AN UNPRECEDENTED INVESTMENT FOR HISTORIC RESULTS: HOW FEDERAL SUPPORT FOR MDIS AND CDFIS HAS LAUNCHED A NEW ERA FOR DISADVANTAGED COMMUNITIES

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AN UNPRECEDENTED INVESTMENT FOR HISTORIC RESULTS: HOW FEDERAL SUPPORT FOR MDIS AND CDFIS HAS LAUNCHED A NEW ERA FOR DISADVANTAGED COMMUNITIES

Wednesday, February 16, 2022

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to notice, at 12:03 p.m., via Webex, Hon. Maxine Waters [chairwoman of the committee] presiding.

Members present: Representatives Waters, Maloney, Velazquez, Meeks, Scott, Green, Cleaver, Perlmutter, Himes, Beatty, Vargas, Gottheimer, Gonzalez of Texas, Lawson, Axne, Casten, Pressley, Lynch, Adams, Tlaib, Dean, Garcia of Illinois, Garcia of Texas, Williams of Georgia, Auchincloss; McHenry, Huizenga, Wagner, Williams of Texas, Hill, Zeldin, Loudermilk, Mooney, Davidson, Budd, Kustoff, Rose, Steil, and Timmons.

Chairwoman WATERS. The Financial Services Committee will come to order. Without objection, the Chair is authorized to declare a recess of the committee at any time.

Today's hearing is entitled, "An Unprecedented Investment for Historic Results: How Federal Support for MDIs and CDFIs Has Launched a New Era for Disadvantaged Communities." I will now recognize myself for 5 minutes to give an opening statement.

Minority Depository Institutions (MDIs) and Community Development Financial Institutions (CDFIs) are lifelines to our community. According to the latest data, there are 146 MDI banks, 518 MDI credit unions, and 1,333 CDFIs, including nearly 600 non-depository loan funds. At a time when the pandemic placed many businesses owned by people of color at the brink of closing or being permanently closed down, MDIs and CDFIs jumped into action and provided much-needed support and relief.

When millions of Black and Latino Americans found themselves shut out of traditional financial institutions, CDFIs and MDIs provided fundamental support to the long-term financial well-being of many. For that reason, I worked with Representative Velazquez, who is also the Chair of the House Small Business Committee, to secure $60 billion in Paycheck Protection Program (PPP) funding for community financial institutions, including MDIs and CDFIs, to ensure that relief reached underserved and minority-owned businesses after the largest banks ignored them.

Several committee colleagues, including Representatives Meeks, Beatty, and Green, drafted legislation to support MDIs and CDFIs, and I worked with Ranking Member McHenry and our Senate counterparts, as well as Senator Warner, to include key provisions of my comprehensive bill, the Promoting and Advancing Communities of Color through Inclusive Lending Act, in the COVID-19 Relief Package that was passed in December 2020. Specifically, the bill included an unprecedented $12 billion in capital investments and grants to strengthen MDIs and CDFIs, and help them reach underserved communities.

Additionally, the private sector, including megabanks, had made a lot of promises to address racial inequality and to support MDIs and CDFIs in the last few years, so we have invited megabank CEOs to testify. And we will continue to monitor their efforts to fulfill their commitments.

The impact of our support with CDFIs and MDIs has reached communities all across this country. For example, in 2020, CDFIs provided loans and investments to more than 162,000 businesses, and nearly 4 million consumers. They financed 50,000 affordable housing units and hundreds of grocery stores, markets, and fresh-food projects.

While our work has provided some success, we should bear in mind that the number of MDIs has declined by about a third in the decade following the 2008 financial crisis. With the number of Black banks declining by half, MDIs and CDFIs also face barriers to adapting to changes in the financial services marketplace, and accessing opportunities to meet the unprecedented needs of communities in this pandemic. What's more, the $9 billion Emergency Capital Investment Program was oversubscribed by $4 billion in funding requests that will go unmet, suggesting that Congress should provide more support.

I look forward to hearing from our witnesses on these issues and learning what additional steps we can take to further support CDFIs and MDIs, and in doing so, strengthening our Black and Latinx communities.

I now recognize the ranking member of the committee, the gentleman from North Carolina, Mr. McHenry, for 5 minutes.

Mr. McHenry. Thank you, Madam Chairwoman. More than a year ago, Congress created the Emergency Capital Investment Program (ECIP) to support our nation's CDFIs and MDIs. This program was designed to provide specific funding in capital to help communities recover from the economic downturn caused by the pandemic. Funds have been allocated but have not yet been delivered. I look forward to seeing the impact that this type of program could have.

Unfortunately, since this bipartisan moment, we have witnessed Democrat partisan actions slow our economic recovery. This has disproportionately harmed the very people this program was meant to serve. We may never have a good understanding of what this program's effect is now. But let's take a step back and look at the bigger picture here.

Last month, the Bureau of Economic Analysis reported that the economy grew at an annualized rate of 6.9 percent for the 4th quarter of 2021. Yet, initial estimates from Congress show only a

.7 percent annualized rate of growth for the 1st quarter of this year. Consumer prices are up everywhere. Just last week, we saw a .6 percent rise in prices over the last year. Prices have gone up 7½ percent, which is the largest yearly increase in the last 40 years. So if your wages have not increased by more than 7½ percent over the last year, and I venture to say that most Americans haven't experienced that, then inflation has wiped away any wage gains they have made.

For example, the Social Security Administration increased the cost-of-living adjustment to 5.9 percent over 2022. For the 70 million Americans receiving benefits, this is a monthly net loss. What do all these stats mean? It means that American families and workers are hurting and Democrat policies are to blame. If you don't believe me, let's look at a few more examples.

Until last Monday, the labor force participation rate remained stagnant under this Administration. Consumer sentiment fell through January, sinking to its lowest level since November of 2011. Overall competency in the government's economic policies is at its lowest level since 2014. Oh, and the national data surpassed $30 trillion on top of that. And we don't have a government funding deal either. We can't spend our way out of this mess, though. We are also seeing the impacts of anti-competition regulatory policies, where Democrat policies seek to control consumer choices rather than fostering a competitive environment.

Take fintech firms and nonbank lenders, for them, banked and underbanked consumers, and small businesses in underserved communities, innovative financial products can be a lifeline. We should be doing everything we can to promote regulatory clarity for financial institutions in fintech partnerships to create a more inclusive financial system.

Last week, the Federal District Court of Northern California affirmed the OCC's Valid When Made doctrine, further providing important regulatory clarity. This is positive, but much more needs to be done.

As we discuss the impact of CDFIs and MDIs, we cannot lose sight of the bigger picture here and the work that remains for the return of our economy to the record growth experienced before the pandemic.

And with that, I yield back.

Chairwoman WATERS. Thank you very much, Ranking Member McHenry.

I want to welcome our distinguished witnesses: Mr. William Bynum, the CEO of the Hope Credit Union, the Hope Enterprise Corporation, and the Hope Policy Institute; Ms. Nicole Elam, the president and CEO of the National Bankers Association; Mr. Everett Sands, the CEO of Lendistry; Ms. Luz Urrutia, the CEO of the Accion Opportunity Fund; and Mr. Michael Faulkender, the Dean's Professor of Finance at the University of Maryland Smith School of Business.

You each have 5 minutes to summarize your testimony. You should be able to see a timer that will indicate how much time you have left.

And without objection, your written statements will be made a part of the record.

Mr. Bynum, you are now recognized for 5 minutes to present your testimony.

STATEMENT OF WILLIAM J. BYNUM, CEO, HOPE (HOPE CREDIT UNION/HOPE ENTERPRISE CORPORATION/HOPE POLICY INSTITUTE)

Mr. BYNUM. Thank you, Chairwoman Waters. Good afternoon, Ranking Member McHenry, and members of the committee. Madam Chairwoman, I would be negligent if I didn't begin by thanking you, your fellow Members of Congress, and members of the Administration, for acknowledging the vital role that mission-driven CDFIs and MDIs play in the nation's economic health, and for making what had been truly historic investments in CDFIs and MDIs that have already dramatically increased our impact in financially-underserved places.

As the CEO of an organization that works in a region where I cannot go for an hour without hearing echoes of social and economic justice icons—known ones like Emmett Till, Fannie Lou Hamer, the four girls in the Birmingham 16th Street Baptist Church, Dr. King, John Lewis, Medgar Wiley Evers, as well as scores of unknown warriors who fought battles that we are still waging today. If the committee takes nothing else from my comments today on behalf of millions of people of color, and persistent poverty in rural and urban communities, I implore you, I call on all of us that it is time to finish the job.

Hope has established a bill on this legacy to ensure that race, gender, and whose one parent may be or where they are born, don't determine their ability to support their families and realize the American Dream. Over nearly 3 decades, we have generated over $3.5 billion in financing for underbanked and unbanked homeowners, small businesses, and other vital community infrastructure such as healthcare, education, rental housing, and healthy food that are all necessary for a stable, vibrant economy.

