




**PROJECT
REACH**

Roundtable for
Economic Access
and Change

 Office of the
Comptroller of the Currency

PROJECT REACH

A LOOK BACK AT
THE FIRST YEAR



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REMOVING BARRIERS TO FINANCIAL INCLUSION

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PROJECT REACH: REMOVING BARRIERS TO FINANCIAL INCLUSION

By Michael J. Hsu, Acting Comptroller of the Currency

Project REACH has achieved significant progress in its first year, thanks to the efforts of leaders of banks, civil rights groups, and community development organizations. I applaud them and urge them to think big and act boldly because their work is incredibly important, especially now. Over time, their collaboration will reduce structural barriers and expand financial access and economic opportunity for millions of underserved individuals and small businesses who now can't fully benefit from our nation's economy.

This newsletter looks back on the first year of Project REACH.

The articles highlight emerging collaborations in expanding financial inclusion for communities of color and narrowing the nation's growing racial wealth gap. Specifically, the articles review the progress achieved by four [Project REACH workstreams](#): (1) Alternative Credit Scoring Utility; (2) Affordable Homeownership; (3) Revitalizing Minority Depository Institutions; and (4) Small Business Opportunity.

While these workstreams are national in scope, the path to economic inclusion benefits from local stakeholders expressing their needs and providing suggestions for overcoming

unique economic barriers in their areas. Recognizing this, Project REACH in its first year launched a Los Angeles-area workstream and in its second year is launching regional workstreams in Dallas, Detroit, and Washington, D.C.

Project REACH focuses on reducing the following barriers:

- » Lack of usable credit scores for 45 million individuals and inability to access credit.
- » Low rates of homeownership for minorities.
- » Poor access to capital for minority-owned small businesses and entrepreneurs.

Removing these barriers will expand financial inclusion and help millions of minorities improve economically as the U.S. economy emerges from the coronavirus pandemic.

A key Project REACH objective is strengthening the capacity of minority-owned depository institutions, which in some minority communities may be the only financial institutions fulfilling the financial needs of individuals, families, and small businesses. In signing the [Project REACH Minority](#)



Some of Project REACH's large bank participants are opening up their ATM networks at no cost to customers of partnering minority depository institutions.

Depository Institution Pledge, 23 banks have agreed to invest in and support minority depository institutions to help them expand financial and capital access and narrow the racial wealth gap in the communities they serve.

“Project REACH has mobilized stakeholders who speak on behalf of the people that banks need to

reach to help close the racial wealth gap,” said Gigi Dixon, who is in charge of Wells Fargo’s External Engagement, Diverse Segments, Representation & Inclusion. “Personally, as a 27-year veteran of Wells Fargo and as a Black woman, I believe Project REACH has provided a powerful and meaningful platform for achieving progress toward racial equity.”

In marking Project REACH’s first anniversary by highlighting progress thus far, the OCC wants to thank and recognize the good work and contributions of all Project REACH participants. We also want to inspire greater Project REACH participation, progress, and action toward full and fair financial inclusion for all in the initiative’s second year and in decades to come.

Revitalizing Minority Depository Institutions to Drive Financial Inclusion and Access

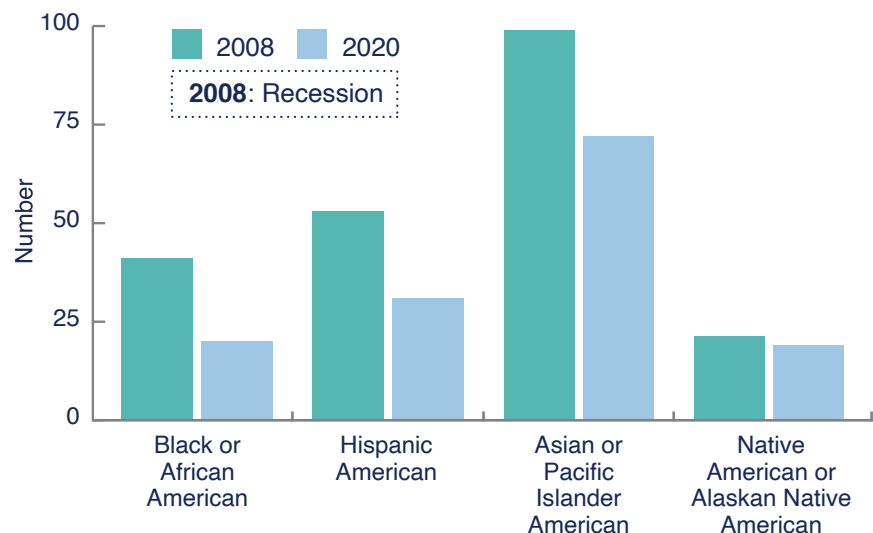
By William D. Haas, Project REACH Senior Advisor

Project REACH is working to revitalize minority depository institutions (MDI) as critical drivers for expanding financial and capital access and wealth creation opportunities for individuals, families, and small businesses in minority communities across the nation.¹

MDIs provide critical credit and financial services in underserved communities, and they serve as trusted partners for those who otherwise lack trust in the broader financial system. Project REACH’s MDI Revitalization Initiative² is helping connect larger banks with MDIs, better enabling MDIs to deliver fair, equal, and full access to financial products and services in the minority communities they serve.

