How Banks Can Support Workforce Development

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When financial institutions partner with workforce development programs, the beneficiaries include job seekers, businesses, and the entire community.

Between 2000 and 2015, Congress reduced federal funding for workforce programs that target young people and unemployed and dislocated workers by over 55 percent. In 2000, the level of federal funding for the Workforce Investment Act (WIA) was approximately $5.1 billion; it fell to a little over $2.8 billion by 2015.[1] Within the same period, the national average unemployment rate went from 4.0 percent in 2000 to an economically distressing 9.6 percent in 2010 before dropping to a still impactful 5.3 percent in 2015.[2] Workforce research experts and practitioners agree: not enough money is currently being invested in the workforce to meet the competitive demands of the economy. Given the increasingly burdensome funding gaps, it is imperative that workforce practitioners exchange resources and expertise with stakeholders from financial services and other industries to strengthen local communities. This article examines two legislative acts intended to help low- and moderate-income (LMI) communities and explores three engagement strategies that workforce entities and financial institutions can adopt in partnership for mutual and community benefit.[3]

The Community Reinvestment Act

The Community Reinvestment Act (CRA) was included in the Housing and Community Development Act of 1977. It encourages depository institutions (banks and savings and loan associations) to help meet the credit needs of the LMI communities in which they operate, consistent with safe and sound operations. The law was enacted because financial institutions were failing to lend in LMI communities, perceiving them as too risky.

Bank examiners routinely assess financial institutions' compliance with this regulation as part of the audit process. The process varies depending on the institution's size and designation, but regulators examine performance in three areas: lending, investment, and service.[4] (See "Examples of Community Development Services" for ways financial institutions satisfy the third criterion.)

The Workforce Innovation and Opportunity Act

The Workforce Innovation and Opportunity Act (WIOA), which became law in 2014, is the latest reform created to improve the American workforce by advancing education and training services that help job seekers gain and develop skills that match employers' needs. As part of the WIOA reforms, efforts are being made to improve service and support for both in- and out-of-school youth. Financial institutions have a unique opportunity to contribute to the success and impact of the youth programs through provision of financial-literacy education. Financial-literacy initiatives seek to enhance the financial skills and behaviors of youth and young adults. (See "Aspects of Financial Literacy supported by WIOA Activities." By combining financial-education efforts with workforce services, training providers and financial institutions may find that their joint efforts lead to better employment and financial outcomes for those they seek to aid.

Engagement Strategies

WIOA offers opportunities for financial institutions to partner with workforce entities, allowing both partners to leverage their expertise and resources to better understand and serve the needs of the workforce. The following three engagement strategies are examples of ways in which workforce stakeholders and financial institutions can potentially collaborate.

Active Participation on a Community Development Board

WIOA legislation requires the formation of boards, led by private industry, to determine local workforce needs and program priorities and to facilitate partnerships among local businesses, academia, government, and training providers. Many boards intuitively seek at least one representative from a financial institution, acknowledging financial institutions as anchor businesses, drivers of economic development, and key business leaders.

As noted earlier, such service counts toward a financial institution's fulfillment of its CRA obligations, but the board member must play an active role, providing "services reflecting financial institution employees' areas of expertise at the institution, such as human resources, information technology, and legal services."[5] Bank employees with expertise in financial products and innovative

Examples of Community Development Services

- Providing financial services to low- and moderate-income individuals through branches and other facilities located in LMI areas
- Providing technical-assistance** on financial matters to nonprofit, tribal, or government organizations serving LMI housing or economic revitalization or development needs
- Providing technical assistance on financial matters to small businesses or community development organizations
- Establishing school savings programs or developing financial education or financial literacy programs for LMI individuals

**Examples of technical-assistance activities include serving on the board of directors of an organization engaged in community development, serving on loan review committees, and furnishing financial services training, among others.

Aspects of Financial Literacy Supported by WIOA Activities

- Creating household budgets and savings plans
- Saving for particular goals (e.g., education, retirement, home ownership, wealth building)
- Managing spending, credit, and debt, including credit card debt
- Understanding credit reports and credit scores and their role in obtaining credit; determining their accuracy
- Understanding, comparing, and evaluating financial products, services, and opportunities
- Developing and distributing multilingual financial-literacy and education materials for non-English speakers

lending practices would be great partners for workforce boards and community-based organizations, capable of connecting LMI communities with affordable financial products or financial-education training and resources, thereby filling expertise gaps and strengthening local communities. By connecting with the financial sector, workforce stakeholders gain a stronger understanding of strategies that impact the financial well-being of their program participants, such as financial coaching and microlending to build credit scores.