I want to share a bit about our experience as a Black- and woman-owned financial institution and how the resources provided by Congress added rocket fuel to our ability to support financially-fragile people in communities during the health, economic, and social justice crisis.

During the Paycheck Protection Program (PPP), we made over 5,200 PPP loans, totaling $140 million. In a normal year, we made roughly 50 business loans, totaling $40- to $50 million, of which 89 percent went to borrowers of color, and half to women. The average loan amount was over $26,000, compared to $40,000, which was the national program average.

In the process, we heard story after story from entrepreneurs who were turned down by institutions that they had entrusted to hold their money for many years. But we do more than just loan money. Many CARES Act programs managed by the States require local governments to expend funds up front for PPPs, firefighters and other lifesaving needs, and to later be reimbursed. This was impossible for many municipalities in places like the Delta and other persistent-poverty counties. These places were dirt poor before the pandemic, and even more devastated by the crisis. We structured it with the Black Belt Community Foundation, a program that advanced these towns up to $50,000, that was later repaid. In one town, the $24,000 was roughly half of the town's annual budget. It would have been impossible for them to expend that up front without reimbursement.

We could not have done this without the funds provided by Congress. The Rapid Response Program, the Emergency Capital Investment Program, and the minority lending programs are all critically important. Using these over the next 6 years, we will double our community consumer mortgage and small business lending, and drive more resources into these communities.

All CDFIs, however, do not perform alike. We see significant gaps in terms of who reaches the hardest-hit communities. And so, I encourage Congress to continue to increase funding for CDFIs in ways that are flexible, and to ensure accountability and transparency in how these funds are used.

Given the outside impact of MDIs in reaching communities of color, Congress should drive resources to these communities and prioritize CDFIs and MDIs as partners in deploying Federal funds to financially-fragile communities.

Members of Congress, the winter of 2020 represented an important first step to actually level the balance, the playing field in terms of closing the racial wealth gap. These actions have already saved lives and stabilized communities, and they need to be sustained.

I urge you to continue to make bold investments in organizations that do it best, mission-driven CDFIs and MDIs. And we will bring other banks and credit unions into the flow along the way.

In an increasingly-diverse nation, we cannot leave the majority of Americans on the outside of the economy withering away in opportunity deserts. Let's finish the job. Thank you so much for allowing me to share this with you today.

[The prepared statement of Mr. Bynum can be found on page 60 of the appendix.]

Chairwoman WATERS. Thank you, Mr. Bynum.

Ms. Elam, you are now recognized for 5 minutes to present your testimony.

STATEMENT OF NICOLE ELAM, PRESIDENT AND CEO, NATIONAL BANKERS ASSOCIATION (NBA)

Ms. ELAM. Chairwoman Waters, Ranking Member McHenry, and members of the committee, good afternoon, and thank you for this opportunity to testify on how Federal support for MDIs and CDFIs has launched a new era for disadvantaged communities. My name is Nicole Elam, and I am president and CEO of the National Bankers Association, the leading trade association for the country's MDIs. A critical part of our mission is to advocate for MDIs and the communities they serve.

MDIs are on the front lines of addressing the economic hardships faced by minority communities, serving consumers and businesses who are underserved by traditional banks. Decades of unequal access to capital, income disparity, and residential segregation have made communities of color the most vulnerable during a crisis. Yet, MDIs have been and continue to be best-positioned to help our communities recover and to overcome systemic inequity. The House

Financial Services Committee and Chairwoman Waters have been instrumental in including several provisions in relief packages which have ensured that MDIs in the communities we serve are not forgotten.

The Emergency Capital Investment Program (ECIP) and the $3-billion increase in funding to the CDFI Fund, will allow our institutions to scale up, and provide more access to credit to individuals and small businesses. The bipartisan infrastructure bill also provides billions of dollars that can be instrumental in addressing our community's needs. The legislation included as part of today's hearing aligns with the committee's goal of preserving and protecting MDIs and CDFIs. These measures provide transformational opportunities for these institutions to not only survive, but to thrive.

We support each measure and look forward to working with the committee to ensure their passage into law, as well as continuing to work with you on additional legislation that would allow MDIs to continue to augment their capital bases, include our banks in communities and opportunities that flow from the infrastructure bill, and address a regulatory process that can hamper our bank's ability to bring the underserved into the financial mainstream.

MDIs have served as engines of economic development in minority and low- to moderate-income (LMI) communities, and have been significant providers of mortgages and small business loans, often saying yes, when others say no. Their concentration in underserved communities and established relationships have made them a trusted financial partner. Our banks provide banking services to communities and racial minorities, especially Black and Hispanic, who are more likely to be unbanked and underbanked. Unfortunately, MDI's smaller size and historic lack of access to capital markets, especially among Black MDIs has not allowed us to respond as quickly or with as much as scale as the situations demand.

MDIs only make up 3 percent of all banks, and Black-owned MDIs, only .4 percent. Since 2001, we have lost nearly 60 percent of Black MDIs, and Black-owned banks only control 27,000 of 1 percent of total bank assets in the United States. Tier 1 capital, or the equity invested in a bank, is the most critical component of the resilience of any bank, and it is what allows banks to grow in scale. Without sufficient Tier 1 capital, not only are banks limited in the number of deposits they can take in, but they are also hampering their ability to withstand loan losses.

Access to capital allows MDIs to not only respond better during times of crisis, but it allows us to reverse the economic conditions in our communities that exacerbated during a crisis. The ease of capital is an historic step in the right direction. But while 57 MDIs will receive $3.1 billion, many of our banks were not able to access ECIP due to prior regulatory challenges. This is largely based on examination standards that do not consider the unique business models many mission-driven banks need to employ to provide banking services in markets that would otherwise be ignored by traditional banks.

We need regulators to be intentional and modernize the examination process for mission-driven banks. We also need to find additional ways to drive capital to ECIP and eligible banks and the communities they serve. For MDIs that were unable to access ECIP, we believe the remaining $300 million held in reserve for appeals should be prioritized for distribution to these institutions.

In addition, we ask you to consider utilizing some of the remaining $1.75 billion in the CDFI Fund. By prioritizing these institutions, we believe that Treasury and the regulators can balance their obligations to protect Treasury funds, and at the same time, insist that these institutions operate in a safe and sound manner.

We must act now to preserve and promote MDIs, and direct much-needed capital to banks that have a strong track record of serving the communities that Congress intended to target for the ECIP investment. The bipartisan infrastructure law, and the $29-billion provision in the proposed Build Back bill, present a generational opportunity to not only repair our nation's roads and bridges, and to direct investments toward climate resilience, but to be inclusive. MDIs must be included in the financing opportunities that arise, giving our banks an opportunity, but more importantly, allowing us to connect minority businesses to these communities. Intentionally including MDIs in our customers will strengthen small businesses, create more jobs, and make our communities more resilient.

The NBA, again, applauds this committee for holding this important hearing and for its ongoing efforts. While we commend Congress on its leadership to responding to various crises, we certainly believe much work remains to be done. The NBA looks forward to working with the committee on workable solutions, and thank you for the opportunity to testify. I will be pleased to answer any questions.

[The prepared statement of Ms. Elam can be found on page 77 of the appendix.]

Chairwoman WATERS. Thank you, Ms. Elam.

Mr. Sands, you are now recognized for 5 minutes to present your testimony.

STATEMENT OF EVERETT K. SANDS, CEO, LENDISTRY

Mr. SANDS. Thank you for calling this hearing on the role that CDFIs and MDIs play in providing access to capital to undercapitalized communities. I appreciate the opportunity to explore with you additional steps that should be considered so that CDFIs and MDIs can maximize their potential for delivering positive economic impact. My name is Everett Sands, and I have more than 20 years of experience in lending at MDIs, one of the largest national banks, and the only fintech CDFI, Lendistry.

For the past 6 years as founder and CEO, my focus has been on providing capital for responsible terms to underserved small businesses, and particularly those owned by minorities, women, veterans, and people in rural areas. Lendistry is a minority-led fintech CDFI, a community development entity, a member of the Federal Home Loan Bank of San Francisco, and a proud signatory of the Small Business Borrowers' Bill of Rights. We are one of the nation's top Small Business Administration (SBA) loan lenders in the $50,000 to $250,000 range. And more than 70 percent of our outstanding principal loan balance is with underserved borrowers. We also have a nonprofit technical assistance affiliate.

Lendistry has been able to make an impact due to our focus on small, underserved businesses, our partnership with local and specialized organizations, and our proprietary technology and online application portal. Over the last 22 months, Lendistry has deployed approximately $8.4 billion in grants and loans to more than 570,000 small businesses, 94 percent of which employ less than 10 employees. And we expect that figure to grow to $10 billion by years-end.

