Evangelical Lutheran Church in America
God's work. Our hands.

CORPORATE SOCIAL RESPONSIBILITY

SUFFICIENT, SUSTAINABLE LIVELIHOOD FOR ALL: DOMESTIC ACCESS TO CAPITAL

Issue Paper

BACKGROUND

The ELCA social statement *Sufficient, Sustainable Livelihood for All* (1999) is a benchmark for our role as Christians in economic life. Because of sin, we fall short of our responsibilities to one another in this world, but we live in light of God's promised future that ultimately there will be no hunger or injustice. This promise makes us restless with a world that is less than what God intends. In economic matters, this draws attention to:

- The scope of God's concern: "for all."
- The means by which life is sustained: "livelihood."
- What is needed: "sufficiency."
- Long-term perspective: "sustainability" (p. 3).

"The vantage point of the kingdom of God motivates us to focus on more than short-term gains. Humans, called to be stewards of God's creation, are to respect the integrity and limits of the earth and its resources" (p. 14). We are challenged to pursue policies and practices that will further sustainability. This vantage point also motivates us to seek "fairness in how goods, services, income, and wealth are allocated among people so that they can acquire what they need to live" (p. 10). The multitudes around God's global table should be recognized as neighbors rather than competitors or strangers (p. 17).

Economic systems are just that — systems, which are fallible and imperfect, and even sinful in various ways. The recognition of structural sin is important here: "Sin is not only individual; it is also collective or communal. Sinful humans create structures, organizations, and societies that perpetuate sin, sometimes unintentionally" (*Faith, Sexism, and Justice*, p. 19). Lutherans are called to assess and address social systems as part of a biblical prophetic tradition ("Government and Civic Engagement in the United States," p. 16) when they fail to meet the needs of the neighbors they are supposed to serve.

For example, nearly 100 years ago the federal government sought to address a housing shortage through housing policies that mandated racial segregation, institutionalizing a process known as "redlining."[1] Following World War II, the G.I. Bill was historically credited for helping build America's middle class through

Corporate Social Responsibility in the ELCA uses the tools of screening of investments, shareholder advocacy and community investing to work with corporations, calling them to ensure that people are treated fairly and with dignity and to create sustainable communities.

More at ELCA.org/CSR.

1 https://www.npr.org/2017/05/03/526655831/a-forgotten-history-of-how-the-u-s-government-segregated-america

offering college education and mortgage assistance, but benefits were denied to thousands of Black service members seeking the same opportunities. As the U.S. domestic economy grew in the latter half of the 20th century, there was a concern that more people be provided opportunities for access to credit. Congress enacted the Community Reinvestment Act, with regulations first issued in 1977 and revised in 1995, encouraging depository institutions to meet the credit needs of all communities in which they operate, including low- and moderate-income communities.[2] In 2010 the Consumer Financial Protection Bureau was founded to enforce federal consumer financial laws and protect consumers, including provision of information consumers need to understand agreements with financial institutions for all types of credit. This agency also works to restrict unfair, deceptive or abusive practices in the financial markets.

Although many institutions and legislatures have addressed practices leading to individual credit crises, and although progress has been made, many people today are still suffering. In and of themselves certain practices are not necessarily predatory in nature, excessive and/or inappropriate. However, use of the following practices raises concerns about predatory practices:

- Flipping[3] and inappropriate asset-based lending.
- Excessive points fees, yield spread premiums and interest rates.
- Steering to subprime loans when unnecessary.
- Forcing credit insurance.
- Excessive prepayment penalties.
- Refusing to report good credit.

These practices are ripe for abuse, as the steering of minorities toward the subprime market demonstrated.[4] "Principles for Global Corporate Responsibility"[5] stipulates that financial services—including microfinancing, discounted loan services, and other fair lending practices—be made available to local communities, including those underserved, on a fair and equitable basis. Most recently the credit crisis has included housing foreclosures, predatory practices in the credit card industry and lack of access to credit.

Despite interventional measures, a November 2021 report by the Brookings Institution found that access to capital is still unevenly distributed based on race: "Interest rates on business loans, bank branch density, local banking concentration in the residential mortgage market, and the growth of local businesses are markedly different in majority Black neighborhoods."[6] The dearth of Black-owned financial institutions and local branch offices in majority-Black neighborhoods

2 http://www.federalreserve.gov/dcca/cra/ and https://www.makinghomeaffordable.gov/

3 Loans refinanced with high additional fees, rather than working out a loan that is in arrears.

4 https://lawecommons.luc.edu/cgi/viewcontent.cgi?article=1218&context=pilr

5 *Corporate Examiner 31*, no. 4-6 (2001), 3rd edition revised and released April 2003, http://www.bench-marks.org

6 https://www.brookings.edu/research/an-analysis-of-financial-institutions-in-black-majority-communities-black-borrowers-and-depositors-face-considerable-challenges-in-accessing-banking-services/

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signals lower availability of credit, higher fees and lower savings. The number of Black-owned banks declined — from 48 in 2001 to 18 in 2020[7] — as did the number of bank branches in majority-Black neighborhoods.[8] The disparate and discriminatory treatment of people of color by lending and banking institutions exacerbates underlying inequities and inhibits the ability of communities to create new opportunities, experience sustainable growth and foster financial well-being for residents.

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ELCA DECLARATIONS

In "Declaration of the ELCA to People of African Descent" and "A Declaration of the ELCA to American Indian and Alaska Native People," the ELCA confessed the history of racism, colonialism and white supremacy that removed money and power from the hands of people of color: "Descendants of formerly enslaved Africans are still denied equal access and opportunity in church and society while white people collectively benefit from unequal access, opportunity, and power." ("African Descent," p. 1). Both statements call for repentance and commitment to solidarity or socioeconomic equity.