Sectoral Partnerships and Trainings

As part of WIOA's demand-driven strategy, workforce training providers are developing sector-based training to match workers' skills with employers' needs. Sector-based training relies on dedicated partnerships between training providers and businesses in an industry cluster. A 2003 study showed this approach to be very successful: two years after participation in training, trainees' wages were 29 percent higher than those of a control group.[6] Employers are involved throughout the training program, which means trainees are assured of gaining the expected skills and general knowledge of a particular industry. A close partnership between employers and training providers can result in a talent pipeline of quality candidates for employers to consider hiring.

As there are many types of occupations and sought-after skills in the banking and finance industry, opportunities exist for financial institutions to collaborate with training providers to nurture the necessary skills. For example, when the Asian American Civic Association in Boston developed a 15-week training program for careers in banking and finance, it partnered with several banks and incorporated their expectations into its program.[7]

Corporate Philanthropy

In 2015, 71 percent of $373.25 billion in total giving in the United States was contributed by individuals, and 21 percent was contributed by foundations (16 percent) and corporations (5 percent).[8] Financial institutions can benefit from charitable giving and grantmaking to the communities they serve as they may receive credit for CRA-qualified investment. Philanthropy is eligible for CRA credit if the grants are given for general operating support or program-specific support for community development programs or programs to benefit LMI individuals. While corporate philanthropy is not new, for banks it offers a unique opportunity to use their expertise to strengthen local communities. JPMorgan Chase, for example, established a five-year, $75 million initiative called New Skills for Youth, which invests in demand-driven programs that prepare youth and young adults for the workforce.[9]

Taking Steps to Move Forward

The first step for financial institutions that want to become more involved in the workforce system is to find their local workforce board online and reach out to the chair or the executive director for information.[10] WorkforceGPS, an online platform designed to provide workforce development information at one central website, is another good starting point.[11] On their end, workforce stakeholders can request a copy of their bank's latest CRA performance evaluation and find out their bank's CRA compliance rating.[12] They can also speak with the bank's CRA compliance officer or staff leading the bank's philanthropic efforts to better understand the bank's community development strategy. LMI communities and individuals stand to gain when financial institutions and workforce entities collaborate.

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Note: The views expressed in this article are those of the author and not necessarily those of the Federal Reserve Bank of New York or the Federal Reserve System.

Endnotes

1 "Federal Policy: Interactive Federal Funding Tool," National Skills Coalition, http://www.nationalskillscoalition.org/federal-policy/federal-funding-tool.

2 See "Labor Force Statistics from the Current Population Survey," U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov/timeseries/LNS14000000.

3 The information on the Community Reinvestment Act and the Workforce Innovation and Opportunity Act is intended to provide a general understanding rather than an in-depth analysis. Additionally, training programs or initiatives are mentioned as examples of cooperation between workforce providers and financial institutions, not as program endorsements.

4 For more information on the specifics of these evaluations, see A Banker's Quick Reference Guide to CRA, https://www.dallasfed.org/assets/documents/cd/pubs/quickref.pdf and "Community Reinvestment Act; Interagency Questions and Answers Regarding Community Reinvestment; Notice" *Federal Register* 78, no. 244 (November 20, 2013), 69671, https://www.gpo.gov/fdsys/pkg/FR-2013-11-20/pdf/2013-27738.pdf.

5 "Community Reinvestment Act; Interagency Questions and Answers Regarding Community Reinvestment; Notice," 69676.

6 Carol Clymer et al., "Tuning in to Local Labor Markets: Findings from the Sectoral Employment Impact Study," July 1, 2010, http://www.issuelab.org/resource/tuning_in_to_local_labor_markets_findings_from_the_sectoral_employment_impact_study.

7 "Careers in Banking and Finance," Asian American Civic Association, http://aaca-boston.org/programs-services/job-training/banking/.

8 "Giving USA: 2015 Was America's Most-Generous Year Ever," June 13, 2016, http://givingusa.org/giving-usa-2016/.

9 "New Skills for Youth: Investing $75M Today to Build Tomorrow's Economy," JPMorgan Chase & Co., 2016, https://www.jpmorganchase.com/corporate/news/stories/newskillsforyouth.htm.

10 Workforce boards can be located at http://www.servicelocator.org/WorkforceContacts.asp.

11 See https://www.workforcegps.org/.

12 Federal Reserve System CRA ratings are available at https://www.federalreserve.gov/apps/crape/BankRating.aspx; Office of the Comptroller of the Currency CRA ratings are available at http://apps.occ.gov/crasearch/default.aspx; Federal Deposit Insurance Corporation CRA ratings are available at https://www5.fdic.gov/crapes/index.sp?ProcessParms=Y&ErrMessage=&PageNo=2&PrevPage=1&NextPage=3&TotRecs=181&TotPages=19&PEInd=Y&CRACert=&CRAStatus=CurrentActive.