In addition to providing PPP loans in all 50 States, Lendistry has served as the administrator for relief grant programs in California, New York, and Pennsylvania, all of which were designed to ensure that funds are distributed equitably across rural and urban regions alike.

I commend this committee for acting upon the COVID-era lessons. The small and underserved businesses are, far and away, more successful in accessing capital from CDFIs and MDIs. In response, Congress, with leadership from this committee, took decisive action to allocate significantly more capital to CDFIs and MDIs. Your work has provisioned the freight train of economic opportunity with capital. The urgent work that now remains with Congress is to enact a set of surgical repairs to the gaps in the track network that prevent the allocated capital from reaching communities more quickly, from having the maximum possible multiplier effect, and to flow into more distribution points.

My written testimony outlines seven common bottlenecks in access to capital today. In the remaining time, I will discuss three of those recommendations and briefly summarize the others.

My first two recommendations are aimed at enabling CDFIs to make a much larger impact with the same amount of capital by bringing Federal Home Loan Banks' (FHLB's) collateral policies for CDFIs in line with banks. FHLBs should be required to accept any federally-funded guarantees for small businesses, whether it is SBA, SSBCI, or others as collateral from CDFIs. This change would have an enormous positive impact, because when capital is funded by guarantees, capital can be multiplied, mostly on a 5-to-1 basis, so, $1 million of capital ballot can support $5 million in guaranteed loans. This goes even further when you assume repayment.

Another way FHLB's policies prevent CDFIs from maximizing the impact of their capital is by assigning CDFIs a lower credit rating than banks, even though FHLBs have never experienced defaults from any member institutions. The lower credit rating has the effect of increasing CDFIs' collateral requirements from borrowing from FHLBs, and reducing CDFI's advance rates. FHLB and FHFA should be required to assign CDFIs the same credit rating as banks, or create a loan credit enhancement fund to support the borrower.

The final bottleneck and recommendation I will elaborate on is the outdated State-by-State licensing requirement for CDFIs. A CDFI licensing exemption will bring about three clear benefits. First, CDFIs can move much faster to deploy capital where it is needed. Second, CDFIs can easily attain risk management benefits of geographic diversification. And third, many more lenders will be motivated to attain a CDFI designation. The effect of this would significantly increase the supply of capital provided on responsible terms, which, in turn, would crowd up predatory lenders and make those businesses less economically-viable.

To very briefly summarize the other four recommendations that are discussed in my testimony, they are: to lower the minimum CDFI bond guarantee from $100 million to $25 million; to allow CDFIs access to the Federal Reserve discount window; to develop an accountability reporting system for Treasury capital deployment programs; and to create a Federal office dedicated to supporting the efforts of MLIs.

Thank you, again, to this committee and the staff for the opportunity to present my perspectives and recommendations. I look forward to engaging you further.

[The prepared statement of Mr. Sands can be found on page 89 of the appendix.]

Chairwoman WATERS. Thank you, Mr. Sands.

Ms. Urrutia, you are now recognized for 5 minutes to present your testimony.

STATEMENT OF LUZ URRUTIA, CEO, ACCION OPPORTUNITY FUND

Ms. URRUTIA. Good afternoon, Chairwoman Waters, Ranking Member McHenry, and members of the committee. Thank you for this opportunity. My name is Luz Lopez Urrutia, and I am the CEO of Accion Opportunity Fund, the leading CDFI providing access to responsible loans, coaching and support networks to underserved resourced entrepreneurs.

After spending my career in both for-profit and nonprofit financial services, I have seen how small businesses make up the fabric of neighborhoods across the country and provide critical jobs, services, and support for their communities. Unfortunately, I have also seen that our financial system has left behind so many entrepreneurs, people of color, women, and immigrants, in rural and urban communities.

To meet this need, Accion Opportunity Fund has deployed over $1 billion in small business loans and new market tax credit investments to underinvested communities since our inception.

When COVID hit, we became economic first responders, providing PPP loans to many thousands of small businesses, 60 percent of whom were people of color. We used the $1.8 million from the Rapid Response Program to deploy $10 million in loan capital, as a result of increasing our loan loss reserves and further reducing our already-low interest rates to provide entrepreneurs with critical resources.

Accion Opportunity Fund did not just rely on government funding to support these entrepreneurs; we used this funding to leverage private-sector capital, including a partnership with American Express, which committed $40 million in capital, which will be leveraged to deploy $125 million in loans to Black-owned businesses. This partnership with American Express was critical for business owners like Latrice, a Navy veteran, wife, and mother of three who runs the Digital Solutions Team, a tech support and system solutions company in Austin, Texas. She came to us after working with multiple lenders that did not offer her flexibility, or the terms that would make her business successful. She used our $25,000 loan to hire a full-time operations manager and to scale up her business.

As we transition to life beyond the pandemic, and the necessary crisis-level response from the government, the questions for CDFIs like us are, how can we translate the energy, the resources, and the awareness of the past 2 years into long-term systemic and sustainable growth? How can we invest in the CDFIs and MDIs in non-crisis times, so they are equipped for the next crisis? Our answer is that we must collaborate and decide on industry-wide, bipartisan, market-based solutions that use the vast resources of the Federal Government to attract private capital so that we can scale up with integrity, and invest in CDFIs and MDIs to enable them to continue investing in our nation's small businesses.

Examples of these collaborations are evident in 4 public-private partnerships that launched in the past 2 years, enabled by the State Small Business Credit Initiative (SSBCI). These new community lending funds were created to provide lower-cost loans in 18 States, and have the ability to transform the lending landscape for under-restored small businesses across the country, bringing together government, banks, philanthropists, and CDFIs to deliver capital at scale. These funds have raised $350 million in private capital, and have disbursed $204 million to 3,400 small businesses to a network of 25 participating CDFIs, and 66 percent of the loans have gone to businesses owned by people of color and women.

Entrepreneurs like Ethea in Houston benefited from these loan funds as she went from being laid off from her job, to starting to source and sell Ghanaian waist beads, which are draped around the waist, and connect Black women to their African Diaspora roots. Ethea used these loan funds to finance inventory, and to pay rent and payroll, as she opened a second location.

I will conclude by sharing my deep gratitude for the many ideas we have seen from this committee, including your bill, Chairwoman Waters, to provide support for MDIs and CDFIs.

The pandemic demolished small businesses across the country in a manner that fully unearthed our nation's racial wealth gap. And while CDFIs and MDIs were able to help provide for small businesses during this time, it is critical that the progress and momentum generated in the last 2 years continue onward. From maximizing the potential of the Federal Government's investment, to leveraging these funds to attract corporate and private capital, and building public private partnerships, our organizations have moved full force in providing capital and support for under-resourced entrepreneurs. Much more needs to be done in the form of increasing CDFI and MDI lending capacity, encouraging creative partnerships in financial innovation, and clearing the way for full transparency in the marketplace.

I thank the members of this committee in advance for working together to invest in the support and resources to get this done.

[The prepared statement of Ms. Urrutia can be found on page 97 of the appendix.]

Chairwoman WATERS. Thank you very much, Ms. Urrutia.

Dr. Faulkender, you are now recognized for 5 minutes to present your testimony.

STATEMENT OF MICHAEL FAULKENDER, DEAN'S PROFESSOR OF FINANCE, SMITH SCHOOL OF BUSINESS, UNIVERSITY OF MARYLAND

Mr. FAULKENDER. Chairwoman Waters, Ranking Member McHenry, and members of the committee, thank you for the opportunity to speak with you today on the importance of capital to our nation's businesses, as well as the broader topic of the current performance of the United States economy.

I had the privilege of serving as the Assistant Secretary for Economic Policy at the Department of the Treasury during the previous Administration. In that role, I worked closely with the Small Business Administration to quickly implement the Paycheck Protection Program and ensure that the economic devastation that might have resulted from the pandemic was not realized. Part of my team's work was to engage with a vast array of lenders across our nation to ensure that eligible small businesses were able to obtain their PPP funds. I worked closely with CDFIs and MDIs to better understand the issues they were confronting and to prioritize resolution of challenges they and their borrowers were facing.

Treasury also worked quickly to bring fintech into the program. Recent academic work by Sabrina Howell and co-authors finds that fintechs disproportionately lent to minority communities with smaller-dollar loans. Their smaller physical footprint and investments in underserved communities meant that they could more economically serve these populations and improve PPP access.

In December 2020, Treasury worked closely with Congress on legislative updates with PPP, an extension of a second round of loans for the hardest-hit small businesses, and an enactment of ECIP to provide additional capital funding for CDFIs and MDIs.