Today, 142 MDIs provide vital resources to communities across the nation. This represents a significant decline from before the Great Recession began in 2008,

Figure 1: Change in the Number of Minority Depository Institutions (2008-2020)



Source: Federal Deposit Insurance Corporation, FDIC-Insured Minority Depository Institutions, Minority Depository institutions Program, Year-End Totals, 2001-2020.

as figure 1 shows.³ MDIs can face challenges competing with larger banks. Challenges include accessing capital, adopting new technologies,

and modernizing their operational infrastructures to meet customers’ evolving demands for digital banking and other services.

In December 2020, the OCC announced the launch of the “Project REACH Pledge to Strengthen Minority Depository Institutions.” To date, 23 community, midsize, and large banks have adopted the pledge. These banks pledge to partner with MDIs and support MDIs’ critical mission. The pledge encourages the adopting banks to invest in and commit resources to help MDIs expand their capacity to deliver products and services; to provide technical assistance and staff talent development; and to create business opportunities for MDI customers.

This support comes at an opportune time for MDIs and minority communities struggling to emerge from the pandemic. As with previous financial crises, the pandemic disproportionately harmed minorities, compounding racial wealth and income inequalities.⁴

The following examples highlight the importance of MDI collaboration. These efforts may mutually benefit each of the partnering banks.⁵

CARVER FEDERAL SAVINGS BANK’S COLLABORATIONS

Carver Federal Savings Bank ranked at the end of 2020 as the nation’s second-largest of 20 Black-owned or -managed MDIs.⁶ Carver has, since its founding in Harlem, New York, in 1948, continuously served the needs of Black communities, whose unbanked, underserved residents have limited access to mainstream financial services.⁷ In the past

year, Carver has received more than \$30 million in capital infusion from large banks. Carver has also received technical and consulting support from a collaboration between Citibank, Deloitte, and the National Bankers Association (NBA). Without this support, Carver could not have accessed or afforded Deloitte’s consulting services, said Michael Pugh, Carver Bank President and Chief Executive Officer.

“The MDI pledge and Project REACH are galvanizing resources and stakeholders to come together to think about ways to strategically solve racial inequities and the wealth gap,” Pugh told the OCC. “Our collaborations with larger banks have been very beneficial and added value.” Carver’s collaborations with Wells Fargo, Capital One, JPMorgan Chase, and other banks have helped refine Carver’s operating model, internal controls, analytics, and operational efficiency. As an example, he said, loan participations with Valley National Bank were helpful because occasionally Carver is asked to finance deals beyond the bank’s legal lending limit. “Rather than turning customers away, we have created solutions to serve them,” Pugh said.

In addition, Pugh said Project REACH has helped to improve Carver’s capacity as well as that of other MDIs serving Black communities. “The capital we’ve received and the partnership opportunities we now have are really important to help us thrive and continue to serve the communities we are in,” Pugh said. “We can serve minority communities, which is sometimes not profitable for other banks, and fulfill our mission to reinvest 80 cents of every dollar deposited at Carver into our communities.”

FIRST NATIONAL BANK OF OMAHA SUPPORTS WOMAN-OWNED MDI

First National Bank of Omaha, an MDI pledge signatory in Nebraska, recently announced its support for First Women’s Bank. This de novo commercial bank’s mission is to grow the economy and advance the role of women within it by helping to close the gender lending gap. First Women’s Bank is headquartered in and focused on Chicago, a multicultural city where two-thirds of the residents are minorities. Chicago has a high population of women-owned businesses, which grew by 47 percent from 2017 to 2018. Chicago boasts the highest percentage of female business founders in any city in the world, according to First Women’s Bank.

In addition, the First National Bank of Omaha has sought to collaborate with MDIs serving other minority communities, including an Asian community in California. Some discussions are ongoing; others ended without a partnership. Each discussion gave First National Bank of Omaha executives greater understanding of the needs of MDIs and minority communities and how to form effective partnerships to expand financial inclusion and access, according to Alec Gorynski, First National Bank of Omaha’s Vice President of Community Development, Corporate Philanthropy, and Social Responsibility. “You may assume you know what a minority community or MDI wants and needs, but if you listen with open ears, you may learn their needs are different than what you expected,” said Gorynski.

