NCRC
National Community Reinvestment Coalition

An Initial Overview of Banking Institutions' Racial Economic Equity Commitments

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About NCRC

The National Community Reinvestment Coalition is a network of organizations and individuals dedicated to creating a nation that not only promises but delivers opportunities for all Americans to build wealth and live well. We work with community leaders, policymakers and institutions to advance solutions and build the will to solve America's persistent racial and socio-economic wealth, income and opportunity divides, and to make a Just Economy a national priority and a local reality. This vision is the foundation of the Just Economy Pledge.

NCRC's unique mix of research, investigations, investments, media, grant-making, training, advocacy, litigation, lending, convening and facilitation strengthens communities of historic disinvestment, expands economic mobility, holds public and private institutions accountable for their impacts, and informs local and national leaders, policymakers and the private sector.

Learn more at ncrc.org.

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The murder of George Floyd in the spring of 2020 pushed discussions about racial equity to the center of national attention. Though sparked by murderous police brutality, the wave of protests across every major American city that summer explicitly extended beyond the critique of state-sponsored racial violence. Protesters and pundits expanded their lens to include wider structural racism across American society – and throughout the US economy. The resulting movement, broadly associated with Black Lives Matter, challenged all sorts of institutions to take action in support of increased racial economic equity – including many that had no direct role in policing. Corporate America found itself confronted with its own role in shaping and retrenching such inequities – and many firms responded by publicly embracing various initiatives designed to redress their legacies of inequitable investment and curtailed economic opportunity. The corporate embrace of racial equity efforts has taken various forms, including pledges of philanthropic capital, revamped internal policies related to diversity in the workplace and commitments to expand or invent new lines of business tailored to the issues that summer made unavoidable..

Three years later, in an attempt to assess the fulfillment and impact of some of those promises, the National Community Reinvestment Coalition (NCRC) reviewed the pledges made by the nation's 25 largest banking institutions and the commitments of leading fintech organizations. Fully documenting those racial equity commitments is challenging, and assessing their impact requires further research and time for review and analysis. One area in which precision is possible, however, is NCRC's key issue space: Homeownership, where cavernous racial disparities help maintain and worsen the overall racial wealth divide. There has been a substantial increase in home mortgage originations to African Americans and Latinos[1] that started in 2018 and has continued with the post George-Floyd Bank mortgage lending commitments.

Another type of equity effort frequently named in corporate pledges from 2020 involved driving capital directly into the hands and communities of the people most brutalized by the status quo, whether through direct corporate philanthropy or by shifting deposit assets to Black-owned financial institutions. Such policies hold promise as a means to strengthen Black institutions and communities – but it appears the influx of corporate racial equity giving greatly declined by as early as 2022.

1 While "Latino" and "Hispanic" are not purely interchangeable terms, we use each in this paper because of labeling differences across relevant data sets.

Key Findings

- **Since 2020, the 25 largest banking institutions have committed to about $140 billion in home lending over five years specifically targeting minority borrowers.**

- **Since 2018, there has been substantial increase in the share of minority and low- to moderate-income (LMI) home purchase originations.** If this increase in home purchase originations continued for 20 years, Blacks, Latinos and LMI borrowers could finally see their share of mortgage lending reflect their demographic representation – though a racial homeownership divide would remain.

- **Since 2020, the 10 largest banking institutions made a commitment of $27.8 billion in small business lending for minority-owned businesses and to businesses in low-to moderate income areas over 5 years.** Recently finalized Section 1071 rules will make it possible to analyze the outcome of these commitments within the next few years, but such an assessment is not possible until that data begins to come out. Similar commitments from tech firms and other prominent corporate actors outside the financial services sector add hundreds of millions more dollars to this total, with an additional focus of supporting Black financial institutions.

- **We are unlikely to see sustained homeownership improvements for Blacks and Latinos if private corporate commitments are the sole or primary driver of market change.** Maintaining and strengthening private corporate commitment to bridging racial economic inequality is important and holds promise for an improved future, but will not be enough without supportive federal policies and Federal Reserve action.

Introduction

> When the architects of our republic wrote the magnificent words of the Constitution and the Declaration of Independence, they were signing a promissory note to which every American was to fall heir. This note was a promise that all men – yes, Black men as well as white men – would be guaranteed the unalienable rights of life, liberty and the pursuit of happiness.
>
> It is obvious today that America has defaulted on this promissory note insofar as her citizens of color are concerned. Instead of honoring this sacred obligation, America has given the Negro people a bad check, a check which has come back marked insufficient funds… We refuse to believe that there are insufficient funds in the great vaults of opportunity of this nation. And so we've come to cash this check, a check that will give us upon demand the riches of freedom and the security of justice.
>
> — **Dr. Martin Luther King, Jr.**, *at the 1963 "March on Washington for Jobs and Freedom"*

The National Community Reinvestment Coalition's (NCRC) members share a vision: To solve America's historic racial and socio-economic wealth, income and opportunity divides. 60 years after the March on Washington for Jobs and Freedom, the need for a national recommitment to that vision is obvious. Holding private institutions and government accountable for promised progress in racial equality must be a part of this recommitment. Sadly this "promissory note" of access to the American Dream in 2023 is still marked "insufficient funds" in terms of bridging racial economic inequality. Following the aftermath of the murder of George Floyd, were corporate commitments to address racial equity sufficient to make substantive progress on addressing racial economic inequality, is the question this report is exploring.

Our nation's largest financial institutions are significant actors in any effort to galvanize the US economic structure from the stubbornly harmful status quo of ongoing economic inequality toward real, rapid progress. **Financial institutions benefit from public support in many forms, from a regulatory structure that encourages competition and innovation to a financial backstop that protects financiers in times of economic turmoil. In return, these institutions are accountable to supporting the creation and preservation of wealth for all Americans.** For generations, banking institutions have fostered, reinforced and exacerbated racial economic inequality and it will take a substantive and sustained investment to address these inequalities.

America's financial industry – alongside community stakeholders and frontline organizations – has an opportunity over the next decade to advance new and innovative actions to address racial economic equality. **Bold, quantitative benchmarks and metrics of progress that center the wealth outcomes of consumers and communities served are essential to moving the nation toward racial economic equality.** In 2020, many major players in the industry made firm public commitments to addressing such inequities. Those promises – if kept – would mark an important step toward progress.

An evaluation of the material impact of big businesses' promises and racial equity programs is essential to determining whether the nation is making progress. Where are racial equity efforts making meaningful impacts? How are those impacts measured? Are corporate racial economic equity commitments overpromising? Are they underperforming and misaligning resources? The following report centers on the role of financial institutions in advancing racial economic equity specifically, and economic progress broadly. It seeks to lay a foundation for understanding whether the heightened attention on racial equity is having a significant impact on wealth outcomes.