ELCA SOCIAL TEACHING

Sufficient, Sustainable Livelihood for All (1999): In its social statement, the church delineates principles dedicated to sufficient and sustainable economic life for all people, especially the poor and disenfranchised. It calls for "scrutiny to ensure that new ways of providing low-income people with assistance and services do not sacrifice the most vulnerable for the sake of economic efficiency and profit" (p. 12).

The ELCA social statement *Freed in Christ: Race, Ethnicity and Culture* (1993) acknowledges economic forces that work against people of color, calling for advocacy to address this injustice.

RESPONSES

Since the inception of the Interfaith Center on Corporate Responsibility, the faith community has engaged the financial services community through it. Public information, analyzed through the lens of those living in poverty, serves as a basis for working with financial institutions. Trends in lending to low-income and minority borrowers as well as policies regarding these borrowers are the focus of the work. Dialogues over the last decade have moved from the community reinvestment act to predatory lending to loan servicing and foreclosure. Most recently the ICCR has been addressing the financialization of housing. This phenomenon occurs when housing is treated as a commodity — a vehicle for wealth and investment — rather than a social good and a human right. With roots in the 2008 financial crisis,

7 https://www.blackenterprise.com/black-banks-struggle/ McKinney, 2019.

8 Since 2010, the number of banks in majority-black neighborhoods decreased 14.6%, with JPMorgan shrinking its branch footprint in majority-Black neighborhoods by 22.8% from 2010 to 2018, compared to a decline of just 0.2% in the rest of the U.S. (Fox, et al., 2019).

the impact of the shift from housing as a place to build a home to housing as an investment has been devastating.[9]

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SOCIAL CRITERIA INVESTMENT SCREENS

A screen is a framework of principles, specific to an issue, by which a company's activities are evaluated. The community development social criteria investment screen relates to positive investments relating to issues addressed in this paper.[10]

RESOLUTION GUIDELINES FOR THE ELCA - ISSUE SPECIFIC[11]

1. We support fair-lending community reinvestment policies.
2. We support a general program goal for housing loans to low- and moderate-income people, with the focus on minorities, so that an institution would achieve average industry levels in the market area.
3. We support annual reports to shareholders on lending achievements.
4. We support oversight by outside committees to ensure that no employee or broker engages in predatory practices.
5. We support reports on avoidance of predatory lending practices, including instructions to employees on avoidance of predatory lending practices.
6. We support higher standards in securitizing loans as well as procedures to ensure loan screening and originator screening for predatory loans.
7. We support reports on evaluating overdraft policies and practices and the impact these practices have on borrowers.
8. We support reports evaluating a company's credit card marketing, lending and collection practices and the impact these practices have on borrowers.
9. We support reports that oversee and report on the development and implementation of a consistent loans-servicing policy and a comprehensive consumer lending policy, including loan modifications. Other issues addressed could include overdraft fees, insufficient funds and direct deposits on advanced loans.
10. We support public reporting of both the trades and their value in over-the-counter credit default swaps.

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9 Real estate can play an important multigenerational role as an asset for financial well-being. However, when profit is prioritized over the human right to affordable, adequate and fair access to housing, that right is at risk. This is especially concerning when ownership of land and real estate is held by investors from outside a community, or without concern for the long-term well-being of the community. For example, in many economies, existing neighborhoods in desirable locations are subject to evictions and displacement to make way for speculative investment from outside the community. Residents are often rendered homeless, replaced by luxury housing that frequently stands vacant. For more information, click on the report to the United Nations Human Rights Council.

10 http://www.elca.org/Resources/Corporate-Responsibility

11 These guidelines may be used in proxy voting as well as to help determine resolutions to file and dialogues to support. Each resolution guideline should be looked at within the context of the entire resolution language and specific company situation.

11. We support reports of a company's foreclosure policies, loan approval rates, home preservation rates and foreclosure statistics and staffing to accomplish this work. This report should disaggregate the data for all racial and ethnic groups, including African American, Hispanic and Caucasian mortgage borrowers.
12. We support reports to (a) develop a standard of suitability for a company's products, (b) develop internal controls relevant to the implementation of the suitability standard and (c) create a public reporting standard that assesses the company's success in providing loans that meet the suitability standard.
13. We support reports on policies that are in place to safeguard against the provision of any financial services for any corporate or individual client that enables capital flight and results in tax avoidance.
14. We support reports on the risk management structure, staffing and reporting lines in place to protect the institution, clients, customers and financial system across all operations of the company's business lines. This could include timelines for changes needed to implement U.S. financial system reforms.
15. We support requests to take steps to assess and mitigate the risks relating to human rights and the company's reputation that may be involved in the financialization of housing. This includes acknowledging that housing is a human right and developing a human rights due-diligence tool that can be used to assess and mitigate the risks of doing business with clients or potential clients whose business practices have the potential to exacerbate the negative effects of the financialization of housing.

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RESOLUTION GUIDELINES FOR THE ELCA - GENERAL

We support practices of good governance, specifically:

- A company having an independent board chair or independent lead director.
- Reports on policies and transparency of procedures for political contributions and expenditures (both direct and indirect) made with corporate funds.
- Reports on any portion of any dues or similar payments made to any tax-exempt organization or trade association that is used for an expenditure or contribution that might be deemed political.
- Guidelines or policies governing a company's political contributions and expenditures.
- Reports on diversity for corporate boards and upper-level management.[12]

12 https://download.elca.org/ELCA%20Resource%20Repository/Non_Discrimination_In_Business_Activities_Issue_Paper_2020.pdf?_ga=2.233911134.1591617596.1657212248-1480364168.1651691194