STEARNS BANK COLLABORATIONS

After joining OCC MDI collaboration meetings, Stearns Bank President and Chief Executive Officer Kelly Skalicky formed bank partnerships that have delivered unexpected benefits to her St. Cloud, Minn.-based bank. “It’s been fascinating,” she said. “The more you partner with other banks, the more you learn partnerships can be mutually beneficial.”

First, by partnering with Bank of Whittier, an MDI based in Whittier, Calif., Stearns received new business opportunities and learned how to better serve growing minority communities in Minnesota. “We have been trying over the past few years to provide more banking services, including non-interest-bearing financing, to the growing Somali and East African communities in St. Cloud and throughout Minnesota,” she said. The Stearns team was closely guided in this effort by Dr. Yahia Abdul-Rahman, Bank of Whittier’s Chairman and Chief Executive Officer, who is well versed in Islamic banking and finance issues.

“It was an amazing learning opportunity for us,” Skalicky said, and one of several information exchanges by the partnership. Stearns also shared with Bank of Whittier interest-free home loan requests and material on its U.S. Small Business Administration training and lending. Bank of Whittier sent Stearns Bank several large Sharia-compliant commercial opportunities, and the two banks are discussing other information exchanges and possible loan participations.

A second partnership was formed after Skalicky heard Dr. Jody Lee, Southwestern National Bank’s Board Chairwoman, suggest during an OCC MDI Advisory Committee meeting collaborating with Texas Southern University’s (TSU) Future Bankers Leadership Program. “Brilliant, I thought, so I called Jody right away,” Skalicky said. “MDIs told us recruiting talent was difficult; we have a hard time recruiting a diverse population of workers, and we are missing out on a lot of talent at TSU and other historically Black colleges and universities (HBCU).”

The result: Stearns and Houston-based Southwestern Bank plan to recruit on HBCU campuses for full-time employees and with TSU Future Bankers students for a shared, eight-week summer paid banking internship program. She envisions interns spending four weeks with Stearns and four weeks with Southwestern, and eventually, other banks doing likewise as they

seek to build the diverse workforce needed to reach and expand financial inclusion in minority communities across the nation. “I believe in Project REACH’s mission, and in MDIs as an essential part of our banking system,” Skalicky said. “As banks, none of us can do everything needed to serve minority communities, so we have to do a good job of partnering together so we can serve customers better.”

ZIONS AND AMEGY BANKS' MDI SUPPORT

Zions Bancorporation is one of 23 signatories to the Project REACH MDI Pledge. Amegy Bank, the Texas-based operation of Salt Lake City-based Zions, is supporting and helping to revitalize MDIs with two partnerships. First, Zions’s former chief risk officer volunteered to consult with the management of Unity Bank, a Houston-based



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MICHAEL PUGH

President and Chief Executive Officer, Carver Bank

MDI, on regulatory compliance and to provide board training and executive-level education.

“This partnership grew out of the MDI pledge and a relationship that Amegy has had with Unity since 2005,” said Jevaughn Sterling, Amegy Bank’s Executive Vice President and Regional Commercial Banking Manager. “We’ve always found ways to include Unity in loan participations, to provide technical assistance, and work on a technology platform,” Sterling said.

“With Project REACH’s MDI pledge, we had the opportunity to

formalize this work and to take a preferred investment to provide the bank capital.”

“Amegy Bank has been a long-standing partner of Unity National Bank of Houston, and their recent capital investment along with significant technical support will allow us to continue growing our bank for the future,” according to Laurie Vignaud, President and CEO of Unity National Bank of Houston.

In addition, Project REACH connected American Plus Bank, an MDI based in Arcadia, Calif., with Zions and Amegy to share technical expertise

on Bank Secrecy Act and anti-money laundering compliance. In exchange, the three Amegy experts assigned to work with the MDI gained insight from American Plus Bank’s Chinese American staff about how the 13-year-old bank serves its Asian community.

“This kind of cross-cultural partnership requires intentionality,” Sterling said. “Conversations through Project REACH are desensitizing tough topics and allowing us to lean in and create impactful partnerships that are helping to make a difference.”

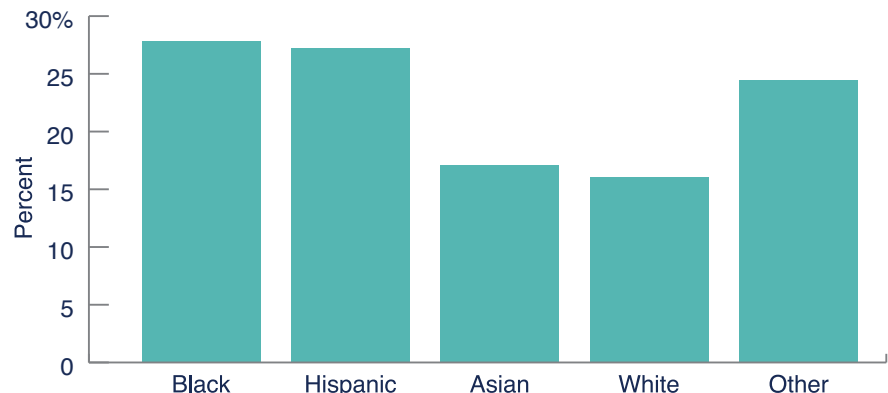
Expanding Financial Inclusion for Credit Invisible Consumers and Businesses