This initial review of racial equity commitments should help institutions strengthen their responses to racial economic inequality.

Our Methodology

To ensure financial institutions are aligned and demonstrating meaningful impact on the racial wealth divide, NCRC evaluated their activities and investments made toward racial economic equity. We surveyed the landscape of corporate racial equity commitments among our nation's top banking institutions. We reviewed banks' Corporate Social Responsibility (CSR) and Environment, Social and Governance (ESG) reports, analyzed the range of commitments and assessed institution performance across four areas:, **philanthropy, community development and lending and greater inclusion of people of color in bank products and services.**

Across these domains we've asked critical questions about the impact performance has on the economic conditions of affected consumers, processes of capital deployment that enable or hindered access, the incorporation of equity and wealth and how institutions are or should be measuring impact. Coupled with our assessment was a series of interviews with community members who sought after, acquired and served in regions of investment.

Our analysis of impact is not without limitations. Therefore, the following summary seeks to lay out the landscape of existing efforts, incorporating perspective from grassroots organizations across our coalition.

The Promise to Advance Racial Equity

Public announcements committing millions toward racial equity in 2020 utilized a variety of different framing methods and narratives. Many were written broadly (e.g. "racial equity" or "equity and inclusion"). Others used place-based, macro terminology (e.g. "investing in underserved communities of color"). Some highlighted racial groups and specific wealth assets (e.g. "expanding homeownership for Black Americans"). For the purposes of this report, we use "racial wealth inequality" to denote the disparities that we see in the acquisition of wealth-building assets such as housing and income.

The State of Racial Wealth Inequality Today

Despite the ups and downs of the economy over the last several decades, there has been a persistent trend of widening wealth and income inequality. The richest percentile of families continue to hold a radically disproportionate share of wealth, with the poorest households at zero or negative median wealth. Federal Reserve data suggests that as of Q2 2023, the top 1% of households held 31.4% of the country's wealth while the bottom 50% held only 2.5%.[2] Although household incomes are rising modestly, upper-income households have experienced the most rapid growth. Furthermore, middle-class households have seen their share of aggregate US household income decline steadily. The share of adults in the middle class has decreased by more than 10% in the past few decades.[3] The shifting of households into upper- and lower-income brackets leaves a very uncertain future for families.

This reality becomes more stark when we take into account racial differences. Black and Latino households hold only 2.9% and 2.8% of the nation's wealth respectively, despite accounting for 15.6% and 10.9% of the population; in comparison, White households own 86.8% of the nation's wealth but represent 68.1% of the population.[4] ***Today, the total African American wealth divide is $10.14 trillion and continues to widen.[5]*** The median wealth of Black and Latino households stands at $9,000 and $14,000 in contrast to the median White household wealth of $160,200.[6] In other words, Blacks and Latinos have less than one dollar for every $10 held by Whites. The racial wealth divide or the concentration of economic resources for the benefit of White Americans at the expense of people of color is central to American history.

2 Federal Reserve (n.d.) *Distribution of household wealth in the US since 1989.* https://www.federalreserve.gov/releases/z1/dataviz/dfa/distribute/table/index.htm

3 Kochhar, Rakesh & Sechopoulos, Stella (2022). *How the American middle class has changed in the past five decades.* Pew Research Center. https://www.pewresearch.org/fact-tank/2022/04/20/how-the-american-middle-class-has-changed-in-the-past-five-decades/

4 Aditya & Forde, Akila (2021). *Wealth inequality and the racial wealth gap.* Federal Reserve. https://www.federalreserve.gov/econres/notes/feds-notes/wealth-inequality-and-the-racial-wealth-gap-20211022.html

5 Williamson, Vanessa (2020). *Closing the racial wealth gap requires heavy, progressive taxation of wealth.* Brookings Institution.https://www.brookings.edu/research/closing-the-racial-wealth-gap-requires-heavy-progressive-taxation-of-wealth/

6 Wolff, E.N. (2021). *Household wealth trends in the United States, 1962-2019: Median wealth rebounds…but not enough.* NBER. https://www.nber.org/system/files/working_papers/w28383/w28383.pdf.

Racial wealth inequality is inextricably linked to housing inequality, where the neighborhood one grows up in greatly determines one's rate of upward economic mobility. Today, residential segregation in metropolitan areas remains high. Poverty is concentrated in predominantly Black and Brown neighborhoods which limits access to high-quality education, affordable healthcare and decent wages. Without reparative action, racial wealth inequality will continue to upend the livelihoods of African-Americans and most people of color – who happen to be the fastest-growing segments of the American population.

Review of Racial Equity Commitments

The global pandemic and a national reaction to police violence – sparked in particular by the murder of George Floyd – brought the issue of racial wealth inequality to the forefront and prompted the nation's top companies to make unprecedented pledges to underwrite progress on these issues. McKinsey estimates that around $340 billion was pledged towards racial equity commitments between May 2020 and October 2022. The bulk of the pledges, some 93% of total commitments, came from the financial sectors, representing less than 8% of all companies analyzed. This includes the $30 billion pledge made by JP Morgan and the over $1 billion dollar pledge by Bank of America. According to McKinsey, between May 2020 and October 2021, the majority of pledges were dedicated to affordable housing and small business initiatives. The former is especially true for commitments made by financial institutions whose pledges mostly went to profit-making activities, though they are designed to serve Black communities.

Outside of traditional financial institutions, the largest pledges to address racial economic equity came from tech companies, led by the $535 million pledged by PayPal. That included $135 million of direct investments in various BIPOC-serving financial institutions representing a broad array of firms, programs and funds. Some of these investments took the form of deposits into institutions such as Hope Credit Union, OneUnited Bank, Optus Bank and Self-Help Federal Credit Union. The commitment includes investments in 19 Black or Latino-led venture capital funds to the tune of at least $100 million, $15 million in small business grants and at least $12 million in donations to community nonprofits. These investments were made as part of a broader $500 million effort through PayPal's Economic Opportunity Fund (EOF) to increase capital access to Black and underserved businesses. In 2022, the EOF venture capital fund allocated $300 million to over 250 companies globally.