The results of our efforts are apparent in the data. When the nation began shutting down, we were looking at weekly first-time unemployment claims of approximately six million per week. Quick passage and implementation of the CARES Act caused the unemployment rate to peak in April 2020 at just 14.7 percent, well below the 20 percent many feared at the pandemic's onset. Instead of losing 8 million jobs in May 2020 as many predicted, we saw more than 2½ million Americans return to their jobs.

My coauthors and I estimate that as many as 17.7 million fewer Americans were unemployed during the pandemic as a result of PPP, with merely 13 million of those workers at companies with fewer than 100 employees. The pandemic recession has been declared the shortest in U.S. history, and we have been expanding since May 2020.

While the funds deployed at the beginning of the pandemic proved vital in keeping us out of a depression and resulted in the V-shaped recovery once our economy reopened, challenges remain. All of us on the panel recognize that it is important for our nation's businesses to have access to the capital they need to operate and expand. ECIP provided the capital positions of CDFIs and MDIs, which will likely result in greater capital availability for their customers.

However, while capital availability was a critical issue during the crisis, it is not now the primary issue confronting our nation's businesses. According to the most recent NFIB survey, just 3 percent of small businesses surveyed reported that their borrowing needs over the last 3 months were not satisfied. Instead, the National Federation of Independent Business (NFIB) survey reports that the main issues confronting our nation's small businesses are inflation and employment.

Quoting their report, "22 percent of owners reported that inflation was their single-most important problem, and 47 percent of owners reported job openings that could not be filled."

Most of these problem are largely the result of poor policy decisions. Recent fiscal stimulus has proved greatly excessive, leading the household's liquid funds rising from $11 trillion at the end of 2019, to $14.4 trillion at the end of the third quarter of 2021, which is a 31 percent increase.

Simultaneously, paying people to not work, taking energy resources out of our economy, mandates that remove people from the workforce, and excessive regulations have greatly reduced our capacity to meet the current level of demand.

The number of Americans working is still more than 2 million fewer than were employed prior to the pandemic. As a result of these factors, the Consumer Price Index was reported last week to have increased 7½ percent over the last 12 months, the highest increase we have seen in the last 40 years. Even taking into account wage increases over the last year, this translates to an $800 reduction in annual purchasing power for the average worker.

While we have seen a slight uptick in hiring over the last few months, arguably, this is the result of the expiration of some of the pandemic-era policies that should not have been expanded as long as they were. Since the expiration of enhanced unemployment benefits, job creation is approximately 50,000 jobs per month higher than prior to the expiration.

The recent expiration of the Child Tax Credit that lacked work requirements will also likely increase the number of Americans participating in the labor force. Such an expansion would be welcomed by our nation's employers, whom, according to the latest Job Openings and Labor Turnover Survey (JOLTS) data, reported 10.9 job openings at the end of December.

While this committee's work to improve access to capital for American businesses is important, the most important thing we can do for our economy right now is to declare an end to the pandemic, and to reopen our economy. I look forward to participating in this important conversation.

[The prepared statement of Dr. Faulkender can be found on page 87 of the appendix.]

Chairwoman WATERS. Thank you very much, Dr. Faulkender.

I now recognize myself for 5 minutes for questions.

Ms. Elam, when the Paycheck Protection Program launched, at the onset of the pandemic, we saw megabanks prioritize their wealthy customers, while smaller and minority-owned banks struggled to access relief. That is why I work to ensure MDIs and CDFIs could have deployed that aid to underserved small businesses. They later worked in a bipartisan way to secure $12 billion for MDIs and CDFIs.

Since then, Senator Mark Warner and I organized an advisory group with leaders in the community, developing finance capture to ensure Treasury disburses these funds in the most effective way. To date, the Treasury CDFI Fund has distributed $1.25 billion in rapid response. And another 863 CDFIs have been helped. And we are now working on deploying $1.7 billion in a second CDFI grant program. And, of course, Treasury is also in the process of finalizing up to $8.75 billion in capital investments for CDFIs and MDIs, although Treasury received almost, I guess, more requests than they were able to deal with.

An additional $4 billion is absolutely needed, because of the request that has been received for capital investments, and they will go unmet unless we are able to supply more money.

Ms. Elam, how are these programs helping Black banks and other MDIs and CDFIs serve their communities? As the funding flows to CDFIs and MDIs, do you believe the legislative reforms we are considering today, including a proposal to provide more capital investments and grants to address technology challenges, would be helpful?

Ms. ELAM. Yes. A resounding yes. I think capital is certainly the number-one issue with which our MDIs have struggled. They have declined in size because of lack of access to capital. So, ECIP, the funds that have gone to the CDFI Fund are certainly things that are priorities.

I think the thing we have been talking a lot about within our membership is that not all MDIs were able to access ECIP. And so, having a round two of ECIP would allow those banks that at the time of application were ineligible, to now be able to take advantage of those funds. We do not want to have a growing distinction between those that were able to access ECIP in those dollars, and those that were not, because what happens is that it impacts those communities.

On the second point around technology, that is one of the biggest issues that our member banks are wrestling with today. Technology costs money. They oftentimes don't have the personnel to vet those technologies. So, having grant dollars in capital that focuses on technology is certainly going to be helpful as these banks modernize and serve their communities.

Chairwoman WATERS. Do you have any other recommendations that you would like to offer?

Ms. ELAM. Yes. I think one of the recommendations that I would like to offer is allowing some of those CDFI funds and allowing the second round of ECIP to be included for the ECIP noneligible banks. Also, I think another recommendation has to do with the Bank Holding Company Act. The 25,000, or 25 percent change-of-control provision really limits the number of investments that our small banks are able to get. Those would be two big things that I would prioritize, along with the examination process. We really need to do more to change the examination process. The examiners don't understand our banks, and as a result, they are negatively impacted during the examination process.

Chairwoman WATERS. Thank you very much.

The gentleman from North Carolina, Mr. McHenry, the ranking member of the committee, is now recognized for 5 minutes.

Mr. MCHENRY. Thank you, Madam Chairwoman. Dr. Faulkender, the Emergency Capital Investment Program, which is the focus of today's hearing, is but one tool that can be utilized to help spread economic growth. And in addition to that program, the Democrats later reauthorized the State Small Business Credit Initiative, the government-sponsored investment initiative, in their massive spending bill enacted last year about this time. How effective are programs like those in creating long-term sustainable economic growth? Is direct government investment effective in narrowing wealth gaps, or do we need a broader approach?

Mr. FAULKENDER. Generally, sir, we need a broader approach because it is not just capital availability, as I mentioned earlier, that is confronting businesses.

Mr. MCHENRY. You mentioned that in your statement, and I mentioned that in my opening statement, about inflation. Tell us why the Democrats' spending bill, like the one they passed last year at this time, is responsible for higher inflation?

Mr. FAULKENDER. Essentially, the outcome we see in our economy is the result of the desire of consumers and businesses to purchase things relative to their supply. And what the bill does is it greatly increases the availability of funds for people looking to purchase things. So, demand increase is significant, while simultaneously taking supply off the table. Whether it is reducing workforce participation due to making more money on unemployment claims than by working, or whether it is taking energy resources off the table, those things are going to expand demand, contract supply, and the outcome we necessarily receive from that is much larger inflation than we have witness for the last 4 years.

Mr. MCHENRY. More fiscal spending can't lower consumer prices. And a bill like Build Back Better would be the opposite approach of what we need for lowering inflation. Would you agree?

Mr. FAULKENDER. I would agree. We need to focus on the supply constraints that we are confronting in our economy, not further buoy demand.

Mr. MCHENRY. Okay. The labor force participation rate is a critical measure of our labor market health. Up until 2 weeks ago, the percentage was at a near decade-low of 61.2 percent. Now, talk us through what this percentage means. Why is the labor force participation rate important? What do we need to know about this?

Mr. FAULKENDER. The labor force participation is the percentage of adults who are actually either employed or looking for work. And if you think about what it takes to produce things, you need capital, and you need employment. So, when a much smaller percentage of the American citizens are participating in the labor force, you are generating that much lower output that is then sold into the economy.

We took a lot of steps in the previous Administration to see what we could do to raise labor force participation. We were at a multiyear high. We were at the highest level since 2013, just prior to the pandemic. And as you mentioned, we are still 1.2 percent below where we were. There is still work to be done to get people back in the workforce.

Mr. MCHENRY. With this Administration, when the Democrat Congress is enacted, isn't helping the labor force participation rate or helping wages outpace inflation?

Mr. FAULKENDER. Right. When people are paid more to not take employment than to take employment, that is going to tend to reduce participation in the labor force, even if it is not directly through unemployment benefits. But if there are not work requirements associated with generous social benefits, that will tend to depress labor force participation. And so, if we were to extend those things and make them more generous, you would likely see continued reduction in the participation in the labor force, and that would be bad for the country.

Mr. MCHENRY. What are the right policies, then? What are the right policies to get people back participating in the labor force?

