CPAs.

- Quality 'access to capital' TA is highly technical, specialized knowledge. Not all TA providers have this capacity. Lenders may need to form long-term relationships with TA organizations to develop this capacity, or create access to "train the trainer" programs that support the transfer of technical loan-readiness knowledge. Resources to support this knowledge transfer include Homeownership Council of America, CAMEO, LISC, Credit Builders Alliance, Northern Initiatives, WBC and SBDC networks, FDIC Money Smart, the Ecosystem Building Leadership Project, and National Development Council.

- Access-to-capital TA programs should offer culturally and linguistically relevant training on the topics above. This means more than just translating materials or expecting bi-lingual staff to do this on the fly. It means taking time to create TA that truly speaks to the community you want to reach.

- Quality TA also identifies and responds to the impact longstanding racial-economic inequality has on individuals. For an orientation to this, please see Understanding Racial Trauma's Impact on Financial Literacy.) Such barriers include:
  - Navigating resources (which includes networking and research) can be extremely time consuming.
  - Lack of access to social capital is an often invisible roadblock that exacerbates lack of access to financial capital.
  - Economic trauma which causes deep distrust of financial systems.
  - Not all entrepreneurs have equitable access to the people and information that leads to funding.

    - **Strategies to address these issues listed include:**

      - **Individualized support —** Clarify goals and plans, research, and emotional support. Some TA can be provided in a group/class setting, but much of it must be done via 1:1 coaching.

      - **Meeting borrowers where they are —** TA programs can be designed so that staff are able to meet applicants at their homes, places of work, or other convenient locations, and at the times of day that work best for the borrowers.

- **Accountability through continuous support and regular check-ins.** Quality capital access TA is high touch.

- **Added capacity to the applicant's 'team' to prepare the loan application.** That is, not expecting that the applicant should be able to do it all or, conversely, that the inability to pull together a quality loan application is a sign the applicant is not loan ready.

- **Access to information that can feel like a 'secret' to those left out of financial systems.** Loan process and qualification de-mystification is fundamental to leveling the playing field and creating access.

- We will repeat ourselves here, as it can't be said enough: Committing resources to TA is necessary to fully set applicants and borrowers up for success. Quality TA makes up for long-standing gaps in access to resources, knowledge and networks. This means paying quality TA providers at levels commensurate to loan officers –it requires equal skill, knowledge and experience. Invest in your community partners. TA should be seen as an investment that will pay dividends in an increased, high-quality application pipeline, better portfolio performance, and more real social impact.

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Appendix H:
Impact Measurement and Data

We believe that these pilots will have a measurable positive impact on you, your institutions, your borrowers, and the banking industry as a whole. We have identified the types of impact we hope to have and plan to track. You may have additional goals as well. We have provided the types of data needed, who will need to collect it, and how they will need to collect it.

In general, we expect to collect data on the following

- **Borrower and loan data from your existing processes and systems —** This includes Loan application / LOS, Credit memo, loan-term sheet, core system.
  - If you do not collect race and ethnicity from your borrowers, that will be a new item.
  - You may want to collect additional impact data from your applicants or approved borrowers based on your impact goals for the program.

- **Applicant- and borrower-experience information from surveys —** Surveys will determine what the experience is like for applicants and borrowers, and how the loan has impacted the borrowers. We will work with your team to customize and provide surveys, based on our templates.

- **Participant and institution surveys —** Surveys will learn the complete story of how your institution set up and delivered the program, what your own experiences were like, and whether and how your institution implements permanent changes based on the pilot.

For more details about the impact and data we will track and the systems and methods we expect to track them, see Table 1 below. Table 2 is a simplified example of a spreadsheet table that participating lenders provide on a quarterly basis for URJ program analysis. We will provide actual spreadsheet templates to participants.

Table 1: URJ Pilot Impact Data

This table provides an overview of the types of impact we will be evaluating in this program, the data needed to assess the impact, and the methods we intend to use to gather the data. These categories meet the initial goals of the program, and were developed and informed by the members of our working group as well as by the African American Equity Scorecard produced by the African American Alliance of CDFI CEOs.