PayPal's commitment is one of the largest made by a non-bank towards racial equity. Google and Netflix made substantial pledges of their own. As a leading technology company, Google's $175 million commitment comes in the shadow of concerns surrounding bias in artificial intelligence and high-profile cases of discrimination, among other problems that affect the industry. In their one-year update, they state that $100 million will be used to fund and invest in various Black-led capital firms, startups and organizations serving Black entrepreneurs. Google's total commitments, which represent one tenth of one percent of its latest reported cash holdings, include a $100 million content fund supporting Black content creators and a $50 million contribution to the Growth with Google Small Business Fund to support Black small businesses. Google also made an unrestricted grant of $50 million to 10 historicall-Black colleges and universities (HBCUs).

Netflix, an entertainment and steaming giant pledged 2% of its cash holdings, up to $100 million to institutions and organizations supporting Black communities. $25 million was used as seed money for a fund called the Black Economic Development Initiative to be managed by the Local Initiatives Support Corporation (LISC). Additionally, Netflix invested $10 million into Hope Credit Union.

Racial equity commitments can be broadly classified into 5 groups: deposits into financial institutions serving Black or communities of color, investments into BIPOC led firms, donations to community organizations, products and services aimed at communities of color, and company programs such as YouTube's content fund. One of the largest categories, monetarily, seems to be investments into firms and deposits into financial institutions. Some of the institutions that are frequent recipients of deposits include Hope Credit Union and OneUnited Bank, the largest black-owned bank in the United States. One fund that received investments from multiple pledgers including Netflix and Paypal is LISC.

The areas of operations for major corporations, banks and financial technology firms are quite different. As a consequence, there are no standard racial equity metrics that comprehensively evaluate performance across categories. To gauge these firms' performance toward racial equity goals, NCRC analyzed mortgage and small business lending data (See Figure 1) and collected information from our grassroots members regarding their experience in receiving racial equity funding.

NCRC's Analysis of Top 15 Banks by Asset Size, 2020

Institution	Assets (000)	Community Development Lending (000)	Mortgage Lending (000)	Mortgages to Minorities %	Mortgages to Black Borrowers %	Small Business Lending (000)	Small Business Lending to LMI %	MSCI ESG Rating for 2021
JPMorgan Chase Bank, N.A.	$3,306,982,000	$5,846,739	$108,009,825	21	2	$30,370,019	22	A=High Average
Bank of America, N.A.	$2,846,831,603	$6,719,401	$77,665,140	26	3	$26,991,743	25	BBB=Average
Wells Fargo Bank, N. A.	$1,802,967,075	$5,392,198	$137,148,860	24	3	$25,493,736	22	BB=Low Average
Citibank, N.A.	$1,669,227,000	$6,761,510	$33,085,490	24	1	$3,837,578	21	A=High Average
U.S. Bank N.A.	$644,606,300	$3,189,685	$58,611,185	20	2	$9,697,120	27	BBB=Average
PNC Bank, N.A.	$595,146,607	$3,649,348	$28,273,380	17	2	$11,935,741	23	A=High Average
Truist Bank	$528,514,000	$6,808,187	$30,444,940	15	4	$12,946,955	26	A=High Average
Goldman Sachs Bank USA	$455,705,286	$991,055	$4,608,375	3	1	$12,997	11	A=High Average
TD Bank, N.A. (1)	$423,649,262	$4,379,297	$13,982,635	14	2	$4,934,187	22	AA=Leader
Charles Schwab Bank, SSB	$420,502,000	$304,800	$6,972,640	8	0	$220,734	9	BBB=Average
Capital One, N.A.n	$381,299,804	$8,859,419	$9,085,525	0	0	$2,188,664	21	BB = Low Average
The Bank of New York Mellon	$356,225,000	$21,112	$1,175,910	4	1	$7,000	0	AA=Leader
State Street Bank and Trust Company	$311,361,979	$71,500	$0	0	0	$0	0	A=High Average

Table: NCRC • Source: FDIC Summary of Deposits file; CFPB, Home Mortgage Disclosure Act data; FFIEC CRA Small Business lending flat file; MSCI Corporate Environmental and Social Governance ratings for 2021 • Created with Datawrapper

Figure 1. (Sources: FDIC Summary of Deposits file; CFPB, Home Mortgage Disclosure Act data; FFIEC CRA Small Business lending flat file; MSCI Corporate Environmental and Social Governance ratings for 2021)

The Promise to Expand Homeownership

Housing is the most significant contributor to wealth for many American families. It is also the largest wealth generator for low- and moderate-income (LMI) Black households, making up 46.8% of their wealth portfolio.[7] Policymakers and ground-level practitioners agree that owning a home is a viable path out of asset poverty. With this in mind, expanding homeownership for economically marginalized households of color is an imperative in bridging the nation's racial wealth divide.

7 Wolff, E.N. (2021). *Household wealth trends in the United States, 1962-2019: Median wealth rebounds…but not enough.* NBER. https://www.nber.org/system/files/working_papers/w28383/w28383.pdf.

The State of Housing Inequality Today

The current overall homeownership rate is 65.8% nationwide. Black homeownership is at 43.4%, Latino homeownership is at 51.1% and White homeownership is at 72.1%.[8] The homeownership divide is the result of historic redlining and housing discrimination and the ongoing reality of deep racial economic inequality that is maintained through a regressive economy.

Today, Black and Latino borrowers are 1.5 to 2.5 times more likely to be denied a mortgage than White borrowers.[9] Many major banks also have inflexible underwriting standards and interest rates, in addition to other upfront fees, which have a particularly negative impact on low-wealth borrowers of color who seek a mortgage. Further, homes owned by Black and Latino people are more likely to be undervalued than identical homes owned by White people. This home-value gap has led families of color to accumulate less wealth over time than they would have without this market bias.

The country also faces an affordable housing crisis, disproportionately harming low- and moderate-income (LMI) Black and Latino communities who also are often challenged with low levels of wealth. A national shortage of 7 million affordable rental homes has left many extremely low-income households severely cost-burdened.[10] Due to inflation, the cost of owner-occupied and rental housing continues to increase, raising the risk of foreclosure, eviction and displacement in metropolitan areas.

8 National Association of Realtors.(2022). US homeownership rate experiences largest annual increase on record, though Black homeownership remains lower than a decade ago. https://www.nar.realtor/newsroom/u-s-homeownership-rate-experiences-largest-annual-increase-on-record-though-black-homeownership-remains-lower-than-decade-ago

9 Zinn, A., & Reynolds, L. (2022). How local differences in race and place affect mortgage lending. Urban Institute. https://www.urban.org/urban-wire/how-local-differences-race-and-place-affect-mortgage-lending

10 The National Low Income Housing Coalition. (n.d.). The gap: A shortage of affordable rental homes. https://nlihc.org/gap

The Corporate Promise Toward Housing Equity

Since 2020, 10 of the United States' major banking institutions made commitments of $139.8 billion in home lending over five years specifically targeted to minority borrowers.