By Grovetta Gardineer, Senior Deputy Comptroller for Bank Supervision Policy

Forty-five million Americans—disproportionately poor and minority—lack traditional credit scores and can’t get mortgages, credit cards, or other bank loans. While millions of them may regularly pay rent, utilities, and other financial obligations on time, for decades their positive payment histories have been invisible to credit bureaus and traditional credit providers.

The goal of Project REACH’s Alternative Credit Scoring Utility workstream is to identify and evaluate models that are predictive of credit behavior using alternative data, such as

Figure 2: Consumers With No Credit History or With Unscoreable Credit Record by Race or Ethnicity



Source: Consumer Financial Protection Bureau’s Data Point: Credit Invisibles Report (2015), table 7, page 33.

demand deposit transactions, rent payments, or bill payments. Some banks have worked with technology firms to develop a program to evaluate alternative data to boost the creditworthiness of gig workers. Some banks have explored ways to extend credit to minority entrepreneurs and small business owners who fund their businesses by maxing out personal credit cards if they can't qualify for small business loans. Funding businesses by maxing out personal credit cards often ruins personal credit scores.

Critical to this workstream's goal and those of other Project REACH workstreams are the representatives of nationally recognized community and consumer advocacy organizations that are intimately familiar with the needs of minority communities. Operation HOPE, the National Urban League, and other Project REACH participant organizations have for decades educated, supported, and guided consumers facing challenges with credit access through the credit application journey.

One early sign of success: 10 large banks plan to launch a pilot program this year in which they will share data from customers' deposit accounts to extend credit to customers who have previously lacked opportunities to borrow.⁸ Among those joining the pilot are five banks in the Alternative Credit Scoring Utility workstream. The banks will factor in information from applicants' checking and savings accounts at competitor banks to increase the chances that, even without credit scores, these applicants can be approved for credit cards.

The pilot program may lead to changes in longstanding bank underwriting. For decades, banks have made underwriting decisions based primarily on an applicant's borrowing history, as judged by credit scores and credit reports. The nation's three credit bureaus typically have tracked and used credit repayment performance for a specified number of tradelines over a particular time period in scoring consumer creditworthiness.

Modernizing these traditional credit bureau practices to also consider alternative cash flow data that have an understandable relationship to creditworthiness⁹ could benefit minority consumers, business owners, and entrepreneurs alike.

Minority business owners have more difficulty accessing business

credit than their peers and rely to a greater extent on personal credit cards and savings, resulting in credit scores that tend to be lower than those of nonminority business owners.¹⁰ There is evidence that using data from business bank accounts, accounting software, e-commerce platforms, and payment processors can help expand credit access for small businesses. An empirical analysis of six nonbank credit providers, conducted by FinRegLab, a nonprofit think tank, found cash flow data to be predictive of credit risk across providers, products, and borrowers.¹¹ To learn more about the challenges that minority businesses face, read this newsletter's article titled "Expanding Access to Capital for Minority Entrepreneurs and Small Businesses."



One early sign of success: 10 large banks plan to launch a pilot program this year in which they will share data from customers' deposit accounts to extend credit to customers who have previously lacked opportunities to borrow."

GROVETTA GARDINEER

Senior Deputy Comptroller for Bank Supervision Policy
Office of the Comptroller of the Currency

Increasing Minority Homeownership, Affordable Housing, and Generational Wealth

By Barry Wides, Deputy Comptroller for Community Affairs

Homeownership is the primary way most individuals and families build wealth in the United States. Yet the homeownership rate for Blacks, Hispanics, Asian Americans, and Native Americans significantly trails that of non-Hispanic Whites.¹² Reducing this racial homeownership gap is the goal of the Project REACH Affordable Homeownership workstream.

ASSISTANCE PROGRAMS FOR LOW DOWN PAYMENTS AND CLOSING COSTS

Down payment and closing costs are often the greatest barriers to homeownership. By leveraging stakeholder input through Project REACH, the following three participant banks recently launched or expanded down payment or closing cost assistance programs to help low- and moderate-income (LMI) individuals:

WELLS FARGO DOWN PAYMENT ASSISTANCE PROGRAM

The Wells Fargo Foundation re-launched its NeighborhoodLIFT



Siblings Leah and Kenneth Martinez say that NeighborhoodLIFT made the difference in helping them become first-time homeowners of the house next door to their family home in Los Angeles. "Qualifying for a NeighborhoodLIFT grant gave us the piece of the puzzle we needed ... [to] lift us up to fulfill our dream," said Leah Martinez.