Mr. FAULKENDER. The policies that we followed prior to the pandemic were lower tax rates, less regulation, benefits that were tied to work requirements, and then, expansion to domestic energy production, for instance.

Mr. MCHENRY. So, that energy tax is significant for working Americans?

Mr. FAULKENDER. Energy tax is permeated throughout the entire economy because transportation of goods and services are required in all sectors. And so, it tends to multiply throughout all sectors.

Mr. MCHENRY. Thank you for your testimony. And I think this leads to the case that Committee Republicans are making, that we need a broader approach in these conversations.

With that, I yield back.

Chairwoman WATERS. Thank you very much.

The gentlewoman from New York, Mrs. Maloney, who is also the Chair of the House Committee on Oversight and Reform, is now recognized for 5 minutes.

Mrs. MALONEY. Thank you so much, Chairlady Waters, for holding this hearing. And thank you to the witnesses for sharing your expertise with us. I have been an advocate and a fan of the work of CDFIs and MDIs. These institutions are able to effectively serve low- and moderate-income communities and communities of color at higher rates than their financial institution counterparts. Each year, on a bipartisan basis, I lead approximately 100 of our colleagues in requesting additional support for the CDFI Fund's annual appropriations. And this past year, we were successful in securing an increase of $60 million over the previous fiscal year in the House-passed bill.

The CDFI Fund provides resources for a range of innovative and effective programs through this appropriation that enables CDFIs to address the needs of their targeted markets. This committee knows MDIs and CDFIs are an integral part of ensuring equitable access to financial services. That is why we fought to ensure dedicated funds and boosted support for them in the various COVID recovery packages.

I would like to ask, Mr. Bynum, can you speak to the unique role CDFIs were able to play in our COVID response?

Mr. BYNUM. Thank you, Congresswoman Maloney. CDFIs played an outside role in driving resources into the most economically-distressed communities, as you know. With the Paycheck Protection

Program, initially, CDFIs were excluded from that program. When Congress and the Administration opened it up, we were able to drive funds to the mom-and-pop businesses that are so vital to creating jobs for individuals who may not have the high level of skills or education that are vital to stabilize the communities in supporting families.

As I mentioned in my testimony, the average loan size of CDFIs that provided PPP loans was, for us, roughly $26,000, compared to $40,000 for the program overall, driving it to those mom-and-pop businesses that are so vital. Initially, sole proprietors were not eligible for the program. We were able to broaden that and make that possible, which was critical.

In addition, with the Rapid Response Program, that was a part of the appropriations that you passed, the program was able to reach loan funds which were not a part of the emergency ECIP program, but which reached small institutions, small loan funds that are critical in rural persistent-poverty areas, and inner cities, where there are not larger CDFIs and there are not banks.

We saw how with ECIP, we were going to be able to more than double our lending to these programs. Some of the smallest businesses, nonprofits that provide critical support services were excluded from—were not able to get in with very many banks through the PPP program, and CDFIs opened doors to those institutions. So, filling in the gaps, that's what CDFIs do well, particularly in rural, persistent-poverty communities and communities of color, and for women-owned businesses, and families. Thank you.

Mrs. MALONEY. Thank you. And as a quick follow-up, do you believe boosting annual funding for the CDFIs would help ensure more equitable recovery long-term?

Mr. BYNUM. Absolutely. It is very clear that in a normal year, in a normal environment, the programs are oversubscribed. The need is even greater now, even though some believe the pandemic is over. In the most hard-hit communities, that is certainly not the case. Families are still struggling. Businesses are still struggling to get open, and they need investment that, unfortunately, in our region, with the SBA program, banks in Arkansas make 1½ percent of their—1.2 percent of the loans go to Black residents. In a State where the business population is 90 percent Black, and the overall population is 14 percent Black, banks are the primary users and drivers of those SBA programs.

Relying on banks, unfortunately, has not gotten the job done. It is critical that CDFIs have the resources to step into the breach and fill the gaps.

Mrs. MALONEY. Thank you.

Ms. Elam, as you described in your testimony, MDIs do a great job of reaching minority communities at higher rates than traditional banks. Are there other ways Congress and government agencies can be promoting or raising awareness about MDIs and building on the work done so far today?

Chairwoman WATERS. The gentlelady's time has expired.

Mrs. MALONEY. Okay. I yield back.

Chairwoman WATERS. Thank you. The gentlewoman from Missouri, Mrs. Wagner, is now recognized for 5 minutes.

Mrs. WAGNER. Thank you, Madam Chairwoman. Inflation is a tax on all Americans, and is at its highest rate in over 40 years. The rising price on everyday items continues to erode the household spending power from my constituents here in Missouri's Second Congressional District, and consumer confidence in our economic policies is at its lowest level since 2014.

Dr. Faulkender, could you detail the fiscal or regulatory policy actions that helped to create these price pressures on our economy?

Mr. FAULKENDER. Certainly, Congresswoman. There are two major factors that are impacting the inflation that we are observing. The first is that we have an unprecedented level of money that flowed to households. As I mentioned, household balance sheets went from about $11 trillion in checking and savings account balances up to more than $14 trillion.

Mrs. WAGNER. And this was from the government spending that was doled out, is that correct?

Mr. FAULKENDER. That is right. We have very liquid households, while simultaneously taking supply off of the market. We have reductions in oil. In energy production here in the United States, the workforce is a couple million lower than it was prior to the pandemic. You have this phenomenon where there is an enormous amount of demand that is built up during the pandemic with lots of money to go spend, and there is just not enough quantity out there to meet all of that demand, and the inevitable outcome to clear markets is much higher prices.

Mrs. WAGNER. We are seeing that because demand has also been affected by the supply side, and the fact that our shelves are empty, and our supply chain is also in a very difficult situation on top of the trillions and trillions and trillions of dollars in government spending. Can you explain the long-term effects of this kind of inflation and price increases on Americans, especially the low-income Americans we are focused on here today?

Mr. FAULKENDER. The thing about the price increases that we have seen is that wages have not kept up. So, we have seen 7½ percent increases in prices, but only 5.7 wage growth, which means that the average worker's purchasing power has gone down by nearly 2 percent.

For those Americans who get almost all of their income from labor, from working, they are hit hardest by it. They consume a much larger portion of their income, and their only source of income. They are not seeing some of the gains that others saw in financial wealth with the run-up in the stock market. It tends to exacerbate some of the inequities that we had prior to the pandemic.

Mrs. WAGNER. And Dr. Faulkender, during the pandemic, we witnessed successes of public-private partnerships, particularly with the private sector financial institutions and their participation in the Paycheck Protection Program, which you spoke about in your testimony. Could you explain why these partnerships worked so well?

Mr. FAULKENDER. Absolutely. I had the privilege of being one of the Treasury leads on the implementation of PPP. And to understand the success is to recognize that there are certain advantages that the private sector has. They have the technologies, they have the resources, they have the know-how, and they have the relationships that the government does not have. So, what we did is, we leveraged their advantages. We did the things that the government needed to do. We provided them the resources. We provided them the rules, the structure, the forms, and then we let the private sector use its technology and its relationships to go out and serve the American people. And you saw that we able to deploy the first $350 billion of PPP money in only 2 weeks as a result of that public-private partnership.

Mrs. WAGNER. Right. Absolutely. And I think our economy would be in a much worse position, and, certainly, the economic engine of our economy, which is our small businesses, would be in a much worse position had we not had the private-public partnership and the work that Treasury did to really work with this committee and others.

Dr. Faulkender, can CDFIs and MDIs solely fill the needs of the millions of unbanked and underbanked, particularly in minority communities in rural areas?

Mr. FAULKENDER. They can't. We have an enormous diversity in our nation, and the best way to service that diversity is to likewise have a diversity of institutions. And as we saw during PPP, CDFIs and MDIs stepped in to fill some of the gaps, but so did the fintechs. They likewise played an unprecedented role in serving historically-underbanked communities. And there has been some academic work which shows the important contribution that fintechs had during PPP.

Mrs. WAGNER. I agree. And I am out of time, but I would say that fintech firms really gave access outside of the traditional sources, especially to those who were unbanked and underbanked. I thank you for your testimony. And, Madam Chairwoman, I thank you for this hearing. And I will yield back the remainder of my time.

Chairwoman WATERS. Thank you very much.

Next, the gentlewoman from New York, Ms. Velazquez, who is also the Chair of the House Committee on Small Business, and who was instrumental in helping us to provide the $60 billion for small businesses after the big banks had ignored them.

Ms. VELAZQUEZ. Thank you, Madam Chairwoman, and Ranking Member McHenry, for this important hearing. The data showed us that minority and underserved communities were left behind no matter how hard they tried to access PPP. And that is when we worked together, Chairwoman Maxine Waters and I, to change that.