Private philanthropy has become a critical partner in local housing strategies. They often play the role of convener, building coalitions and partnerships with communities across the nation. They are also vital to the acquisition and development of affordable housing. Banking institutions' philanthropic arms are increasingly finding ways to invest in promising housing innovations and solutions across the country, funding organizations focused on products, services, coalition-building and development. Financial institutions are also innovating on housing finance and mortgage products to achieve desired impact.

Bridging the racial homeownership divide, mitigating the current crisis of housing affordability and addressing the impact of historic discrimination and inequality will require a multi-pronged solution and significant investment and resources from all stakeholders – public and private, local and federal, policymakers and practitioners. Private banking institutions have a major role to play to facilitate greater investment and innovation in housing.

When we reviewed the outcomes of these institutions' recent commitments on housing equity, have corresponded with initial progress in bridging racial homeownership inequality:

- **Recent Mortgage Lending Has Begun to Bridge Racial Lending Disparities From 2020 to 2022**
  The Home Mortgage Disclosure Act (HMDA) data collected by the Consumer Finance Protection Bureau (CFPB) each year covers about 88% of all mortgage applications taken in the US each year. Since 2018 this dataset has included details on the race, ethnicity, income and neighborhood of 46.6 million mortgage loans.

  Overall, lending to minority borrowers has increased, from 21.3% to 24.6% of all home mortgage originations. When looking specifically at home purchase originations nearly 30% of new home buyers in 2022 were people of color. From 2018 through 2022 the percentage of Asian American home buyers increased from 6.5% to 8.2%. Asian Americans are 6.2% of the US population as of the 2020 census, making them the only

Click to view interactive chart

Home Mortgage Originations 2018-2022

Originations by borrower race, ethnicity and census tract income and minority status.

View as percent of all originations | View home purchase loans only

	2018	2019	2020	2021	2022
Loans	7,720,995	9,325,241	14,541,302	15,052,491	8,369,564
Minority Borrower	1,653,400	2,021,978	3,097,592	3,535,727	2,060,002
Asian	431,326	539,909	955,281	1,046,441	534,730
Black	439,398	527,720	735,036	887,331	573,177
Hispanic	725,972	890,195	1,312,004	1,496,374	889,777
HoPI	19,383	21,958	32,826	33,086	17,753
Native American	37,321	42,196	62,445	72,495	44,565
White	5,091,973	6,012,795	9,330,497	9,130,680	4,984,653
No Data	975,622	1,290,468	2,113,213	2,386,084	1,324,909
Minority Census Tract	1,521,264	1,840,333	2,735,244	3,035,476	2,084,273
LMI Borrower	1,987,471	2,291,933	3,222,241	3,658,994	2,310,177
LMI Census Tract	1,380,217	1,589,453	2,148,603	2,487,306	1,577,922

Low-to-moderate income (LMI) refers to either a person that earns equal to or less than 80% of the CBSA median family income or a census tract where the median income is 80% or less than the CBSA median family income. Loan data from HMDA 2018-2021 snapshot file. Race and ethnicity determined by NCRC methods. https://ncrc.org/ncrcs-hmda-2018-methodology-how-to-calculate-race-and-ethnicity/

Table: NCRC • Source: CFPB • Created with Datawrapper

group other than non-Hispanic Whites where the share of loans they receive is larger than their population share. Black and Hispanic borrowers saw similar increases in their proportion of home purchase originations, 6.3% to 7.4% for African Americans and 10.8% to 12.4% for Hispanics. Home purchases in LMI census tracts also increased over this timeframe, from 18.7% of home purchases in 2018 to 20.3% in 2022. While there appears to also be an increase in lending to majority minority census tracts, NCRC believes that this is due to the updated 2020 census tracts, which were incorporated into the 2022 HMDA dataset, and include more majority minority tracts than the 2010 boundaries.

- **Though the percentages of loans to Black and Hispanic borrowers increased, the absolute number of loans to all groups decreased with a dip in the home purchasing market.**

Corresponding with higher benchmark rates and a drawback on mortgage stimulus by the Fed, Blacks and Hispanics along with the general housing market saw in 2022 a decline of home purchase loans that brought their number of loans below that in 2020. This decline marks how despite financial institutions maintaining a higher share of home purchase loans to Blacks and Hispanics the macro-economic environment greatly influenced by the Fed can be a serious obstacle to increased homeownership. It is essential to have government institutions, including the Fed, work with private institutions to maintain the long term growth in home purchase loans necessary to bridge the racial home ownership divide.

- **Banks Have Become More Explicit About Innovation In Product Design, via Special Purpose Credit Programs, to Address Credit Needs of Borrowers**
  Banking institutions are embracing special purpose credit programs (SPCPs) targeting low-income borrowers with a focus on addressing the racial wealth divide. Examples include Wells Fargo's $5,000 credit that buyers can apply toward closing costs or Bank of America's Community Affordable Loan Solutions providing down payment grants and additional loan assistance. These special products help mitigate the barriers to closing costs and down payment assistance. Yet, some aren't addressing issues of high interest rates in the market and/or thinking critically about credit scores (which continue to be a major reason for mortgage denials). More time is needed to assess the impact or lack of impact of these SPCPs, the varying design of these programs and the scale of which they are implemented.

- **Housing Tax Credit Equity Financing Risks Deepening Segregation While Only Making Limited Impact on Small-Scale Affordable Housing Development**
  Providing loans for the refinancing or purchase of a property can take on many forms for financial institutions, including the subsidizing of affordable housing units via Low Income Housing Tax Credit (LIHTC), Housing Assistance Program (HAP), or investments in Opportunity Zones and New Market Tax Credits. Cities like Dallas are beginning to see how financial institutions are concentrating low-income apartments in under-invested areas and taking tax credits for what is often racial and economic segregation. Efforts like this are counter to the mission of the Community Reinvestment Act (CRA). Alternatively, many are tapping into the bond market to finance affordable development, particularly leveraging community development lending to support rural housing. The impact of the issuance of these taxable social bonds, like the historic Bridge Home $100 million credit package in California, remains to be seen.

- **Financial Institutions Use of Philanthropic Dollars to Invest in Organizations and Communities of Color**
  Major banking institutions have allocated a portion of their philanthropic funding towards local nonprofits that are providing wraparound services to residents living in affordable

housing. Some of these services include financial capability, workforce development, health care and food access. With a more holistic approach to housing, such local nonprofits hope to remedy the intersecting inequities that our social and economic institutions may cause. Banks are also giving to local nonprofit housing developers to aid in the acquisition and development of affordable housing. These investments, though reaching communities of color and responding to local housing needs, aren't significantly addressing housing issues at scale. Local nonprofits have noted that multi-year, transformative investments are needed.