Photo Credit: Hector Batista, Wells Fargo

down payment assistance program in Minneapolis-St. Paul and in California's Bay Area counties of Alameda, Contra Costa, San Francisco, San Mateo, Santa Clara, and Solano. The assistance is provided through a forgivable, interest-free down payment loan to LMI home buyers with no required payments. The loans are \$15,000 for home buyers in Minneapolis-St. Paul and \$25,000 for home buyers in the Bay Area.

The home buyer must complete home buyer education and live in the home as a primary residence

for at least five years. The down payment loan does not need to be repaid as long as the home isn't sold, refinanced, or foreclosed, and the title isn't transferred during those five years. In addition, funding is provided to housing counseling agencies approved by the U.S. Department of Housing and Urban Development (HUD) to provide one-on-one housing counseling for potential LIFT home buyers. This assistance is not tied to getting a NeighborhoodLIFT down payment. The local NeighborWorks America¹³ affiliate in these communities offering

NeighborhoodLIFT administers the down payment assistance. Participating home buyers can obtain mortgage financing from any participating Neighborhood LIFT lender. Since 2012, Wells Fargo has invested \$521 million in NeighborhoodLIFT and LIFT programs across more than 1,000 communities to help 24,784 Americans become homeowners.

WELLS FARGO CLOSING COST GRANTS

In late 2020, Wells Fargo launched a program to assist LMI borrowers in purchasing a primary residence. The program is available in the District of Columbia and 74 counties in 11 states. These closing cost grants, of up to \$5,000, may be used in conjunction with a conventional or conforming mortgage, a fixed- or adjustable-rate mortgage guaranteed by the U.S. Department of Veterans Affairs, or a U.S. Department of Agriculture fixed-rate mortgage from Wells Fargo Home Lending. That includes Wells Fargo's "Dream. Plan. Home." mortgage, which allows for down payments as low as 3 percent. Wells Fargo's grant can be used for a range of closing costs, such as a home appraisal, processing and recording fees, and other one-time costs paid up front at mortgage closing.

HUNTINGTON DOWN PAYMENT ASSISTANCE PILOT PROGRAM

In March 2021, Huntington launched a low down payment, low closing cost pilot program to help LMI home buyers in four

cities: Toledo and Columbus, Ohio; Detroit; and Huntington, W.Va. In each city, Huntington is working with counseling organizations to reach out to prospective minority LMI individuals seeking to acquire homes in LMI neighborhoods. These organizations would also provide home buyer counseling to the borrowers before loan closing.

Under the pilot program, the borrower can provide a down payment of as little as 5 percent, which may include gifts or other forms of down payment assistance, with Huntington providing an additional down payment assistance loan equal to 15 percent of the purchase price. The combination of these two loans brings first mortgage loan-to-value ratio down to 80 percent, thus avoiding mortgage insurance. The down payment assistance loan will carry a 0 percent interest rate, and no monthly payments are required. The loan is repayable when certain events occur, such as home sale or refinance. With Huntington's closing cost promotion available to LMI borrowers in LMI census tracts, borrowers pay \$500 in Huntington-required closing costs. This usually saves borrowers at least \$2,000 in closing costs.

JPMORGAN CHASE HOME BUYER GRANT

In October 2020, JPMorgan Chase expanded its Chase Home Buyer Grant Program to include a \$5,000 grant for home buyers using its DreaMaker products and Chase's products provided through Fannie Mae, Freddie Mac, Federal Housing Administration, or Veterans Affairs to purchase a home in 6,700 Black-majority neighborhoods. The grant money

may be put toward a down payment (subject to investor requirements) or closing costs. Customers under the Chase Home Buyer Grant program receive an additional \$500 if they complete a home buyer education course with a HUD-approved counseling agency and qualify for Chase's DreaMaker product. The expanded grant program will help Chase achieve its commitment to originate an additional 40,000 home purchase loans for Black and Latinx households over the next five years. Additionally, Chase offers \$2,500 grants for home buyers using its DreaMaker products and Chase's products provided through Fannie Mae, Freddie Mac, Federal Housing Administration, or Veterans Affairs to purchase a home in an LMI census tract. If the home is located in both a Black-majority neighborhood and an LMI census tract, the customer will receive the greater of the two grants.

Chase provides a \$2,500 grant to customers who refinance with the firm's DreaMaker product to help current homeowners, who may not be able to afford the upfront cash needed to refinance, take advantage of historically low interest rates. This grant will help Chase reach its commitment to help an additional 20,000 Black and Latinx households achieve lower mortgage payments through refinancing loans over the next five years. Chase has committed to \$4 billion in mortgage refinancing originations in underserved communities.

