November 12, 2020

JPMorgan Chase & Co.,
Chairman and CEO James Dimon
Office of the Secretary
4 New York Plaza,
New York, NY 10004-2413

Dear Chairman and CEO Dimon:

In light of recent high profile police killings of Black people, the ensuing nationwide protests against racial injustice, and companies' responses to these events, we urge the board of JPMorgan Chase & Co. ("JPMorgan") to conduct and disclose the results of a racial equity audit that would identify, prioritize, and remedy the adverse impacts of the company's policies and practices on non-white stakeholders and communities of color. The board should engage a variety of key stakeholders in undergoing this audit and evaluating the specific topics to be addressed, including civil rights organizations, employees, and customers.

As outlined further below, we believe that this disclosure would demonstrate concrete steps that the company has taken to address racial injustice and unequal treatment not only in its own workplace, but also within the community that it serves. JPMorgan, like many other issuers, has made a public statement supporting Black Lives Matter and racial justice. While these statements are informative to investors, the meaning is lost without concrete action and introspection by company leadership.

The CtW Investment Group works with pension funds sponsored by unions affiliated with Change to Win, a federation of unions representing nearly 5.5 million members, to enhance long term shareholder value. These funds have over $250 billion in assets under management and are substantial JPMorgan shareholders.

The Banking Industry's Role in Reinforcing Racial Inequality Raises Concern

The current reckoning on racial injustice facing the financial industry is not new, with the industry playing a significant role in the economic inequality facing communities of color. White households on average hold 10 times the wealth of Black households, which is largely attributable to institutionalized racism within the U.S. financial system. The driving factor for this inequality in wealth distribution is lenders failing to issue mortgages to minorities. By way of example, for every $1 loaned out to finance residential properties in white neighborhoods in Chicago from 2012-2018, a mere 12 cents was invested in Black neighborhoods, despite anti-discrimination laws that were passed in the 1960's that bar such practices, known as "redlining."[1]

Mortgage issuances are just one concern, however. Black and Hispanic banking customers have also been reported to face higher monthly checking account fees than white customers. According to a recent survey, Black and Hispanic customers reported paying $12 and $16 per month, respectively, for

[1] Jennifer Tescher, *American Banker*, "Bankers need to walk the walk on equality," June 9, 2020, *available at* https://www.americanbanker.com/opinion/bankers-need-to-walk-the-walk-on-equality.

overdraft penalties and ATM surcharges, versus $5 per month for white customers.[2] A 2018 study by *New America* reinforced these findings, noting that Black and Hispanic communities face higher costs associated with opening accounts, higher maintenance fees, and larger minimum deposit requirements than their white counterparts.[3] Given that checking accounts effectively operate as a mechanism to participate more actively in the economy, these requirements redirect income and reduce the economic power of people of color, who also typically earn less than white customers. In light of the current pandemic and the significant spike in unemployment, these requirements threaten to reverse years of gains in the number of households having access to a bank account.

Further, there is a trend within the financial industry to not only charge more to communities of color, but exit those markets entirely effectively creating "banking deserts." In fact, more bank branches have been closed in predominantly Black neighborhoods, even wealthy ones, than any other community broken down by race. The lack of mainstream banking makes communities of color even more vulnerable as they are forced to resort to predatory financial alternatives, such as payday lenders and check cashing services that often charge significantly more fees than traditional banks.

The lack of bank branches not only impacts personal banking, but commercial banking that is based very much on the relationship between business owners and financial advisors. A 2018 Federal Reserve study noted that "banks without a local branch were much less likely to originate small business loans in that community."[4] Minority-owned businesses continue to struggle with access to capital, much of which is restricted by the industry's low approval rates for funding small businesses within communities of color. The Federal Reserve has reported that more than half of Black-owned businesses that applied for a loan were rejected, twice the rate of a white owned business.[5] A study by *The Business Journals* of its 44 markets found that the four largest banks, including JPMorgan, made 91% fewer Small Business Administration 7(a) loan guarantees to Black-owned businesses in 2019 than in 2007.[6]

These trends have only been exacerbated further as a result of the coronavirus pandemic, with white-owned businesses receiving 83% of the first-round of loans authorized through the Paycheck Protection Program ("PPP"), from April 1-17, 2020, according to *Bloomberg*.[7] Although this gap narrowed once a second tranche of funding was released on April 27, the damage had already been done. Between February and April 2020, over 41% of Black-owned businesses and 32% of Hispanic-owned businesses

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[2] Kristopher J. Brooks, *CBS News*, "Blacks and Latinos say they pay higher bank fees, research suggests, they're right," January 16, 2020, ***available at*** https://www.cbsnews.com/news/minorities-report-paying-higher-banking-fees-than-white-people-bankrate-survey-says/.