Small Business Recovery and Access to Capital for Entrepreneurs of Color

Small business ownership and development is a vital ingredient to local economies. Smaller firms provide local working opportunities necessary goods and services, contribute to the local tax base and can create unique community experiences for residents.

The State of Small Business Growth Today

There are nearly 1.15 million minority-owned businesses in the United States, making up 19.9 of all US businesses. 1 million businesses are owned by women, again accounting for roughly one in five US firms.[11] There are approximately 140,918 Black-owned businesses with 1.3 million employees and $141.1 billion in annual receipts. Represented in every industry sector of the United States, minority-owned businesses are fast growing and are making significant contributions to the economy. By 2060, minority-owned businesses are projected to contribute 7.4 to the national GDP.[12]

However, there are still notable racial disparities in small business ownership. Black-owned small businesses make 59 less revenue than White-owned small businesses in their first year.[13] This may indicate that entrepreneurs of color lack access to capital and technical support to successfully establish their businesses and market their products and/or services in their communities (notwithstanding the income and wealth disparities in communities minority businesses market to)[14]. Major banking institutions rely on stringent loan underwriting requirements that disadvantage borrowers of color and make them more likely to use personal funds to start a business. In 2021, only 16% of Black-owned businesses received

11 US Census Bureau. (2022). *Census Bureau releases new data on minority-owned, veteran-owned and women-owned businesses.* https://www.census.gov/newsroom/press-releases/2022/annual-business-survey-characteristics.html#:~:text=There20were20an20estimated201402C918,2442.220billion20in20annual20payroll

12 Minority Business Development Agency. (2021). *The contribution of minority business enterprises to the US economy.* https://www.mbda.gov/sites/default/files/2021-09/The20Contribution20of20MBEs20to20US20Economy20Report2020-20September202021.pdf

13 JP Morgan Chase and Co Institute. (2020). *Small business owner race, liquidity and survival.* https://www.jpmorganchase.com/content/dam/jpmc/jpmorgan-chase-and-co/institute/pdf/institute-small-business-owner-race-report.pdf

14 https://ncrc.org/black-entrepreneurships-lethal-pre-existing-condition-the-racial-wealth-divide-during-the-covid-crisis/

the financing that they applied for from major banks, in contrast to a 35% success rate among White-owned businesses.[15]

Over the last 10 years, minority business enterprises have accounted for more than 50 of the 2 million new businesses started in the United States. Though people of color make up 32 of our population, minority business ownership represents only 18 of the population.

The Corporate Promise of Small Business Growth

Since 2020, the 10 largest banking institutions made commitments of $27.8 billion in small business lending for minority-owned businesses and to businesses in LMI areas over five years.

Many banking institutions provide loans to small businesses through their internal business lines. Others are expanding investment to underserved entrepreneurs and businesses by identifying minority deposit institutions (MDIs) and community development financial institutions (CDFIs) to invest in within their geographic markets.

Additionally, institutions are looking internally to increase diversity within their procurement offices and supply chains; have reevaluated their approach to partnership, forming regional presence to ensure sustained, long-term investment; and/or created their own small business technical assistance programs to augment weakened resource ecosystems in their service areas. A strong commitment to procurement for Black small business is promising considering the low 2% of procurement Black business have received from banking institutions.[1]

1 National Community Reinvestment Coalition (2020). R*acial and Ethnic Representation and Investment Framework.* https://ncrc.org/reri/

15 Wiersch, A.N., Misera, L., Marre, A., & Corcoran, E.M. (2022). Small business credit survey: 2022 report on employer firms. Federal Reserve Bank of Cleveland. https://www.fedsmallbusiness.org/medialibrary/FedSmallBusiness/files/20x21/2022-sbcs-employer-firms-report

Record growth in small business formation in 2021 and recent investments to bolster BIPOC-owned businesses make it especially important to think about what impact capital investments have had on business and revenue growth. Additional consideration must be given to the progress made in bridging significant and persistent capital gaps and the viability of solutions to strengthening access while also assessing critically the improvement of community resource ecosystems supporting business growth.

Here, too, our review of financial industry performance on racial equity in small business programming found mixed outcomes:

- **Record Investment in CDFIs, but Challenges Remain for Smaller CDFIs**
  The Treasury Department's CDFI Fund has invested many millions of dollars into CDFIs post-pandemic, enabling them to work on racial equity priorities in housing, small business and workforce development. In FY2022, the CDFI Fund awarded $194.1 million in financial assistance to 252 CDFIs across the nation. Banks are also some of the largest investors in CDFIs and nonprofit loan funds, where their investments help close the capital gap for underserved entrepreneurs. Despite the increase in CDFI investments (public and private), some minority depository institutions – often those with less than $1 million in assets and/or which are located in smaller, rural areas – note a lack of visibility and access to private investors. It is unclear what strategy private investors are using to invest in MDIs, but organizations note investment criteria is often exclusionary.

- **Stronger Accountability Measures Needed for Banks' Diverse Procurement Strategies**
  Some institutions have committed to increasing wealth-building opportunities by increasing the share of their internal spending that goes to Black suppliers. As partnerships and opportunities emerge, there is a lack of detailed metrics to assess the diversification of supply chains beyond the raw total number of new contractors. An increase in spending doesn't reflect an increase in the number of businesses engaged. The former can mask the institutions' true impact on supply chain diversity, making it difficult to assess whether these efforts are actually building wealth in communities of color through local hiring or broadening minority businesses.

- **Banks Must Prioritize Data Transparency to Ensure Adequate Evaluation of Lending Impact**
  It is difficult to assess the impact of lending priorities post-2020 without federal oversight or regulatory enforcement of bank transparency in small business lending data. With the CFPB's recently unveiled final rule on Section 1071 of the Dodd-Frank Act, financial institutions will soon begin reporting to the bureau certain data on applications for credit for women-owned, minority-owned and small businesses. Until then, lending impact assessments are limited to loan data that banking institutions decide to release on their own. Though there is CRA-related data on aggregate small business lending by the

largest banks, it is only reported by banks at the county level and includes no racial data, which makes implementation of Section 1071 a critical ingredient to assessing impact. Additionally, CRA reporting of small business lending in the window of our assessment is further inhibited by the complexities of the Paycheck Protection Program.