In addition, Chase plans to amplify education and counseling programs to prepare more Black and Latinx communities for sustainable homeownership. To promote lasting and responsible homeownership, Chase will further its work with counseling entities across a wide range of nonprofit relationships to develop, maintain, and innovate

home buyer readiness programs. As part of this effort, Project REACH nonprofit participant organizations connected Chase to 17 of their affiliated housing counseling organizations.

OTHER ACTIONS TO EXPAND MINORITY HOMEOWNERSHIP

The Project REACH Affordable Homeownership workstream is focused on other programs and actions to help increase minority homeownership by exploring the following topic areas.

EQUITY SHARING FOR DOWN PAYMENT:

Project REACH participants are considering whether there are circumstances in which an equity share model may benefit LMI home buyers or owners. Under an equity share model, a borrower leverages a portion of funds for a down payment through an investor, philanthropic source, or government agency. The third party would contribute funds for a down payment in exchange for earning a portion of the appreciated future value of the home.

CREDIT SCORING: There were participants on the workstream who raised an important issue regarding the mortgage industry's reliance on credit bureau data in the underwriting process. Relying on credit scores disproportionately inhibits access to mortgage loans for minorities who have no or low credit scores. Because credit bureau scoring typically excludes payments on non-credit recurring payments, such as rent and utilities, credit scores do not provide a full financial profile. Project REACH is exploring how alternative data that track

rent and other recurring payments can be used in the mortgage underwriting process to provide a fuller, fair profile of the borrower's repayment capacity.

SPECIAL PURPOSE CREDIT PROGRAMS:

The Equal Credit Opportunity Act allows special terms to be offered to disadvantaged classes of borrowers to expand their access to credit pursuant to a legally compliant special purpose credit program.¹⁴ Banks are exploring ways to offer special terms on rates, down payments, and closing costs to minority home buyers and those living in minority communities.

IMPROVING BANK EDUCATION AND OUTREACH TO MINORITY COMMUNITIES:

The workstream is discussing developing or expanding relationships with HUD-approved home buyer counseling agencies operated by Project REACH participants and other nonprofit groups. One option is to seamlessly hand off denied mortgage applicants to HUD-approved counseling organizations, replacing "no" responses with "not quite yet." Working with home buying counselors may help prospective home buyers make adjustments so they can qualify for mortgages.

EXPANDING SUPPLY OF ACCESSIBLE HOUSING INVENTORY:

This workstream is looking at ways to expand the supply of accessible single-family homes. Home builders are constructing proportionately fewer homes for first-time buyers and homes at the lower end of the price range. The workstream seeks to expand the capacity of nonprofit housing developers to renovate and resell foreclosures and other vacant properties to LMI buyers. This workstream is also looking at

repurposing commercial properties for residential use.

BUYER FIXER-UPPERS: The workstream seeks to make financing more accommodating of buyers wanting to purchase or improve homes in need of renovation. Making renovations on lower-cost homes in some distressed communities is challenging. Efforts often are stymied because comparable values aren't available for homes that have undergone substantial renovation. The lack of good valuations often means the purchase price plus renovation costs exceed the after-rehabilitation appraised value. This requires cash-strapped home buyers to come up with additional money to bring the loan-to-value ratio below 100 percent. Project REACH is looking at valuation protocols used in such instances and whether greater clarity could be provided to the industry.

ACCESSORY DWELLING UNITS:

Project REACH's Los Angeles-area workstream is looking at how rental income from accessory dwelling units could increase homeownership affordability. The workstream has found that financing for renovating accessory dwelling units is challenging because of underwriting and valuation policies that may not always take into account the borrower's future rental income from these units.

SECURITIZATION MARKET ISSUES:

Workstream participants are looking into whether efficiencies can be gained in the mortgage securitization market that could reduce rates and fees for borrowers. One focus is the use of the credit risk transfer structure. Some participants have

suggested that enterprise and social governance investors might be interested in securities backed by mortgage loans to LMI buyers, in minority communities, and in distressed areas.

VALUATION BIAS: The workstream is working to facilitate improvements in the home appraisal and property valuation

process, making sure that banks have the valuation information and data they need to underwrite their loans and manage their risks and that the process is fair, objective, and free from bias. This workstream is also helping to address valuation bias issues through the Interagency Task Force on Property Appraisal and Valuation Equity.

INDIAN COUNTRY: Another area of focus is expanding homeownership throughout Indian Country. Workstream participants include banks and Native American housing and finance organizations that are intimately familiar with the barriers to homeownership in tribal areas and are identifying solutions.