[3] Jacob Faber & Terri Friedline, New America, *The Racialized Costs of Banking*, June 2018, *available at* https://d1y8sb8igg2f8e.cloudfront.net/documents/The_Racialized_Costs_of_Banking_2018-06-20_205129.pdf, p. 4-5.

[4] Zach Fox, et. al, *S&P Global*, "Bank Branch Closures Take Greatest Toll on Majority Black Areas," July 25, 2019, p. 5.

[5] Gene Marks, *The Guardian*, "Black owned firms are twice as likely to be rejected for loans. Is this Discrimination?" January 16, 2020, ***available at*** https://www.theguardian.com/business/2020/jan/16/black-owned-firms-are-twice-as-likely-to-be-rejected-for-loans-is-this-discrimination.

[6] Matthew Kish & Malia Spencer, *The Business Journals*, "One System Un)equal Access," October 15, 2020, ***available at*** https://www.bizjournals.com/portland/news/2020/10/15/unequal-access-how-the-us-financial-system-is.html?b=1602790745%5E21787983.

[7] Jason Grotto et. al., *Bloomberg*, "White America Got a Head Start on Small-Business Virus Relief," June 30, 2020, ***available at*** https://www.bloomberg.com/graphics/2020-ppp-racial-disparity/?sref=cdlcj118.

went out of business due to the pandemic. Only 17% of white-owned businesses were forced to close during the same period.

Finally, not only have the financial industry's external practices adversely impacted communities of color, but its internal practices reflect little progress in achieving racial equity within the industry's workforce and leadership teams. The House Financial Services Committee recently held a hearing on workforce diversity within the banking industry, noting that at "megabanks," like JPMorgan, just under 10% of the workforce was Black. More alarming still was the fact that a mere 19% of executive senior level positions at all banks that reported back to the Committee were held by ethnic or racial minorities.[8] In order to better evaluate their full impact on communities of color, financial institutions must review their human capital management practices in relation to employees of color.

JPMorgan's External and Internal Practices Raise Concerns Regarding Racial Inequality

JPMorgan recently announced a $30 billion initiative to close the racial wealth gap in response to the Black Lives Matter protests in June 2020. This commitment includes $12 billion to mortgages and refinance loans for underserved communities, $14 billion to finance affordable housing, and $2 billion in loans to small businesses in majority Black and Hispanic communities. Simply pledging funds, however, is not enough to bridge the gap between decades of discrimination and the lack of wealth creation within Black and Brown communities.

While providing funding to communities of color may appear beneficial at first glance, these initiatives do not address the inequality in JPMorgan's own lending practices and product offerings. For example, in Chicago from 2012 to 2018, JPMorgan loaned out 41 times more funding for mortgages to white neighborhoods than to Black neighborhoods. In 2017, JPMorgan settled a federal lawsuit for $55 million related to allegations that mortgage brokers it worked with had discriminated against minority borrowers from 2006 to 2009 by charging them approximately $1,000 more on average. A letter from the Senate Banking Committee in late 2019 lists additional multi-million dollar settlements from 2013 and 2014 related to fraudulent lending practices, including predatory lending.[9] The bank's history of these discriminatory practices is concerning given it is unclear what steps JPMorgan has taken to remedy these issues, particularly in the context of its recent financial pledge.

Just late last year, a *New York Times* piece exposed how the company's practices have effectuated discrimination in the banking industry. In one instance, a Black client who had received $320,000 in a wrongful death lawsuit was effectively deemed as undesirable for services. A JPMorgan manager was quoted as saying, "You've got somebody who's coming from Section 8, never had a nickel to spend," further stating, "This is not money she respects. She didn't earn it." Also concerning was the treatment of former NFL player Jimmy Kennedy, who is Black and a former client of JPMorgan. When being denied an elite service designation, Mr. Kennedy was told by a Black JPMorgan employee, "We're in Arizona. I

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[8] House of Representatives, Financial Services Committee, *Diversity and Inclusion: Holding America's Large Banks Accountable*, February 2020, *available at* https://docs.house.gov/meetings/BA/BA13/20200212/110498/HHRG-116-BA13-20200212-SD003-U1.pdf (see Figures 5 and 6).