The Grassroots Experience: Accessing Funding for Racial Economic Equity

NCRC's vast coalition of on-the-ground economic justice practitioners provide a valuable anecdotal source for understanding how corporate commitments are operating in practice. NCRC members' perspective may differ from those captured in a 2023 report from the Chronicle of Philanthropy that zeroed in on a somewhat different cluster of activist organizations. Organizations like the Equal Justice Initiative, the Advancement Project, Lighthouse Black Girl Projects and African Communities Together told the Chronicle that a 2020-21 surge in funding largely dropped off by 2022. The article also noted that many nonprofits never saw the fruits of the great increases in 2020 and 2021. NCRC's members report similar challenges that raise concern about how widely distributed corporate racial equity commitments were to grassroots nonprofits.

Surveying NCRC Membership Groups

The National Community Reinvestment Coalition (NCRC) is a membership organization with 700+ members across the country. Our members include nonprofit community development and finance organizations; community organizing and civil rights groups, minority and women-owned business associations and national, state and local housing, economic development and investment organizations.

NCRC surveyed 27 grassroots organizations on our members' experience in receiving additional racial equity funding after the murder of George Floyd in May 2020.

More than half of members surveyed saw no increase in racial equity funding since that summer. 33% reported funding boosts from government entities and 37% saw new funding from corporate actors.

The organizations surveyed are primarily operating at state or local levels. 82% of the organizations were non-profit community development organizations (see Figure 2). About half of the organizations had programs and services at the state-wide level. Most of the other organizations served either one incorporated city or 1-5 counties. The organizations were geographically diverse, located in areas like Dallas, Oakland, California, Charlottesville, Virginia and Anderson, Indiana. Most of the nonprofits surveyed (55%) had a budget of $1,000,000 or more (See Figure 3). Finally, nearly 37% of the organizations were led by people of color and 63% had staff that were majority people of color.

Breakdown of Surveyed Members by Organization Type

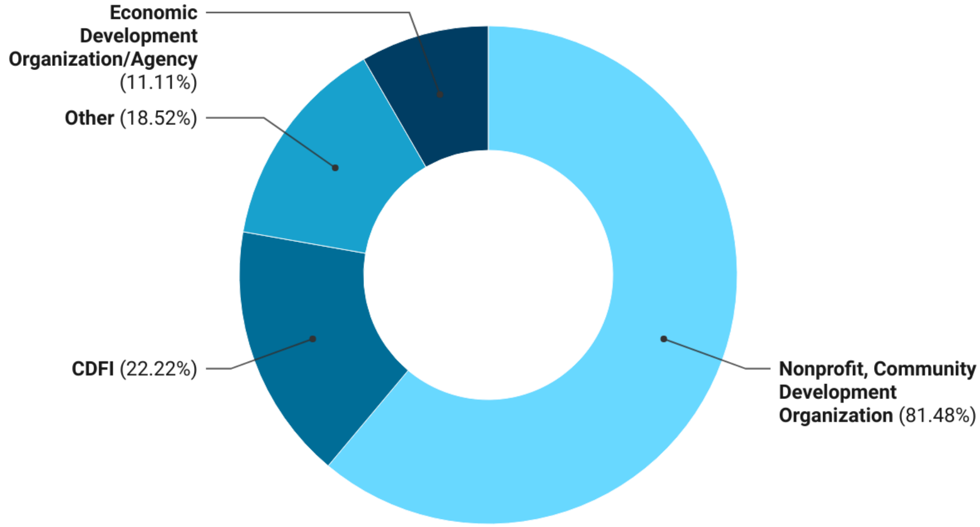

Chart: NCRC • Created with Datawrapper

Figure 2

When asked whether the organizations experienced an increase in racial equity funding between 2020-2022, about half of them, 52%, did not. This tracks with our findings in reviewing other literature on this subject: A large-but-brief surge in racial equity funding from some national organizations failed to reach many parts of the vast non-profit infrastructure of the country. 33% of our surveyed nonprofits did experience an increase in racial equity funding from the government. Only 37% received additional racial equity funding from corporations. Of the nonprofit membership organizations that experienced an increase in private racial equity funding, most of the private funding came from larger private entities with a staff of 100 or more. The private corporations that provided funding were mostly mid-large sized firms.

Larger nonprofits were more likely to receive racial equity funding. 71% of the organizations that received funding had budgets of more than $1M as of the beginning of our study window. About 50% of the organizations that did not receive racial equity funding had budgets of less than $1M. Larger nonprofits tend to attract private institutions as they are more likely to have both greater capacity and an established reputation that smaller successful organizations can struggle to develop.

Breakdown of Surveyed Members by Budget Size

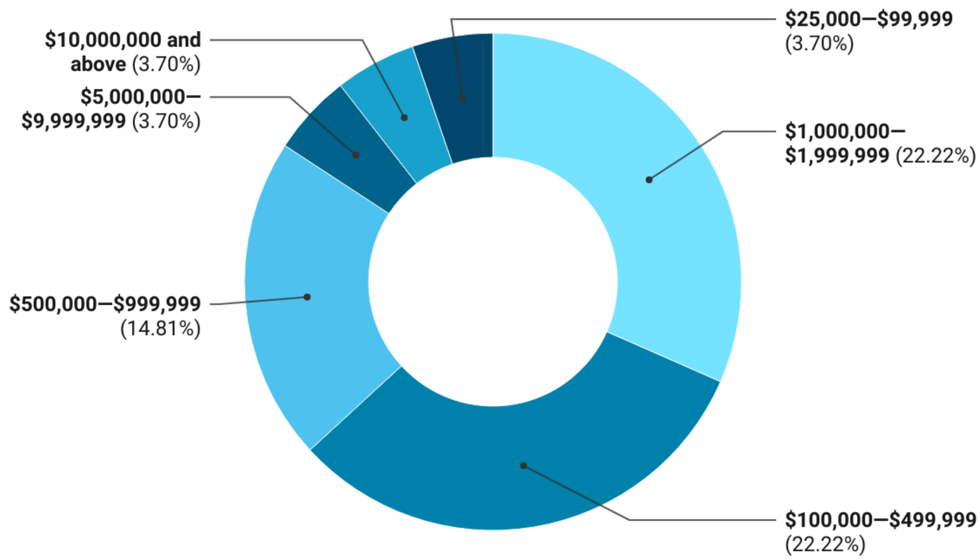

Chart: NCRC • Created with Datawrapper

Figure 3

61% of organizations that did receive racial equity funding utilized it to expand existing programs and services. 23% created entirely new programs or services. 15% used it for COVID-19 relief or research analysis. Creating new programs and services and expanding existing ones were leading priorities among housing development and small business organizations.

