EVANGELICAL LUTHERAN CHURCH IN AMERICA Corporate Social Responsibility

Sufficient, Sustainable Livelihood for All: Domestic Access to Capital Issue Paper

I. Background

The ELCA social statement "Sufficient, Sustainable Livelihood for All" (ELCA, 1999)¹ is a benchmark for our role as Christians in economic life. Because of sin, we have fallen 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 and 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"; and
- long-term perspective: "sustainability" (pg. 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" (pg. 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" (pg. 10). The multitudes around God's global table are all recognized as neighbors rather than competitors or strangers (pg. 17).

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. In 2009, the Home Affordable Modification program was created in an effort to address the housing crisis related to the recession. The Consumer Financial Protection Bureau was begun in 2010 to give consumers information they 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. ⁴ In and of themselves certain practices are not necessarily predatory in nature, excessive and/or inappropriate. However, the use of the following practices often is an indicator of predatory practices:

• flipping⁵ and inappropriate asset-based lending;

http://www.consumerfinance.gov/the-bureau/ 4

¹ http://downloads.elca.org/html/jle/www.elca.org/what-we-believe/social-issues/economic-life.aspx.htm
²http://www.federalreserve.gov/dcca/cra/ and https://www.makinghomeaffordable.gov/pages/default.aspx

⁵ Loans refinanced with high additional fees, rather than working out a loan that is in arrears.

- excessive points fees, yield spread premiums, and interest rates;
 - steering to subprime loans, when unnecessary;
 - forcing credit insurance;
 - excessive prepayment penalties; and
 - refusing to report good credit.

Concerns regarding these abuses as well as the steering of minorities toward the subprime market contribute to the problem today. Principles for Global Corporate Responsibility, The Corporate Examiner 31, nos. 4–6 (2001), stipulates that financial services—including micro-financing, 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.

II. ELCA Social Policy

"Sufficient, Sustainable Livelihood for All" (ELCA, 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" (pg. 12).

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

III. Responses

Since the inception of the Interfaith Center on Corporate Responsibility, the faith community has engaged the financial services community. 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.

IV. 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. ⁸

V. Resolutions Guidelines for ELCA – Issue Specific⁹

⁶ http://lobby.la.psu.edu/_107th/105_Predatory_Lending/Agency_Activities/HUD/HUD_PredatoryLending.htm

⁷ 3rd edition revised and released April 2003, http://www.bench-marks.org

⁸ http://www.elca.org/Resources/Corporate-Responsibility

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.

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- 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.
- 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.
- 89 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.
- 93 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, non-sufficient 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.
 - 11. We support reports of a company's foreclosure policies, 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, as well as 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 the 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.

VI. Resolution Guidelines for ELCA – General

We support practices of good governance, specifically:

- a company having an independent chair or independent lead director;
- reports on policies and 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 that is used for an expenditure or contribution that might be deemed political;

125	 guidelines or policies governing the company's political contributions and
126	expenditures; and
127	 reports on diversity for corporate boards and upper-level management¹⁰.
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130	Recommended by Advisory Committee on Corporate Social Responsibility, Sept. 6, 2003
131	Endorsed by Division for Church in Society Board, Oct. 24, 2003
132	Approved at Church Council, November 2003
133	Amendment recommendation by the Advisory Committee on Corporate Social Responsibility, March 11, 2004
134	Amendment endorsed by the Division for Church in Society Board, Oct. 22, 2004
135	Amendment approved at Church Council, Nov. 11, 2004
136	Updated by Advisory Committee on Corporate Social Responsibility, Sept. 28, 2007
137	Approved at Church Council November 2007
138	Updated by Advisory Committee on Corporate Social Responsibility, Sept. 10, 2010
139	Approved at Church Council November 2010
140	Approved by Church Council CC15.11.52j, November 2015

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