Expanding Access to Capital for Minority-Owned Small Businesses and Entrepreneurs

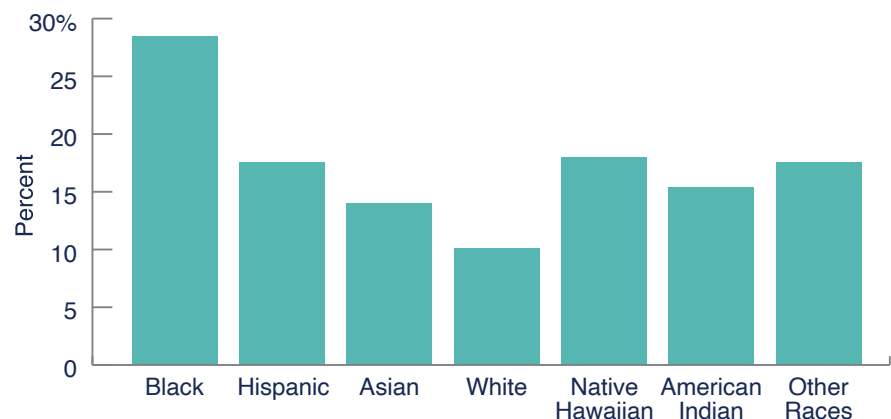
By Andrew Moss, Director for Minority Outreach

Project REACH's Small Business Opportunity workstream evaluates models and strategies that facilitate loan participations, consortium lending, and other options that could help level the playing field and expand financial inclusion for small and minority-owned businesses.

Small businesses employ nearly half of all U.S. workers and are an important source of innovation, wealth creation, and job creation in communities across the nation. Now, even as the economy recovers, minority-owned small businesses and entrepreneurs struggle to fulfill these roles in underserved, multi-challenged, minority communities harder hit by the pandemic than other communities.

Before the pandemic, the number of minority-owned businesses increased relatively rapidly for several years, but minority-owned

Figure 3: Percent of Small Businesses With Profits Negatively Affected by Limited Access to Capital



Source: Kauffman Foundation calculations from the Census Bureau, Annual Survey of Entrepreneurs (2014), figure 9, page 6.

businesses represented a very modest share of small businesses nationwide. During the pandemic, small businesses suffered, but minority small businesses were hardest hit. In early 2020, the total

number of active businesses fell by 22 percent, while Black-owned businesses fell by 41 percent and Latinx businesses fell by 32 percent.¹⁵

Small and minority-owned small businesses need help now more than ever.

Participants of the Small Business Opportunity workstream are very familiar with the challenges that minority businesses face. Workstream participants understand minority-owned small businesses and entrepreneurs often cannot qualify for bank loans, and instead use their consumer credit cards to launch and even grow their businesses. As a group, minority- and women-owned businesses have more difficulty than other peer groups accessing small business credit because of the relative thinness of their credit files and lower average credit scores.¹⁶ Overextending their card limits or paying their credit card bills late can cause their personal credit scores to fall, which makes qualifying for business loans even more difficult.

To help, workstream participants are examining the challenges of collateral requirements and ways to transition small business entrepreneurs from overusing consumer credit. One option is to help entrepreneurs establish commercial credit profiles and small business identities that meet the qualifications for small business trade lines. Participants are developing a comprehensive guide for entrepreneurs to point them to the resources they need along the business development continuum.¹⁷ Some banks have created and offered virtual procurement showcases for minority-owned enterprises and entrepreneurs from underserved communities to build better business relationships and provide opportunities for growth and expansion.

In addition, workstream participants have researched

models and strategies to facilitate loan participations and consortium lending to minority small businesses. One option being considered is developing consortium models in which minority depository institutions (MDI), community development financial institutions, and larger banks collaborate to support agricultural businesses and emerging commercial enterprises and industries, such as clean energy and broadband, in rural and Native communities.

Workstream participants have evaluated models using alternative consumer credit data in underwriting to improve capital access for minority-owned small businesses and entrepreneurs. Experian, a workstream participant, is developing a white paper that explains how using alternative credit data can expand capital access for minority businesses.

A growing number of banks have indicated interest in expanding credit access for minority individuals and businesses with the use of special purpose credit programs. The interest is fueled, in part, by a recent Consumer Financial Protection Bureau advisory opinion that provided greater clarity about the structuring of these programs.¹⁸

For example, participants of the Los Angeles regional workstream are evaluating how they might develop a region-wide special purpose credit program geared to minority small business stakeholders operating in the Los Angeles area. So the regional workstream participants and other banks are paying attention to the recent launch of a special purpose credit program by Zions Bank, which is a participant of the Small Business Opportunity workstream.

ZIONS' SMALL BUSINESS DIVERSITY BANKING PROGRAM

On May 14, 2021, Zions Bancorporation launched a Small Business Diversity Banking Program through which eligible women-, minority-, and veteran-owned businesses may qualify for loans or lines of credit under a modified credit policy.