The organizations also rated the level of positive impact of racial equity funding on their respective communities, 1 being the lowest and 5 being the highest. 38% gave a 4 rating, 23% gave a 5 rating, 23% gave a 3 rating and 15% gave a 2 rating. The organizations stated that the funding allowed them to close more microloans to BIPOC-owned small businesses, provide more culturally-sensitive technical assistance and host more racial equity training workshops. One of the housing development organizations stated:

> *"We have been able to connect more often and in more meaningful ways with nonprofit community-based organizations serving specific LMI and majority people of color neighborhoods, providing them information on not only fair housing and fair lending, but resources to address rental housing insecurity…"*

We also asked the half of organizations surveyed who received no new racial equity funding to share why they think they missed out. The majority suggested they face visibility issues: Their small size limits their access to large funders and capital partners are limited. Looking ahead, these organizations hope that banks and other corporations can provide multi-year, unrestricted funding, especially to small-scale organizations, in order to address critical priorities such as capacity-building (e.g. staffing, technology and training), small business lending to entrepreneurs of color, affordable housing development, down-payment assistance, financial counseling and food insecurity. Two members offered their insights:

> *"Black homeownership is 43.4%, lower than it was a decade ago, compared to the White rate of 72.1%. Members of marginalized groups still face discrimination. Solutions will include down payment assistance, financial education and addressing discrimination in appraisals and mortgage applications. [Banks should play] a tangible and conscious role by simplifying homeownership for the BIPOC community with an expanded homeownership counseling program, down payment assistance and financing and expanding the number of affordable homes."*
>
> – **Loretta Winters,** *President of Gloucester County NAACP*

> *"CDFIs require flexible financing from banks in order to provide flexible loans to small businesses. The terms banks provide to CDFIs dictate the terms we can provide to small businesses. As Philadelphia's public-private economic development corporation, we seek to provide loans at favorable terms and conditions to small businesses so that they can take on and manage debt responsibly in order to grow and expand their business."*
>
> – **Jennifer Lucas Crowther,** *Senior Vice President of Capitalization & Impact, Philadelphia Industrial Development Corporation (PIDC)*

After the survey, NCRC conducted follow-up interviews with these members, which spotlighted their challenges in accessing capital and potential solutions to increase alignment of private funding with racial equity priorities at the grassroots-level. Here are some of their comments:

Comments from Member Organizations

Organization	Organization Mission	Recommendations & Comments
Coalition for Non-Profit Housing Economic Development (Washington, DC)	Advances community economic development solutions that address the inequity of under-resourced communities in the District of Columbia	What is driving racial equity work at corporation levels is anxiety, not urgency. Corporations need to fund initiatives in the long-term instead of on a yearly basis. Corporations are using transactional metrics, such as how many served instead of impact metrics.
Elevation Community Land Trust (Denver, CO)	Makes homeownership more accessible for Colorado families through the community land trust model, a proven tool for creating and preserving accessible, inclusive communities for generations	Private institutions should have a revolving line of credit where organizations can take funding as needed and then bring it back to the common pool. There should be a common application form for organizations that are seeking funds from different sources for their projects It is important to measure wealth outcomes longitudinally, however, longer term investment in capacity is required.
Prosperity Indiana (Indianapolis, IN)	Builds a better future for our communities by providing advocacy, leveraging resources, and engaging an empowered network of members to create inclusive opportunities that build assets and improve lives	Private investors need to provide more resources to smaller, BIPOC developers Private institutions need to structure their investments in accordance to the organization's need, which vary based on their geographic location (rural vs urban) Results-based accountability is an important model to help measure the service population's well-being All funders need to focus on equity through a capacity lens, or strategically and intentionally developing the skills, networks, tools, and talents needed for BIPOC individuals and organizations to achieve desired goals. .
Rise Economy (San Francisco, CA)	Building a powerful movement for economic justice, focused on knocking down this historical barriers for Black, Latine/x, and other People of Color who have faced hardships building generational wealth	Community Benefit Agreements should look at the demographics of grantees as a metric.Other metrics should be pushing banks to do more than they are currently doing. Banks should seek help and guidance from coalitions/advocates regarding racial equity auditing. There is value in advocating for the effective design of special purpose credit programs to strengthen access to mortgages and lending from private institutions.
Southern Dallas Progress (Dallas, TX)	Empower, enable and support community members in their efforts to revitalize Southern Dallas communities and neighborhoods	Create specific equity funds that support rehabilitation and development projects in underserved communities Financing tools that make it more possible for nonprofits to acquire lots and buildings and develop these properties, including reimagining how financial institutions assess a nonprofit's debt structure in qualifying for loans. A challenge for many nonprofits is to measure the impact of their work. Many nonprofits have a small staff and barely have the capacity to do their programming work and not enough for formal assessments.

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Comments from Member Organizations

Organization	Organization Mission	Recommendations & Comments
Fair Housing Council Wisconsin (Milwaukee, WI)	Promote fair housing throughout the State of Wisconsin by combating illegal housing discrimination and by creating and maintaining racially and economically integrated housing patterns	To eliminate the racial wealth gap by advancing affordable, sustainable homeownership, there is a need for private institutions to fill the gaps in support for housing counseling agencies, provide down payment assistance, and invest in the Community Land Trust's home acquisition and development. ACTS Housing's acquisition loan fund, created as a rival to predatory investors who decimate our available housing inventory, needs private funds. And also in need of investments is the first time home buyer home loan pool being created that will use alternative underwriting.
African Community Housing and Development (Seattle, Washington)	Provide opportunities for African Diaspora immigrant and refugee communities, families, and individuals in King County to attain health and housing stability, economic development, high quality education, and referrals to legal services	Exploring the option and availability of forgivable loans to support community development activities. Too often private institutions are funding large intermediaries with no independent assessment as to how it is supporting local nonprofit infrastructure and or advancing change on the ground.

