



FedFin Client Report

Wednesday, March 10, 2021

Democrats Press Broad Racial Equity Reform, Enforcement Agenda

Client Report: REFORM202

Executive Summary

At a wide-ranging hearing, HFSC today launched its inquiry into racial equity in the financial system. Democrats offered a sweeping array of solutions, with witnesses alleging discrimination in lending and the failure of the banking system for people of color. Republicans pushed back, strongly opposing postal banking and numerous other programs recommended by witnesses. While Democrats emphasized inter-agency CRA reform and more enforcement of fair lending laws, Republicans focused on education and homeownership as ways to reduce racial inequities. Witnesses recommended legislation to create targeted down-payment assistance programs, special purpose credit programs, and cancel student debt. Democrats also discussed ideas ranging from the establishment of a Department of Reconciliation to required diversity disclosures and the consideration of diverse candidates by Federal agency boards.

Analysis

Opening Statements

Chairwoman Waters (D-CA) emphasized the impact of systemic racism on access to housing and credit, noting the disparate impact of the pandemic on minority-owned businesses. Ranking Member McHenry (R-NC) noted the real, tangible improvements for communities of color pre-pandemic and argued for the importance of eliminating barriers that keep low-income Americans from saving for their future.

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Testimony

Nikitra Bailey, Executive Vice President at the Center for Responsible Lending, argued that discriminatory housing policies are at the basis of many of the nation's racial issues. She pushed for greater mortgage market access, implementing a restorative justice homeownership program, increasing the supply of affordable housing, strengthening GSEs' affordable housing goals, fully enforcing fair lending laws, cancelling student debt, and extending PPP.

Paulina Gonzalez-Brito, Executive Director of the California Reinvestment Coalition, asserted that the banking system has failed people of color and pushed for a race-conscious policy. She believes there should be racial-equity audits of financial institutions, HMDA reform, and stronger fair housing and lending rules and enforcement using disparate impact. She also said the CRA should evaluate how banks are meeting financial service needs by race, and wants a strong section 1071 rule.

Rashad Robinson, President of Color of Change, believes that banks discriminate against minority-owned businesses and suggested that Congress adopt a racially just policy.

John C. Yang, President and Executive Director of Asian Americans Advancing Justice (AAJC), underlined the inequities created by limited language access.

Ian Rowe, President and Co-Founder of Vertex Partnership Academies argued that the focus should be a push for excellence, not just equity.

Q&A

- Access to credit: Chairwoman Waters noted the need for greater minority access to credit and capital, and the persistence of redlining as an issue. Rep. Barr (R-KY) raised concerns about a policy he claims Treasury is considering that would pressure banks to deny credit to businesses based on climate risk. Rep. Williams (D-GA) asked about the importance of access to credit; Ms. Gonzalez-Brito urged Congress to ask the CFPB to disaggregate data.
- Housing: Rep. Scott (D-GA) asked what Congress can do to lower the minority foreclosure rate; Ms. Bailey suggested targeted down-payment assistance programs for first-generation homebuyers. Rep. Green asked if it would be beneficial to have a Department of Reconciliation which reports directly to the President; Mr. Robinson agreed. Rep. Foster (D-IL) asked how discrimination can be eliminated in housing appraisals; Ms. Bailey suggested a review of federal appraisal standards, increased training on unconscious bias, and initiatives to bring more appraisers of color.

- Fair Lending: Rep. Green (D-TX) asked if it would be beneficial to establish an office of fair lending and testing within the CFPB, if borrowers should be allowed to have non-traditional data scored on an optional basis, and if it would be advisable to have banks rated for diversity and inclusion; Ms. Bailey agreed. Rep. Green also asked if GSEs should be required to reinstate the preferred language question it removed from the uniform residential loan application; Mr. Yang agreed. Rep. Adams (D-NC) asked how Congress should address mortgage lending discrimination; Ms. Bailey suggested special purpose loan credit programs, while Ms. Gonzalez-Brito believes that PPP loan data should require the collection of demographic data and that 1071 data should be collected more quickly and made public. Mr. Robinson argued for greater data accountability and transparency and the elimination of student debt. Mr. Rowe suggested means-tested baby bonds, and Mr. Yang said that the data should be disaggregated.
- Home Ownership: Rep. Pressley (D-MA) asked how to ensure equity in home ownership; Ms. Gonzalez-Brito pushed for greater data transparency and a stronger HUD and CFPB.
- CRA: Reps. Waters and Beatty raised concerns about CRA grade inflation; Ms. Brito-Gonzalez agreed. Chairwoman Waters asked if the Fed's proposal does enough to combat redlining; Ms. Gonzalez-Brito said it does not, adding that the agencies should throw out the current OCC proposal. Rep. Perlmutter (D-CO) asked about the faults in the OCC's approach to CRA reform; Ms. Gonzalez-Brito criticized what she described as the OCC's decision to disregard public comments and argued that it should be focused on measuring how banks are serving communities of color. Rep. Torres (D-NY) asked what CRA reform should look like; Ms. Bailey said agencies need a racial justice focus and better coordination.
- Credit Scores: Rep. Lawson (D-FL) asked about the benefits of a character assessment; Ms. Bailey, Ms. Gonzalez-Brito, and Mr. Rowe agreed that character should be an important factor. Rep. Rose (R-TN) asked if including alternative data sources would be beneficial; Mr. Rowe agreed.
- Algorithmic Bias: Rep. Foster asked about the risks of involving technology to do a primary appraisal or check; Ms. Bailey and Mr. Robinson both noted the potential for algorithmic bias. Rep. Sherman (D-CA) raised concerns that Facebook's algorithm may produce discriminatory outcomes for housing and credit ads; Ms. Bailey agreed. Rep. Axne (D-IA) raised concerns about the use of algorithms as well; Mr. Robinson agreed.
- Postal Banking: Reps. Hollingsworth (R-IN) and Luetkemeyer (R-MO) each had tense exchanges with Ms. Gonzalez-Brito about her postal banking proposal. Reps. Tlaib (D-MI) and Ocasio-Cortez (D-NY) countered Republican criticism of

postal banking, and Rep. Ocasio-Cortez noted that postal banking has been successful in the U.S.

- Systemic Racism: Rep. Maloney (D-NY) asked what the committee should do to address systemic racism in housing and the financial system; Ms. Bailey praised Congress for the homeownership assistance fund, and again suggested a targeted down payment assistance program, full enforcement of fair lending laws, and the creation of special purpose credit programs. Ms. Gonzalez-Brito said the committee should be thinking about enforcement and disparate impact.