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Banks, credit unions join in push for racially equitable underwriting

By [Jordan Stutts](#) July 09, 2023, 9:00 p.m. EDT 4 Min Read



Lenders participating in Underwriting for Racial Justice will be able to exchange best practices on how to gauge a borrower's ability to repay. They will also submit data about loans they make to individuals from marginalized communities, which will then be anonymized and compiled into reports that get shared with other members of the group. *Wuttichaik - stock.adobe.com*

A new initiative involving 20 banks, credit unions and other financial institutions is reassessing traditional ways of determining creditworthiness in an effort to expand opportunities for marginalized borrowers.

The collaboration, Underwriting for Racial Justice, aims to create new lending criteria for lower-income U.S. borrowers who have historically faced higher barriers to obtaining financing.

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The goal is to address bias by unpacking norms in underwriting, said Erin Kilmer Neel, executive director at Beneficial State Foundation, the nonprofit organization that is coordinating the initiative.

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"Impact happens in underwriting," Kilmer Neel said in an interview. "That's where opportunities are made and where gatekeeping can happen."

Under the two-year pilot program, which launched last month, participating lenders will be able to exchange best practices on how to gauge a borrower's ability to repay. The lenders will also submit data about loans they make to individuals from marginalized communities, which will then be anonymized and compiled into reports that get shared with other members of the group.

The program seeks to minimize the use of traditional credit scores in loan decisions. Instead, the use of artificial intelligence technology will "enable lenders to say yes to more borrowers without increasing risk," said Laura Kornhauser, CEO and co-founder of the fintech company Stratyfy, which is developing the program's tech platform.

"The chances are that your credit score alone is not representative of who you are as an individual and who you are as a credit risk," Kornhauser said. "We feel very strongly about the value that machine learning can deliver to increase affordable access to credit."

Kilmer Neel gave a similar assessment, saying: "All kinds of things can cause a person to have temporary or intermittent credit issues that aren't really an indicator of that person's likelihood to repay."

She described the underwriting program as an effort to right historical wrongs, saying that the "intergenerational aspect" of racial inequality has "put people at different starting points" to accumulate wealth and pass on opportunities to their families, Kilmer Neel said.

At the end of 2020, the homeownership rate for Black Americans was 43.4%. It was 51.1% for Hispanic Americans, 61.7% for Asian Americans and 72.1% for whites, according to an [analysis](#) conducted by the National Association of Realtors.

Black and Hispanic mortgage applicants were more likely than others to be rejected, the analysis found.

Underwriting for Racial Justice is the latest effort to expand access to credit by addressing shortcomings in traditional underwriting methods. Some of those initiatives have focused on so-called alternative data, such as rent and utility payments, which haven't historically been used in the calculation of credit scores.

Technology platforms that source alternative data have been critical for lenders looking to expand their underwriting criteria.

In 2017, [BankMobile partnered with the online-lending platform Upstart](#) to use artificial intelligence and alternative data to make loan decisions about potential borrowers who lacked strong credit profiles.

Bank regulators have acknowledged the value of using alternative data to evaluate prospective borrowers who are locked out of the mainstream financial system, but they have called for the "[responsible use of such data](#)."

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"There's no doubt that this is a good idea," Thomas said. "However, we have to be sure that everything is done in such a way that it does not have any other potential compliance problems."

Beneficial State Foundation will be supporting the participating lenders in meeting data compliance requirements, according to Kilmer Neel. The organization is also encouraging lenders to keep their regulators informed throughout the pilot program, she said.

Financial institutions that are participating in the program include Berkshire Bank, the New Orleans Firemen's Federal Credit Union and the Chehalis Tribal Loan Fund, which is a community development financial institution.

Berkshire Bank has already started working on an alternative approach to underwriting aimed at ensuring that more small-business owners have access to credit.

In 2020, the Boston-based bank established the \$3 million Futures Fund to help small businesses from underrepresented backgrounds in its New England footprint survive the economic upheaval of the pandemic. The minimum credit score to be eligible for a loan from the fund is a 545 VantageScore, according to Angela Dixon, the bank's chief diversity officer.

Berkshire also extends loans from the fund to borrowers who have gone through bankruptcies and credit-related judgments, as well as those who have been convicted of what Dixon described as victimless felony crimes.

"That is not a no-go — you can still be eligible," she said.

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Also participating in the Underwriting for Racial Justice program is the Washington State Employees Credit Union.

The credit union's underwriting team has worked to understand the difference between "perceived risk and actual risk," said David Puszczewicz, the credit union's director of community homeownership development.

He sees the collaboration as an extension of existing efforts at the credit union to expand access to homeownership. Those initiatives include a grant program that provides down-payment assistance for first-generation homebuyers, as well as pre- and post-purchase financial education courses.

"The finish line isn't getting a house," Puszczewicz said. "The success is going to be in sustainable homeownership and preparing people and then continuing the relationship after we pass on the keys."

CORRECTION

An earlier version of this article erroneously stated that the minimum credit score to be eligible for a loan from Berkshire Bank's Futures Fund had fallen. The minimum VantageScore for borrowers from the fund is 545, as it has been since 2020. The article has also been updated to provide more clarity about the types of small businesses that are eligible for loans from Berkshire Bank's Futures Fund. And it's been updated to say that members of Underwriting for Racial Justice will submit data that will be anonymized and compiled into reports that get shared with the group's members.

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Jordan Stutts Reporter, American Banker  

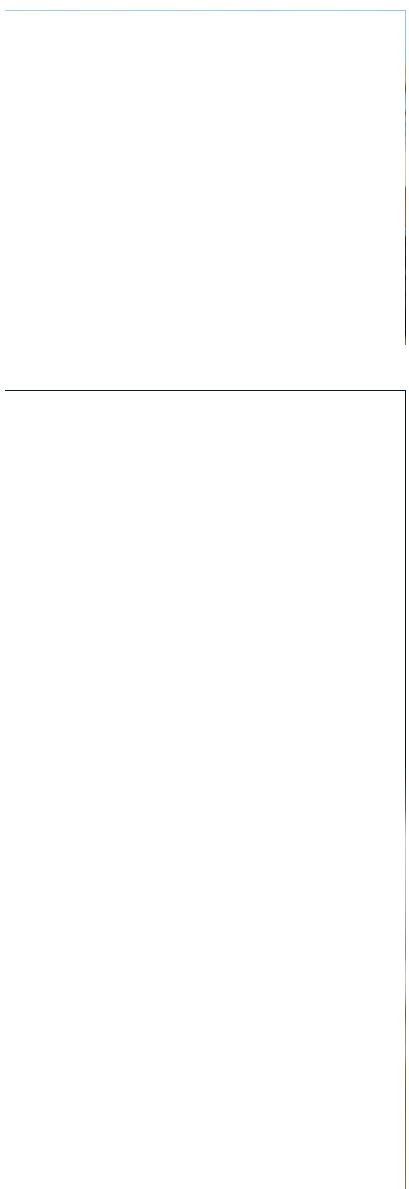
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