Table: NCRC • Created with Datawrapper

Member Insights and Recommendations

NCRC engaged surveyed members in deeper discussions around capital access, readiness and deployment. Their insights formed the basis of a framework that NCRC developed to guide private institutions in scaling investments in racial equity priorities led by local, grassroots organizations. Interviews with members revealed four critical areas for private institutions to focus their efforts:

Guiding Framework for Private Investment in Grassroots Organizations

Members provided specific solutions and strategies under each focus area that private institutions can adopt when investing towards racial economic equity:

INITIATE	INVEST	INNOVATE	IMPACT
Strengthening partnerships between grassroots organizations and investors	**Facilitating long-term, multi-year sustainable funding models**	**Transformative/reparative wealth-building products and services in coordination with the grassroots**	**Developing shared methods of benchmarking and progress tracking**
Community organizations can be better equipped to serve the needs of their communities with increased access to funding partners. A reimagining of how funders engage in grassroots work solidifies racial equity work integration and support for grassroots leaders.	An intentional focus on longer-term funding will lead to transformational and reparative change. The deep racial wealth divide requires longer term investments. Sustainable funding can also help organizations achieve more streamlined operations and ensure quality and consistent services to communities with sustainable funding.	Aligning racial equity investment to the critical work of grassroots organizations; facilitating partnership and reimagining investment tools require a level of innovation and consideration "beyond the status quo."	A shared goal towards closing racial wealth divides requires a set of metrics to measure short- and long-term progress. This also warrants a common approach to impact measuring that adequately raises the visibility of grassroots organizations and their current/future impact and shifts private investment where impact can be most effective.

Table: NCRC • Created with Datawrapper

Members provided specific solutions and strategies under each focus area that private institutions can adopt when investing towards racial economic equity:

- **INITIATE: Create Community-Controlled Investment Strategies**
  There is a significant lack of grassroots representation in how large banks and corporations decide their racial equity commitments. This results in a misalignment between private institutions' investment priorities and the actual needs of grassroots organizations and the underserved communities they serve. Members recommend that private institutions include more grassroots organizations in the investment decision-making process so that the capital products that they design and deliver

are tailored to the organizations' needs and capacity. Private institutions should also periodically check-in with the organizations to discuss the progress on their racial equity commitments.

- **INVEST: Create Significant Investment Pools Designated for Capacity-Building**
  As part of their racial equity commitments, private institutions have generally provided programmatic grants, according to our members. However, many local grassroots organizations lack the capacity to scale their programs due to challenges related to staffing, resources and operations. Members recommend that private institutions earmark multi-year funds for the sole purpose of capacity-building. With this support in hand, grassroots organizations can make a larger impact on racial economic equity. This can increase the visibility of local, grassroots organizations to major funders and attract more investment in their work.

- **INNOVATE: Provide Flexible, Accessible Financial Tools and Investment**
  Members have advocated for banking institutions to make their underwriting process more flexible with lower interest rates and fees, particularly for smaller-scale nonprofits that wish to acquire and/or develop properties for affordable housing use. Members also encouraged banks and private funders to have a revolving line of credit where organizations can utilize funding when needed and reimburse at a later time, which can alleviate the challenge of identifying gap financing.

- **IMPACT: Create a Unified Approach to Measuring Impact**
  Private institutions tend to utilize a set of metrics for assessing return on investment that do not align with the metrics that grassroots organizations use to measure impact. Many members stated that private institutions expect to see unrealistically high levels of impact that do not account for their available resources and capacity. Because of their emphasis on scalable impact, private institutions often overlook smaller organizations like our members, investing their dollars instead into larger organizations that have already achieved scale in many of their programs.

  Members recommend that private institutions work with them to develop a unified set of metrics to measure impact. Members state that large banks and corporations use short-term, transactional metrics such as "default rate" or "# of x people served" which do not accurately measure progress towards racial economic equality. Private institutions should instead use longitudinal metrics such as wealth creation in communities of color.

Conclusion: Now Is the Time To Address the Racial Wealth Divide

> This is no time to engage in the luxury of cooling off or to take the tranquilizing drug of gradualism.
>
> Now is the time to make real the promises of democracy. Now is the time to rise from the dark and desolate valley of segregation to the sunlit path of racial justice. Now is the time to lift our nation from the quicksands of racial injustice to the solid rock of brotherhood. Now is the time to make justice a reality for all of God's children.
>
> – **Dr. Martin Luther King, Jr.,** *at the 1963 March on Washington for Jobs and Freedom*

In the immediate aftermath of the killing of George Floyd, and nearly 60 years after the historic March on Washington, corporate institutions made commitments to address racial economic equity in the billions. Looking at data from 2018 to 2022 we see that small but substantive improvements have been made, in terms of an increase in shares of home purchase mortgage lending to minorities and LMI borrowers. Blacks have seen about a 1% increase in their share of mortgage lending and Hispanics about a 1.5% increase from 2018 to 2022. It is essential that banking institutions be able to maintain this increased share of mortgage lending to African Americans, Latinos and LMI borrowers. If private banking institutions could continue to increase the share of Black and Latino lending by 1% to 1.5% per year, these groups could finally receive a share of mortgage lending equal to their demographic representation. In order to turn this into significant increases in homeownership, strong federal homeownership policy and lower mortgage lending interest rates are essential.

Both public and private institutions must continue to make major investments in BIPOC-owned businesses. This includes bolstering financial support for CDFIs that are removing barriers to entrepreneurship in underserved communities. Furthermore, the financial industry should expand contracting opportunities for Black-owned businesses and develop detailed metrics to assess supply chain diversity. Lastly, measures to implement and protect small business loan data collection processes known as Section 1071 are essential to the growth of BIPOC-owned businesses, as the public small business lending data it produces on borrower race/ethnicity can help ensure banking institutions are equitable and transparent in their lending practices.

Whether it be through the promises of homeownership, small business growth or consumer financial health, institutions are investing across these areas in ways they have not before. It is in these areas of asset development where there has been little bridging of racial economic inequality as shown in the report "Still A Dream" that at the rate of minimal racial wealth divide-bridging experienced over the last 60 years, it would take almost 800 years for African Americans to close the racial wealth divide with White Americans.

In order to make substantive progress to advance the racial economic equality ambition that was so loudly agreed upon in 2020, financial institutions must maintain and strengthen their initial efforts in addressing the racial wealth divide including substantive, targeted, long-term investments. Additionally, corporations must continue to be held accountable to their promises toward racial equity. Accountability frameworks must be created to encourage transparency in the programs designed to bridge racial economic inequality, to amplify promising practices and to establish equity performance in lending and investment. We must innovate around new and inclusive partnership models that enable product design that meets the challenge of the ongoing racial wealth divide; help scale promising models of investment in housing and small business; and target the needs of organizations and communities most impacted by economic disenfranchisement.

Corporate support for federal policies that will strengthen rather than inhibit private-sector efforts is also fundamental to addressing racial economic inequality. NCRC has developed a policy agenda that advances lending that can provide economic stability for communities who continually face the challenge of asset poverty. It will take the public sector and the private sector working together to get past the racial economic inequality that has divided the nation since its inception