INTRODUCTION

Rise Economy is a member-led alliance that’s focused on creating a more equitable society where Black, Indigenous, and other People of Color (BIPOC) have access to resources and opportunities to build generational wealth. BIPOC, women, LGBTQ+ and other marginalized communities have historically been excluded from homeownership, small business ownership, and other forms of wealth creation through the denial of fair and equitable access to credit. This continues to be a significant barrier to building community wealth, as seen in the persistent racial and other wealth gaps in the US. To effectively address this historical and ongoing harm, targeted, race-conscious solutions are needed. Rise Economy has identified Special Purpose Credit Programs (SPCPs) as one effective and underutilized tool that lenders have at their disposal to alleviate this issue.

SPCPs Present a Unique Opportunity For Financial Institutions to Promote Financial Inclusion and Economic Equity.

SPCPs allow lenders to extend credit on favorable terms to address the credit access gaps for historically disadvantaged groups while remaining in compliance with fair lending laws (See 12 U.S.C. §1691(c); 12 C.F.R. §1002.8(b)(2)). SPCPs can be tailored to meet the unique needs of a specific group by adjusting various aspects of a traditional loan program such as their qualification standards, loan terms, servicing standards or a combination of these to make credit more accessible to underserved communities. SPCPs can also be created in tandem with down-payment assistance programs, either in the form of a low-interest loan or grant, to enhance their impact.
**Why It’s Important for Lenders to Offer SPCPs**

A. Financial institutions have been complicit and at times, architects of the financial exclusion that has made it so that, as one example, the gap between white and Black homeownership rates is the same as it was when the Fair Housing Act of 1968 was signed into law. Lenders must address this legacy and the ongoing harm of financial exclusion by making racially conscious efforts at inclusion.

B. SPCPs remain an underutilized tool by banks despite having been authorized under the Equal Credit Opportunity Act for over 45 years. Banks should feel confident to establish SPCPs – in recent years, federal regulators have reiterated the legitimacy and legality of SPCPs through guidance and other actions.

1. “The Consumer Financial Protection Bureau (CFPB) has issued guidance that helps to explain how lenders can offer or participate in a SPCP. In addition, the Department of Housing and Urban Development has also issued guidance confirming SPCPs for real estate loans or credit assistance that are compliant with ECOA and Regulation B, generally would not violate the Fair Housing Act.”

2. “In February 2022, the CFPB joined seven other federal agencies in issuing a statement encouraging lenders to explore opportunities available to them to increase credit access through special purpose credit programs (SPCPs) to better serve historically disadvantaged individuals and communities.”

3. On September 12, 2023, the Office of the Comptroller of the Currency, the Federal Housing Finance Agency, the Consumer Financial Protection Bureau, and the Department of Housing and Urban Development scheduled a live streamed roundtable to discuss how lenders can use SPCPCs as permitted under ECOA and Regulation B to help address the critical credit needs of underserved communities.
WHAT TYPE OF LOANS ARE COVERED BY SPCPs?

SPCPs can be used to meet a variety of credit access needs including but not limited to home mortgages, small business loans, multifamily housing loans, and consumer loans.

WHAT ASPECTS OF A LOAN PRODUCT CAN LENDERS CHANGE WHEN MAKING SPCPs?

Common changes include reduced minimum credit score, higher allowable loan-to-value, reduction in interest rates, flexible repayment schedules and waiver of fees. To ensure SPCPs are responsive to direct needs of the target community, lenders should work with their regulators, research loan approval data, and gather community input when determining which parameters of the loan program should be adjusted.

HOW CAN SPCPS BE DESIGNED TO BE MOST EFFECTIVE?

1. Borrower-based programs - programs with eligibility guidelines based on the race, ethnicity, or other identity marker of the borrower - should be adopted whenever possible. Neighborhood-based SPCPs, even when targeting previously redlined neighborhoods or majority-minority census tracts, risk benefiting those not within the scope of the program’s intent, potentially fanning the flames of gentrification and displacement of BIPOC and other households and further entrenching racial and other wealth gaps. Neighborhood-based SPCPs also suffer from potentially furthering segregation patterns as current residents of neighborhoods of color cannot access these SPCPs to secure home or small business ownership in majority communities if they so choose.

2. Lenders should ensure that comprehensive community input is taken into consideration when designing a SPCP, during implementation, and in ongoing review to ensure the program meets its intended purpose. Lenders should work with community organizations to amplify their outreach and implementation of the SPCP, provide adequate funding for partner organizations helping to ensure program success, share data on SPCP performance, and continue dialogue with impacted communities.