beneficial state foundation

UNDERWRITING FOR RACIAL JUSTICE

Character and Relationship Assessment Review Tool

This tool is designed to help lenders reflect on and refine how they use information, relationships, and processes in character-based and relationship-based decisionmaking. It combines guiding questions with concrete practices, offering both a quick-scan resource and a deep dive into potential improvements.

How to Use This Tool

Quick Scan: Focus on the "Ask" questions to identify where your practices may need review.
Deep Dive: Explore the "Consider" lists for specific actions your institution can adopt or adapt.
Ongoing Practice: Revisit regularly as part of portfolio reviews, product development, staff training, and community engagement planning.

1. Information:

Ask yourself:

- ☐ What are we really trying to learn when assessing "Character": trustworthiness, preparation, or financial behavior?
- ☐ Which information is truly valid for determining likelihood to repay?
- ☐ Are we using signals that are predictive and accurate, or just familiar and comfortable?
- ☐ Could certain traits (such as polished communication or timeliness) reflect privilege more than repayment ability?
- ☐ How might the information we rely on unintentionally introduce bias?

Consider these practices:

- ☐ Create standardized questions that guide applicants to describe repayment plans and strategies for managing hardship.
- ☐ Provide opportunities for applicants with thin files to share stories of resilience, resourcefulness, and financial creativity.
- ☐ Remove application requirements that do not directly indicate repayment ability, reducing burden on applicants and staff.
- ☐ Regularly test and review whether each piece of information is predictive and unbiased before using it in decisioning.

2. Relationships and Affiliations

Ask yourself:

Which relationships influence our decisions? Consider whether you rely on:

- ☐ Direct relationships with the institution – personal connections to staff, existing customer accounts, or participation in internal programs.
- ☐ Relationships through partners – referrals from trusted TA providers, co-lenders, nonprofits, or community organizations.
- ☐ Applicant's own networks and ecosystem – vendors, suppliers, customers, or personal references from family, friends, and supporters.
- ☐ Social signals and affiliations – shared memberships, community ties, or online and social media presence.

Also ask:

- ☐ Are these relationships equitably accessible, and how might they reinforce inequities if not?
- ☐ Which types of relationships provide valid, repayment-related insights, and where might bias or favoritism creep in?
- ☐ What safeguards can minimize the risk of bias?

Consider these practices:

- ☐ Document in credit memos whether a relationship was used in decisioning and how it was validated.
- ☐ Ensure that direct familiarity with staff does not create "halo effects" or fast-tracking.
- ☐ Proactively ask applicants if vendors, suppliers, or landlords can provide repayment references.
- ☐ Diversify technical assistance partners and community referrers.
- ☐ Implement a community advisory council or include community members from communities of color on credit committees.
- ☐ If using social media or online signals, apply them consistently, explain their relevance, and give applicants a chance to provide context.

3. Methods and Processes

Ask yourself:

- ☐ Are our applications, interviews, and follow-ups designed with transparency and equity in mind?
- ☐ Do our processes unintentionally penalize applicants with multiple jobs, limited English proficiency, or low tech access?
- ☐ Are our criteria and timelines clear and predictable for applicants?

Consider these practices:

- ☐ Simplify application forms, provide translations, and remove or clearly explain all financial terms.
- ☐ Share turnaround time expectations, offer multiple communication methods, and provide proactive applicant support.
- ☐ Normalize applicants asking questions or seeking help, framing it as engagement rather than weakness.
- ☐ Offer reference forms for vendors, suppliers, landlords, and housing authorities to make the applicant's repayment record easier to provide.
- ☐ Invite applicants to present directly to credit committees when it would help them tell their story.
- ☐ Standardize due diligence procedures across applicants and review to ensure that these are applied consistently.
- ☐ Establish policies to ensure staff do not add opinions or extraneous personal information to underwriting files or verbally.

4. Building Capacity and Community Trust

Ask yourself:

- ☐ Does our staff and leadership reflect the community we serve?
- ☐ Are we building long-term, authentic relationships in communities of color?
- ☐ Have we created pathways that open access before applicants ever seek a loan?

Consider these practices:

Workforce and Training

- ☐ Hire and promote staff and board members who reflect the community and bring lived experience.
- ☐ Employ staff who speak the primary languages of your borrower base.
- ☐ Diversify credit committees to include community representatives.
- ☐ Provide ongoing training in cultural sensitivity, bias awareness, and trauma-informed practices.

Community Engagement

- ☐ Actively participate in community organizations and build long-term relationships through staff and leadership engagement
- ☐ Proactively reach out to communities of color with deposit accounts, credit-building programs, incubators, and technical assistance.
- ☐ Create referral incentives for borrowers to bring in peers.

- ☐ Offer low or no-cost deposit accounts that help unbanked individuals, including people of color, establish relationships before applying for credit.
- ☐ Adjust compensation and incentives so that closing loans for borrowers of color is valued alongside overall loan volume.