Ms. Urrutia, CDFIs are a critical component of our nation's lending system, particularly for our smallest businesses in LMI and communities of color, which are often left behind by the biggest banks. As the Chair of the House Small Business Committee, I directed additional PPP and other rescue resources to CDFIs and MDIs. How were you able to use the resources specifically directed to CDFIs and MDIs to support small businesses, and minorities, as well as rural communities throughout the pandemic?

Chairwoman WATERS. To whom did you direct the question?

Ms. VELAZQUEZ. To Ms. Urrutia.

Mr. SANDS. Congresswoman, she is not on. I can take that question for you, if you would like.

Ms. VELAZQUEZ. Sure.

Mr. SANDS. I think as CDFIs and MDIs, we recognized that small businesses were in a precarious position coming into the pandemic. And all of us tried to make our best decisions in order to react accordingly.

I would also like to just let you know—to say that when you look at where we are at today, a pandemic doesn't always have to be a health emergency. A study of economics at the University of Pennsylvania recognized that catastrophes can come in many forms.

For example, in Congressman McHenry's questions, he talked about the labor force, and we do have somewhat of a pandemic, epidemic coming. But there is a beacon of light. Four million small businesses have been created during the pandemic. It actually eradicated the labor shortages that were mentioned by Dr. Faulkender. We can look at these businesses, and we can help them and support them with capital. There is actually a unique opportunity here, very similar to the pandemic, where CDFIs and MDIs and fintechs, of which I find Lendistry is a part of both, could supply capital and could be very instrumental not only in what we did in PPP, but we can repeat that today as we look at things like infrastructure bills and other opportunities. Thank you.

Ms. VELAZQUEZ. Thank you, Mr. Sands. And can you please explain how small businesses, particularly those that are women- or minority-owned often face an uphill battle in accessing credit on responsible terms? And why are our CDFIs and MDIs in a better position to serve those businesses?

Mr. SANDS. Sure. Whether we like it or not, when you haven't had access to mainstream financing, it is very hard to build your business. It is very hard to be able to have the sophistication needed to get to the next level and to grow that business and, therefore, employ more people.

CDFIs and MDIs represent a couple of things, number one, a cultural competency which allows that small business owner to feel comfortable, and opportunities to build rapport and an understanding of not only the historical plight of possibly that small business owner, but also the current plight.

So if a woman executive from a CDFI looks at a program for women entrepreneurs, she is going to have more insight on how to make that woman not only receive the proper business-advisor technical assistance, but the correct credit products, as she thinks about growing her business and ways that she can be successful.

I believe that all of the CDFIs that are witnesses here have been very instrumental in trying to make that come to the forefront.

Ms. VELAZQUEZ. Thank you. Thank you, Mr. Sands.

Mr. Sands, Senator Bob Menendez and I have introduced the Small Business Lending Disclosure Act, which will expand the disclosure requirements for small business financing options under the Truth in Lending Act (TILA). Do you believe disclosures like the one we are advocating for would enhance protections for small businesses and allow them to accurately provide some support among lenders for their financing needs?

Mr. SANDS. Absolutely, Congresswoman Velazquez.

I think we all know that even though sometimes, there might be a language barrier, even though there might be a reading barrier, what people have a tendency to understand is numbers. We have seen this in other access classes, personal loans, mortgage loans, et cetera.

When you introduce the numbers into the equation, what TILA does, and we are supportive of your bill, it then gives the bar at least the option to make a decision, a credit decision, a financial decision, and the option to plan accordingly, which could be inclusive of maybe adding an extra dollar to the cost of pizza so that they can afford their loan, thinking about how they leverage their hours, thinking about how they renegotiate their rental contracts. There is a variety of different things that, once you know the numbers, you are able to act more proactively.

Ms. VELAZQUEZ. Thank you. I yield back.

Chairwoman WATERS. Thank you very much.

The gentleman from Michigan, Mr. Huizenga, is now recognized for 5 minutes.

Mr. HUIZENGA. Thank you, Madam Chairwoman.

CDFIs and MDIs clearly play an important role in serving those in our communities who are both unbanked and underbanked. Republicans on the committee have routinely highlighted the importance of harnessing private sector investment in these communities, while allowing for regulatory flexibility that does not stifle responsible innovation. Ultimately, this will provide greater access to credit, build financial security, and, most importantly, create a more-inclusive financial system, something I think we all agree on.

Unfortunately, this has not been the current posture of this Biden Administration. In fact, this past December, the Director of the Consumer Financial Protection Bureau (CFPB) stated that, "Our largest banks have become bigger and even more powerful, while rural communities have become banking deserts, putting family farmers and businesses at risk." I can't disagree with that.

And having literally the second-poorest county in the State of Michigan, in the Second Congressional District, which is a very rural district and rural county with a very heavy African-American component to it as a percentage of the population, we have seen this happening. And I would argue that it was overregulation under the Dodd-Frank Act that forced these small, often rural community banks to consolidate and merge before many eventually, oftentimes, went out of business. And the Fed's own data supports this, noting in 2020 that there were 13,000 fewer banks in the United States than in the 1980s, with many of those closures occurring in rural areas.

I will note that my Democrat colleagues would argue and do argue that we have never seen an economy like this. It has never been better. And we have to celebrate this great economy. And their answer to that is, but we have to spend more money. We have to throw more money into the economy to keep this going.

There is an old saying that, when you are a hammer, everything looks like a nail. I would maybe convert that to say that, when you are an uber-Keynesian economist, or maybe when you are a modern monetary theorist, everything looks like a spending opportunity. And that is exactly what we are seeing here today. In fact, despite well-recognized and agreed-upon disparities, we don't have to look far in the past to see the benefits of full employment, which should be our goal here.

And in 2017 and in 2019—I want to make sure I have these numbers right, Madam Chairwoman—policies that supported the free market helped raise the socioeconomic barriers for all Americans. There is no better example than this period, 2017 to 2019, when the unemployment rate for African Americans was 5.5 percent. Hispanic employment reached 3.9 percent, and Asian-American unemployment dropped to 2½ percent, collectively the lowest levels on record in the modern era, literally.

We know what we can do to really, truly narrow that socioeconomic gap, which is to make sure people have the opportunity and the ability to be successful.

What we also know is that inflation hits everyone, but it disproportionately affects lower-income and minority communities. And that ought to be our goal, to make sure that inflation is tamed. And I know my Democrat colleagues are frustrated that this side of the aisle often talks about what is happening but we [inaudible] Percent inflation, folks. Wages have not kept up. The situation is dire for these on the lower rungs of the socioeconomic ladder, and it is our duty to help them.

Dr. Faulkender, we have talked quite a bit about this inflation situation. And when I am at home, constituents talk to me about it. And they certainly don't think it is transitory, as is often claimed. The National Federation of Independent Business (NFIB), who surveyed their members, says that the main issues confronting our nation's small businesses are inflation and job openings that cannot be filled.

In my closing moments here, can you detail the fiscal or regulatory policy actions creating those price pressures?

Mr. FAULKENDER. Certainly. Labor force participation, as you said, is still rather low. We are a couple million jobs fewer than where we were prior to the pandemic. So, when we provide trillions of dollars in fiscal stimulus, that discourages people from participating in the labor force, particularly when there are no work requirements attached to them. When we take energy resources out of our economy, when we impose massive increases in regulation and constantly talk about tax increases, that is going to delay and deter businesses from expanding and hiring.

Mr. HUIZENGA. Madam Chairwoman, my time has expired.

Chairwoman WATERS. Thank you very much.

Mr. HUIZENGA. I yield back.

Chairwoman WATERS. The gentleman's time has expired.

The gentleman from Georgia, Mr. Scott, who is also the Chair of the House Agriculture Committee, is now recognized for 5 minutes.

Mr. SCOTT. Thank you, Chairlady Waters.

And, once again, you are doing an extraordinary job, because I can't think of a hearing that is more timely, for, as you know, many of our CDFIs and minority communities are going to be receiving millions of Federal dollars very soon.

I want to address my question to Ms. Urrutia. Here is the situation. I want to talk for a moment. I think one of the keys—and you use these—they are called microloans. Are you familiar with those?

Ms. URRUTIA. [Nonverbal response.]

Mr. SCOTT. Okay. I think they are very, very helpful with getting capitalization there. And they are pretty much manageable.

First of all, I want you to expand on the importance of accessing microloans for the first-time entrepreneur. And microloans, as I understand it, are those loans that can be accessed, but they must be below $50,000. Am I right?

Ms. URRUTIA. That is generally what microloans are described as, yes, sir.

Mr. SCOTT. Okay. How do you feel about those? Do you agree with me that they are key?

Ms. URRUTIA. Yes. Absolutely. Microloans make a significant impact on the lives of a lot of small business owners who may need only a very small amount of capital.