The program, which was launched in markets across Zions's footprint, allows eligible small business loan applicants with gross annual revenues below \$10 million to participate if they operate in Arizona, California, Colorado, Idaho, Nevada, New Mexico, Oregon, Texas, Utah, or Wyoming. Through the program, eligible small businesses may qualify for loans or lines of credit under a modified credit policy and terms that match those of conventional small business loans.

Zions cited research showing that women-, minority-, and veteran-owned businesses may be less likely to apply for credit than others. Also, when these businesses do apply for credit under customary bank standards of creditworthiness, they are more likely to be declined or to receive credit with less favorable terms. To increase the availability of credit to eligible businesses, Zions's special purpose credit program relaxes the underwriting standards for small business term loans and lines of credit in areas including credit score, leverage, and liquidity. Additionally, the special purpose credit program seeks to support targeted businesses by offering financial education resources.

Response to the program has been positive, with more than 227 applications received across Zions's footprint through June 30, said Jevaughn Sterling, Executive Vice President and Regional Commercial Banking Manager for Amegy Bank, the Texas operation of Zions. "We're pleased the program is getting traction, and clearly the need is there," he said. The focus in the program's first 90 days is on engaging and training bankers and answering potential applicants' questions, Sterling said. By fall 2021, Zions expects to promote the program more broadly by engaging community partners and other stakeholders.

"Having Project REACH interested in identifying ways to expand financial access was clearly a motivator and gave us reassurance that we were on the right track with a program the market needs," Sterling said.



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JEVAUGHN STERLING

Amegy Bank Executive Vice President and Regional Commercial Banking Manager

NOTES

1. The OCC's *Policy Statement on Minority National Banks and Federal Savings Associations* defines MDIs as any national bank or federal savings association that (1) is not a U.S. subsidiary of a foreign-owned bank; and (2) is at least 51 percent owned by minorities (African Americans, Asian Americans, Hispanic Americans, and Native Americans), women, or socially and economically disadvantaged individuals. With regard to mutual federal savings associations, the OCC may consider a mutual federal savings association an MDI if (1) the majority of the board of directors is minority and the communities that the board serves are predominantly minority or (2) women comprise a majority of the board and hold a significant percentage of senior management positions.
2. Refer to the [OCC's MDI page](#) for more information and resources.
3. While the OCC includes women-owned institutions on its list of MDIs, the FDIC data used in figure 1 do not.
4. Refer to "[Beyond the Case Count: The Wide-Ranging Disparities of COVID-19 in the United States](#)," Commonwealth Fund, September 10, 2020.
5. "Banks" collectively refers to national banks, federal savings associations, and federal branches and agencies of foreign banking organizations.
6. Broadway Federal Bank of Los Angeles and City First Bank of Washington, D.C., announced in August 2020 that they plan to merge in 2021 to create the nation's largest Black-led U.S. bank.
7. Federal Reserve data shows that 49 percent of Black households were either unbanked or underbanked in 2019, compared to 15 percent of White families.
8. Refer to "[JPMorgan, Others Plan to Issue Credit Cards to People With No Credit Scores](#)," The Wall Street Journal, May 13, 2021.
9. For more information, see "[Interagency Statement on the Use of Alternative Data in Credit Underwriting](#)," December 20, 2019.
10. Refer to "[2019 Small Business Credit Survey: Report on Minority-Owned Firms](#)," Federal Reserve Bank of Atlanta, December 2019.
11. Refer to "[The Use of Cash-Flow Data in Underwriting Credit](#)," FinRegLab.
12. According to the U.S. Census Bureau's "[Quarterly Residential Vacancies and Homeownership, First Quarter 2021](#)," the rates were non-Hispanic White, 73.8 percent; Black, 45.1 percent; Hispanic, 49.3 percent; and Asian, Native, Hawaiian, and Pacific Islander, 59.6 percent.
13. Refer to [NeighborWorks America](#).
14. Refer to 12 CFR 1002.8 for the regulatory requirements for special purpose credit programs.
15. Refer to "[The Impact of COVID-19 on Small Business Owners: Evidence of Early-Stage Losses From the April 2020 Current Population Survey](#)," Robert W. Fairlie, National Bureau of Economic Research, June 2020.
16. Refer to "[2019 Small Business Credit Survey: Report on Minority-Owned Firms](#)," Federal Reserve Bank of Atlanta, December 2019.
17. Refer to "[Breaking Down the Black-White Homeownership Gap](#)," Urban Institute, February 21, 2020.
18. In December 2020, the Consumer Financial Protection Bureau issued an advisory opinion addressing regulatory uncertainty regarding Regulation B, which implements the Equal Credit Opportunity Act. The opinion clarified that a for-profit organization must include a written plan establishing and administering a special purpose credit program under Regulation B. The opinion also clarifies the type of research and data that may be appropriate to inform a for-profit organization's determination that a special purpose credit program is needed to benefit a certain class of persons.

PROJECT REACH

A LOOK BACK AT **THE FIRST YEAR**

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