[9] U.S. Senate, Committee on Banking, Housing, and Urban Affairs, Letter to James Dimon, JP Morgan Chase, December 19, 2019, *available at* https://www.banking.senate.gov/imo/media/doc/2019.12.19%20-%20Letter%20to%20JPMC.pdf.

don't have to tell you about the demographics in Arizona. They don't see people like you a lot."[10] We find it difficult to understand how JPMorgan can work towards racial equality when its own practices have failed to address race discrimination in providing financial services to customers.

Additionally, the company announced plans to open new branches in cities such as Chicago, Los Angeles, and Detroit as part of their $30 billion initiative. These new branches do not, however, redress the bank's decision to reduce the number of branches in majority Black communities by 22.8% from 2010 to 2018, giving JPMorgan the distinction of most branch closures of all the major national banks in the United States during that time period. As noted earlier, bank branch closures can not only create banking deserts, but also prevent the development of personal relationships with bank managers that are critical to financing small businesses owned by people of color.

The impact of the bank's policies on Black owned businesses can also be seen in its inequitable distribution of PPP funding to minority and women owned business. A recent House of Representatives' report found that JPMorgan applied a policy of only accepting applications for funding from clients with an existing banking relationship.[11] The design of JPMorgan's program allowed the wholesale banking arm (servicing high net worth companies) to utilize a relationship manager to process the application, resulting in larger commercial clients being processed faster. Small businesses on the other hand that were existing clients were required to complete an online application. As a result, at the end of the first round of the PPP 70% of the loans issued by JPMorgan, the country's largest PPP issuer, went to majority white congressional districts. We wonder how committed JPMorgan could be to minority owned small businesses when its actions reflect an apparent disregard of the practical effects of its policies.

Additionally, though JPMorgan has committed to providing donations to community organizations, the company has also provided support to the very same law enforcement institutions that are now being criticized for discrimination and excessive force against Black and Brown communities. JPMorgan holds a seat on the New Orleans's police foundation boards, and the company also previously donated over $4.5 million to the New York City Police Foundation, which was used for "security upgrades" including security monitoring software for the department's main data center. Critics see such foundations to operate as a subversive means of funding equipment outside the public eye, including surveillance tools that are used by police departments against communities of color. We hope that this proposed audit would address JPMorgan's relationships with police foundations.

Lastly, we note that JPMorgan, like many of its peers, appears to be lagging in its own development and retention of employees of color. The company discloses that over 51% of its workforce are people of color, yet there were no Black or Hispanic executives within its C-suite until September 2020, after the Black Lives Matters protests, when the company added new members to its key Operating Committee. The company has faced numerous allegations of discrimination by Black and Hispanic employees. In 2018, the company paid $19 million to settle allegations of widespread discrimination against Black

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[10] Emily Flitter, *New York Times*, "This is what racism sounds like in the banking industry," December 14, 2019, *available at* https://www.nytimes.com/2019/12/11/business/jpmorgan-banking-racism.html.

[11]House Select Subcommittee on the Coronavirus Crisis, *Underserved and Unprotected: How the Trump Administration Neglected the Neediest Small Businesses in the PPP*, October 2020, *available at* https://coronavirus.house.gov/sites/democrats.coronavirus.house.gov/files/PPP%20Report%20Final%20%283%29.pdf, p. 5.

financial advisors. Two former JPMorgan home lending advisors who are Hispanic are pursuing claims that they were assigned poorer, less profitable locations compared to non-Hispanic advisors. In early 2020, a proposed class action was filed alleging JPMorgan had a “segregated employment policy” that placed Black personal bankers in lower income branches and offered them fewer promotional opportunities. The company also faces a pending suit related to claims made by a long-time Black secretary of being subject to repeated bullying and microaggressions by other JPMorgan employees. Although the company recently mandated diversity training for its employees, there are few details as to the program, and we question how JPMorgan is monitoring and addressing any equity gaps in compensation, promotion, and retention of employees of color as it attempts to create a sustainable, diverse management talent pool.

Conclusion:

Implementation of any next steps by JPMorgan to address racial injustice and economic inequality requires careful study of how its products and services have contributed to this imbalance. An audit that involves consultation by a variety of stakeholders, including employees and community groups, will provide a framework for this analysis. If you would like to discuss our concerns, please contact my colleague Tejal K. Patel, Corporate Governance Director, at tejal.patel@ctwinvestmentgroup.com.

Sincerely,

Dieter Waizenegger
Executive Director