What we have seen over the years is that, unfortunately, small business loans of this size are not really attractive to financial institutions for a variety of reasons: the loan is too small; the credit of the business is perceived to be risky; or there is not enough profitability to make money because of that small amount of money. But that does not mean that small businesses, particularly in this situation that we are in right now where you have startups and businesses that really have lost a lot of their revenue, need a small amount of capital to sustain.

Mr. SCOTT. Yes.

Ms. URRUTIA. A $10,000 or $20,000 loan for a small business is equivalent to $1 million for any bigger business.

Mr. SCOTT. And that leads to my other question. Why are these traditional banks trying to downplay these microloans, when they have been so effective for beginning farmers? They can get the access that they need. Many of them failed to help young beginners and African Americans because they say the loan is too much. They don't have the capitalization. But here we come with $50,000 and a small, beginning businessperson can handle that. I just wanted to kind of get clarification on that.

And I think you need to push for more advocacy, and explain how beneficial it is, because if we are going to ship out millions of dollars in Federal spending, and very shortly, we are going to do that, we need to make sure that the primary vehicle, which is microloans, to get beginners started, that they can get the loan, they can pay that, and then, they can go and get another one.

I just want to raise that issue and concern and hope that you will—and by the way, your story needs to be exposed even greater, because from reading your story, you were an immigrant. You came over. You tried to get help. But then, you went on and started your own business. And here you are, trying to help the people who were in your situation.

Let me commend you for that, but speak out and keep pushing these microloans. They are very beneficial.

Thank you.

Ms. URRUTIA. Thank you.

Chairwoman WATERS. The gentleman from Arkansas, Mr. Hill, is now recognized for 5 minutes.

Mr. Hill?

Mr. Hill does not appear to be on the platform.

The gentleman from Texas, Mr. Williams, is now recognized for 5 minutes.

Mr. WILLIAMS OF TEXAS. Thank you, Madam Chairwoman.

And full disclosure to our panel, I am a small business owner in rural America. And I can fix this whole thing. We cut taxes, we put more money in the hands of the banks, the people, et cetera, more and more startups, and we will begin to see. So, I think a lot of it is cutting taxes.

But right now, I want to talk about inflation. Inflation is having a devastating effect on people all throughout our country. And people are seeing these prices increases at the gas pump, in grocery stores, and on their utility bills to heat their homes this winter. A recent report by Moody's Analytics put a dollar figure on the massive inflation increase, and the average American is paying $276 more each month to simply live their lives. This is disproportionately harming low-income earners and people on fixed incomes who are having the most trouble absorbing these higher costs.

This is a drastically different reality than what we saw after we passed the Tax Cuts and Jobs Act in 2017. We saw wages outpacing inflation, the labor participation rate was rising, and more investments being made from small businesses. And it will not be an easy job to get inflation under control, but it is something that must be done if we are serious about helping our rural and underserved communities.

Dr. Faulkender, can you discuss what you think needs to be done at the Federal Reserve and here in Congress to get us back to a high growth rate and a low inflationary environment?

Mr. FAULKENDER. Sure. On the fiscal side, I would suggest prioritizing incentives to brings supply back into the marketplace.

We have 10.9 million job openings right now. And yet, we are a few million jobs shy of where we were prior to the pandemic. There are a lot of American workers who are on the sidelines, who can come back into the workforce to serve in some of those job openings.

The second thing is that we need to make sure that we have a tax environment that encourages both the businesses and the workers to participate in the labor force.

Third, we need to bring our domestic energy supply back online.

The fourth thing that we could do from a Federal Reserve standpoint is that we need to stop the accommodative monetary policy. We probably should have started pulling back on asset purchases a number of months ago, and started to raise rates. Now, it looks like the Fed is behind the curve. But Chairman Powell, of course, has indicated that there is some catch-up to do. The problem is that that many rate increases in a single year is going to be a shock.

Mr. WILLIAMS OF TEXAS. Thank you.

Secondly, something that helped propel the economy under former President Trump was the regulatory clarity that he gave the business community. I can tell you firsthand, that was huge. There wasn't any uncertainty surrounding unexpected increased costs coming down the pipeline.

Unfortunately, this is not the case under President Biden. The American Action Forum conducted a study which showed that in his first year in office, President Biden has already implemented over $200 billion—I repeat, $200 billion—in new regulatory compliance costs on American businesses and small businesses mainstream. These costs are amassed by an estimated increase of 131 million hours in new paperwork that must be conducted in order to be in compliance with all of the new regulations coming from the Federal bureaucracy. It is a disaster, to put it mildly.

Banks feel the major part of this new regulatory burden. Instead of getting more money into their communities to finance job-creating entrepreneurs like we are talking about, they are forced to spend more money on compliance officers. These are costs on the books and a drag on the American innovators.

Quickly, Dr. Faulkender, can you discuss some of the pro-growth policies we should be focusing on so we can allow banks to get more money into the hands of Main Street America? And I have touched on one—you have, too—and that is cutting taxes.

Mr. FAULKENDER. The other one you mentioned is regulatory clarity. The problem with regulation is that there is what an economist would consider a large, fixed-cost component of it. So whether you have 5 workers or you have 50 workers or you have 500 workers, just bringing yourself into compliance requires updating your activities and your processes. The larger businesses have a larger scale to spread that across, so a higher regulatory environment is generally more advantageous to larger entities, whether that is larger banks, larger businesses, or larger enterprises.

And to the extent we want to spur small business entrepreneurship and we want to create an environment where small community banks can flourish, providing a less-regulated environment that reduces their cost structure, particularly on a per worker or per customer basis, is important as well.

Mr. WILLIAMS OF TEXAS. Yes, lower taxes, less regulation. At the end of the day, it works for everybody, doesn't it?

Mr. FAULKENDER. It has wide-ranging benefits, yes, Congressman.

Mr. WILLIAMS OF TEXAS. Thank you, Madam Chairwoman.

I yield back.

Chairwoman WATERS. The gentleman from New York, Mr. Meeks, who is also the Chair of the House Committee on Foreign Affairs, is now recognized for 5 minutes.

Mr. MEEKS. Thank you, Madam Chairwoman.

MDIs and CDFIs, although smaller than many of their competitors, play an outside role in communities with a great demand for banking services. These institutions provide crucial help in areas that would otherwise be banking deserts, and they provide more affordable products than alternative financial service providers.

And that is why I am so proud to reintroduce the Ensuring Diversity in Community Banking Act, which passed out of this committee last Congress with a bipartisan vote of 52–0, and passed in the House as well on suspension. This bill strengthens many programs that provide capital to minority banks, creates new impact-bank designations for banks that predominantly serve low-income communities, and provides for a streamlined CDFI application process.

Ms. Elam, can you speak to why these programs are so crucial to ensuring that MDIs and community banks remain an integral part of serving underbanked communities?

Ms. ELAM. Thank you. First, I way to say thank you for your support of MDIs, and for the reintroduction of this important bill. I think what this bill does is it continues to preserve and promote MDIs, which is something that we are not seeing oftentimes from our regulators. So, not only does it focus on capital, but it focuses on making sure that they have the technology that they need to best serve communities.

Technology continues to be one of the biggest issues that our member banks have, whether it is cost, it is not having the capacity to vet those, or it is the challenges with their core providers. And this allows them to grow and scale in a way so that they begin to serve more in their communities. So, this is certainly a hugely important piece of legislation. And we, again, thank you for that.

Mr. MEEKS. Thank you.

And technology is changing the landscape of banking, as we know.

Ms. ELAM. Absolutely.

Mr. MEEKS. Whether financial institutions, including MDIs and CDFIs, are able to access and successfully leverage new technology can make or break their business model. I think that is right.

Mr. Sands, let me ask you. As the largest minority-led deployer of capital in COVID relief funding, Lendistry has proven that technology can enable institutions to better penetrate harder-to-serve communities. Specifically, in my State of New York, Lendistry served more small businesses by being the sole designated entity to administer the Small Business Recovery Grant Program. I understand that you have a partnership also, I believe, with OneUnited Bank, an MDI.

My question to you is, what are some of the challenges CDFIs and MDIs face when partnering with fintech companies, and how can Congress best ensure that such partnerships are successful and best serve consumers?

Mr. SANDS. Thank you, Congressman Meeks.

I think the first thing we want to look at is the narrative. And the narrative should be that we support these partnerships, and the narrative should be that we encourage these partnerships, as you are already displaying.

At Lendistry, we looked at helping underserved communities in a scaleable way by thinking about two things. First, meet the people where they are, and make the process seamless, efficient, user-friendly, and accessible.

Second, help our community-based partners level up and scale up their technology resources, leveraging our technology. As you mentioned, with partners like OneUnited Bank and others, what we have been able to do is help them in terms of their scaling.