Impact Area	Description/expectations	Systems / Method
Program - What were the program elements?		
Goals	Description of the lender's priority communities and program goals	Lender survey / interview
Underwriting criteria	Detailed description of the underwriting criteria and how it is different from other/previous underwriting criteria	Lender survey / interview
Product description	Detailed description of the pricing, terms, servicing and how they are different from other/previous, if at all	Lender survey / interview
Capital sources and expectations	Sources of capital for the loan program and expected returns, relative to other/previous	Lender survey / interview
Guarantees/Reserves	Guarantees and reserve rates, relative to other/previous	Lender survey / interview
Technical Assistance	Topics, methods, time and resources dedicated to TA	Lender survey / interview
Prioritization approach	Methods and resources used to ensure capital is deployed to the priority community – engagement, outreach, marketing, SPCPs	Lender survey / interview
Stakeholder Engagement	Methods and resources used to engage stakeholders in needs assessment, design, implementation and decisioning	Lender survey / interview
Resources	New resources used to design and deploy the program	Lender survey / interview

Impact Area	Description/expectations	Systems / Method
Program performance - Was it successful in increasing access to fair capital for PoC? If so, which elements?		
Approval rates	Approval rates by race, compared to other/previous	Application data +Loan data
Loan Performance / repayment	Performance/repayment rates by race, compared to other/previous	Loan data
Elements that worked	Any discoveries from data analysis and lender observation about what underwriting changes improved racial outcomes	Loan data / analysis tool + Lender survey / interview
Elements that did not work	Any discoveries from data analysis and lender observation about what underwriting changes improved racial outcomes	Loan data / analysis tool + Lender survey / interview
Regulatory impact	Any regulatory supports or barriers encountered	Lender survey / interview
Planned changes	Any changes the lender plans to make based on learnings	Lender survey / interview
Applicants, borrowers, and community - How has the capital impacted PoC borrowers and their communities?		
Applicant experience	Applicant / Borrower felt respected, listened to; Did not experience bias, racism; Impactful / helpful TA; Efficient / Not burdensome; Timeline supports immediate need; Clear and supportive/ easy to complete; Support for completing applications and for addressing shortcomings; Network and resource access	Applicant survey
Borrower experience		Borrower Survey
Impact of capital to the borrower	Asset / equity / wealth building (business, home); Improved Credit; Increased income (business success, education), Increased financial stability (paid off expensive debt)	Borrower Survey
Impact of borrower capital on community	Borrower use of capital results in business retention, land and property acquisition or retention, critical products or services, education, health, leadership development, justice, safety, quality jobs, cultural support, or other benefits to individuals	Borrower Survey (business borrowers)

Impact Area	Description/expectations	Systems / Method
	that are economically disadvantaged and/or from systematically excluded groups	
Lending Institution - What permanent changes to the lender institution expanded beyond the pilot program?		
Training program impact	Any changes to lender staff knowledge, attitudes or actions due to URJ trainings delivered	Lender course participant survey
Culture changes	Any changes to lender philosophies, attitudes, commitments or collaboration protocols	Lender survey / interview
Permanent changes to lending	Any new or changed loan/credit programs or policies	Lender survey / interview
Staff and board changes	Any changes to the composition of staff or board that reflect better racial representation. Any changes that reflect more people with committedness and skill sets related to racial justice	Lender survey / interview
Permanent changes to other programs, processes	Any other new or changed programs or policies	Lender survey / interview
Relationship development	Any new or changed relationships with priority community members, racial justice groups, regulators, funders, investors, or other key stakeholders	Lender survey / interview
Other lender goals	Achievement of any other goals the lender has, such as help meet regulatory or funder requirements (CRA, CDFI, ECIP, etc), grow loan portfolio and interest income, or others	Lender survey / interview
Lending Institution - Industry Influence - How have the lenders influenced the financial industry?		
Industry impact	List/description of ways in which the lender has shared learnings, material, or other information with lenders or others in the industry, and any knowledge of changes made as a result	Lender survey / interview
URJ Participants - Staff from Lending Institution - How did the URJ pilot impact the participants themselves?		
Information	Description + multiple choice list of any key new information learned by URJ Pilot participants	Lender survey / interview

Impact Area	Description/expectations	Systems / Method
Beliefs	Description + multiple choice list of any key new beliefs by URJ Pilot participants	Lender survey / interview
Action	Description + multiple choice list of any key new actions taken by URJ Pilot participants	Lender survey / interview
Relationships	Any new or strengthened professional relationships	Lender survey / interview

Table 2: Sample Lender Data

This provides a general sense of the type of data pilot lenders will provide for analysis on a quarterly basis. For lenders that prepare Trial Balance reports, the report provided would essentially be the Trial Balance with a few additional fields, such s race.

		Borrower and Credit Profile								Decision		Loan									Performance/ Payment					
	Applicant Borrower ID #	Zip	Race	Gender	Income	Credit Score	LTV	DTI	PTI	Decision	Adverse Action Reasons	Date of Issue	$ Amt	Type	Use	Collateral	Fee	Term	Interest Rate	Risk Rating	30 days	60 days	90 days	Default	Forebear	Restructure
Loan ID #																										
Loan ID #																										

Sample Reports
Coming soon

Appendix I:
Principles for Regenerative Finance

Narrative Change. Regenerative finance is about changing the way investments and lending products are designed, distributed, and used. It aims to change the power dynamics of finance by increasing ownership, wealth, opportunities, and accountability in the community. Return on investment is not the end goal. Investments with a neutral financial gain are considered positive when value to the community is the goal, rather than a secondary benefit.

Design: Community Engagement. Members of the community have the opportunity to participate in all aspects of planning including design, pricing, governance, ownership, and evaluation. The goal is to democratize power and shift economic control. The community should agree that the purpose of the funds is not extractive to their community. The community can also assess an application experience to ensure it is accessible and easy to navigate.

Experience: Staff Engagement. When aiming to increase capital to a group within the community, people from that community ought to be on the team making the investment and underwriting decisions. Staff that are given anti-racism and anti-bias training are better equipped to help further regenerative principles. People at all levels of the organization, from the C-suite to the entry level roles have a role to play toward the end goal. Front line employees can help identify the biggest challenges for clients in the process, and upper-level employees can ask what needs to be done to alleviate these hurdles. Any work or advising on this matter should be recognized and compensated.

Purpose: Add more value than you extract. Short application processes increase the benefit to the community. Application fees and late fees are extractive and could put a participant in a harder financial position. No return should be greater than the amount of wealth generated in the community. Free financial education should be standard practice. Ask and listen to what the community says they need for a program to be successful. If the community can't recognize their own ideas in it, it's not the right solution.

Demonstrate positive change. Surveys conducted with staff and people in the area can determine if the program is bringing benefit and wealth to the community. Changes in financial metrics can include credit score, short-term or high-interest loan usage, ownership of assets, and savings and retirement balances. A comparison of the results with metrics from standard or previous programs will gauge the program's success. The aim is to make each iteration more reflective of ideas from your community with more wealth generated each time.

These principles have been sourced from and inspired by URJ working group discussions as well as from the work of Justice Funders Network, RSF Social Finance, Seed Commons, Transform Finance, and *Real Impact* by Morgan Simon.

Appendix J:
Links to Data Sources for SPCP Plans

Banks' SPCP plans must include a section that demonstrates the need for the program. Here are some studies and articles lenders can use when preparing this section of their plans.

1. Board of Governors of the Federal Reserve System, Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances (Sept. 28, 2020), https://www.federalreserve.gov/econres/notes/feds-notes/disparities-in-wealth-by-race-and-ethnicity-in-the-2019-survey-of-consumer-finances-20200928.html.

2. U.S. Census Bureau, Gaps in the Wealth of Americans by Household Type (Aug. 27, 2019), https://www.census.gov/library/stories/2022/08/wealth-inequality-by-household-type.html.

3. Fed. Reserve Bank of N.Y., Credit, Income and Inequality (June 2020), at 1 https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr929.pdf

4. Fed. Reserve Bank of N.Y., Double Jeopardy: COVID-19's Concentrated Health and Wealth Effects in Black Communities (Aug. 2020), https://www.newyorkfed.org/medialibrary/media/smallbusiness/DoubleJeopardy_COVID19andBlackOwnedBusinesses

5. Fed. Reserve Bank of Minn., COVID-19 and Indian Country: Early snapshot reveals disproportionate economic exposure and uncertainty (Apr. 10, 2020), https://www.minneapolisfed.org/article/2020/covid-19-and-indian-country-early-snapshot-reveals-disproportionateeconomicexposure-and-uncertainty.

6. Fed. Reg. at 3762, 3764–65 (Jan. 15, 2021); see also Susan M. Bernard and Patrice Alexander Ficklin, Expanding Access to Credit to Underserved Communities
7. Fed. Reserve, Report on Minority-Owned Firms (Dec. 2019), https://www.fedsmallbusiness.org/medialibrary/fedsmallbusiness/files/2019/20191211-ced-minority-owned-firmsreport.

8. Consumer Finance Protection Bureau, Data Point: 2019 Mortgage Market Activity and Trends (June 2020), at 36, https://files.consumerfinance.gov/f/documents/cfpb_2019-mortgage-market-activity-trends_report.pdf.

9. Black Wealth Data Center

10. Urban Institute reports: SPCP, racial wealth gap

11. Credit Sesame Report