Now, we do still have to get big processes like vendor management and other things like that, but I think the answer to your question is helping change the narrative so that these partnerships are encouraged both at a congressional level and at a regulatory level and supporting these partnerships. As you know, there will be so some highs and lows as we go through this. But I think the end goal will see some scaleable deployment of capital, as we have in the State of New York.

Mr. MEEKS. What would you recommend? Is there anything in addition to—I talked about the bill that we had. Is there anything in addition there that you think we should be doing in the United States Congress to make sure that we push that forward, so that the technology is there, and anything that we can do to be of further aid to create these partnerships and make sure they are secure?

Mr. SANDS. You mentioned Congress and this committee have recommended things like technology grants and different things like that. While I understand that there is a bit of apprehension in terms of deploying more capital into our economy, I do think we can take some surgical methods like focusing on technology, and focusing on skills that are going have long-term benefits. When we think about other things like cybersecurity and other obstacles that are going to come in the long term, I think there can be some laser-sharp focus on where those grants go.

So, the specific uses of funds will be extremely important as we think about how we lay out these different programs.

Thank you.

Mr. MEEKS. Thank you very much.

My time has expired.

I yield back, Madam Chairwoman.

Chairwoman WATERS. Thank you.

The gentleman from Tennessee, Mr. Kustoff, is now recognized for 5 minutes.

Mr. KUSTOFF. Thank you, Madam Chairwoman, and thank you to the witnesses for appearing today.

Dr. Faulkender, you talked about the Paycheck Protection Program, and I think that Congress can pat itself on the back because that is an example of a bipartisan program that no doubt saved many small and medium-sized businesses across the country. And it really is a true benefit to say that it is a successful public-private partnership, and I appreciate the role that you had from Treasury in setting that up and making sure it was a success.

In your written testimony, you talked about fintech firms and how fintech firms went a long way to helping serve underserved or maybe underbanked communities. Can you discuss why that is? Why were fintechs so successful in helping those underserved communities?

Mr. FAULKENDER. Sure. The major advantage that fintechs have, and I think a number of analysts have mentioned this, is that traditional banks have high technology costs, coupled with the physical infrastructure that you normally have with providing branches. Fintechs are able to devote almost all of their capital resources, their capital investments towards the technology piece and scale that to serve communities that a geographic footprint often doesn't support.

Particularly in rural communities, there is just not enough of a population close by to support a full-blown branch, whereas if you can still serve the depository and lending needs of that community almost entirely through an online platform, you are able to achieve reductions in costs that can then be passed along to the borrower.

Mr. KUSTOFF. Thank you very much.

I would like to take you back to an article or a column that you wrote in The Hill last year, I think in August of 2021, and you were critical of the Biden Administration and the legislative agenda in terms of the spending. And you predicted, and I think correctly, that that added to or exasperated the inflation that we are experiencing today.

We are in a position now where the Fed is going to have to use the tools in its toolbox to try to combat inflation, hopefully without triggering a recession. Can you forecast what the Fed should do and what they can do and in a way that it triggers, if you will, a soft landing?

Mr. FAULKENDER. The Fed has a very delicate dance that it has to do because on the one hand with, as was mentioned earlier, $30 trillion in debt outstanding, raising interest rates is going to pass that along in higher debt service costs to our nation, which is problematic. But at the same time, they can use monetary policy to curb some of the excess demand that fiscal policy has generated.

So, they have to try to find a balance where they bring down demand in order to reduce the increase in prices without putting us into a recession and without causing debt service costs for the nation to skyrocket to an unsustainable level.

Part of that is going to be taking some of their accommodation in the asset purchases off the table. Some of that is going to be in the form of more guidance. They are going to be probably more tolerant of inflation than they were a number of years ago. But they are ultimately going to have to raise rates and reduce the asset purchases and do it very delicately because we are in kind of a tenuous position.

Mr. KUSTOFF. I used the term, "soft landing." Can they do those things? Can the Fed do those things without necessarily triggering or forcing us into a recession?

Mr. FAULKENDER. Yes, it is possible. If they raise rates too quickly, it will force us into a recession, but if they don't raise rates quickly enough, we are going see this inflation continue. So, they are going to thread that needle. It is possible, but it is going to be difficult for them to do.

Mr. KUSTOFF. Thank you very much.

Madam Chairwoman, I yield back.

Chairwoman WATERS. Thank you very much.

The gentleman from Texas, Mr. Green, who is also the Chair of our Subcommittee on Oversight and Investigations, is now recognized for 5 minutes.

Mr. GREEN. Thank you, Madam Chairwoman. I am also very grateful to serve under your leadership, and I am especially proud of the Small Business Credit Initiative, the State program, because this is a 1,000 1 million-dollar program, 1,000 $1 million for small businesses. And the program will generate $100 billion.

What I would like to do is have Ms. Elam, Mr. Sands, and Mr. Bynum, in that order, explain to us the importance of this program that I was honored to have the opportunity to work on with the chairwoman, and it became part of the American Rescue Plan Act of 2021.

Let's start with you, Ms. Elam. Explain the importance of this program?

Ms. ELAM. I think the importance of SSBCI cannot be understated. Pushing capital into the hands of small businesses is vitally important. We know many of the businesses that are going to receive this or be the beneficiaries of this capital are small businesses that maybe were already struggling, and the pandemic exacerbated those struggles.

What I am most excited about when I think about SSBCI 2.0 versus 1.0, is the focus on Socially and Economically Disadvantaged Businesses (SEDB). I think the focus on those businesses is vitally important, and I think the push that you are seeing from Treasury to focus on utilizing MDIs and SSBCI 2.0 is vitally important.

Mr. GREEN. Thank you very much.

Mr. Sands, if you would, please?

Mr. SANDS. Yes. I will piggyback on Ms. Elam's comments. I think that it is really, really vital, when we look at SSBCI 2.0, there is a huge opportunity not only for credit enhancements and loan participations but also for venture capital.

As we look at the 4 million businesses that have been started, as we think about inflation and some of the other tools and conversations that we have had here today, bringing these 4 million businesses into the forefront, letting them take their place in the workforce, letting them grow, letting them hire people, letting them raise wages—there is significant opportunity. SSBCI will give lenders that moment or that tool that they can leverage in order to make some credit decisions that they might not make in a post-pandemic environment or in a normal credit market environment.

So, we are very excited to see that, as well as to see the equity go out in an equitable fashion, as Ms. Elam mentioned, related to the SEDB requirements and also 10 employees or less. And I should also say there is a huge technical assistance requirement. So, having technical assistance and business advising could be that momentum that we need to really take the businesses to the next level.

Thank you, sir.

Mr. GREEN. Thank you.

But before I leave you and go to Mr. Bynum, let me ask you to elaborate on something else.

Mr. SANDS. Yes, sir.

Mr. GREEN. Let's talk for just a moment about the venture capital aspect of this in a bit more detail, because people hear that term, and I don't think they understand what it really means in terms of the difficulty in acquiring venture capital. Can you say a few words about the difficulty?

Mr. SANDS. I think if we look at African Americans as a unit, roughly $16 trillion in GDP kind of flow, roughly $4.2 million in VC capital, those numbers are misaligned clearly. And so, when we look at this opportunity, there is an opportunity for us to do 10 times leverage off the money, the venture capital money that is flowing through the SSBCI program.

If we could have the forces of equitable capital deployment mixed with the right deployers of capital, mixed with it getting into the right hands, then when we look at things like, how do we encourage businesses in rural areas, how do we think about bringing products back or manufacturing back to the U.S., or how we just think about overall expansion, it represents a very unique and significant opportunity for all of us.

Mr. GREEN. Thank you very much.

Mr. Bynum, you have 1 minute left. Please explain to us how important this SSBCI program is.

Mr. BYNUM. No, absolutely. I think Ms. Elam and Mr. Sands hit the high points.

I will underscore how critical CDFIs are to driving resources to where they are needed most. In the first round of SSBCI, CDFIs outperformed other distributors of SSBCI, driving almost half of their funds to low- and moderate-income areas, compared to 32 percent for non-CDFI lenders. And that just underscores their importance. I think in the Deep South, it is important that CDFIs are engaged with States on the front end of the design. CDFIs were not involved previously, and we are seeing some positive momentum in Tennessee and Arkansas that leads us in that direction.

Mr. GREEN. I thank all three of you.

And I especially thank you again, Madam Chairwoman. This program has really saved a lot of small businesses, especially with what I am calling the set-aside that is in the program.

I yield back the balance of my time.

Chairwoman WATERS. Thank you so much, Mr. Green.

The gentleman from Arkansas, Mr. Hill, is now recognized for 5 minutes.

Mr. HILL. Thank you, Madam Chairwoman. And thanks for holding this hearing.

Let me begin by saying hello to my old friend, Bill Bynum. It is so good to have your wisdom and support here. We are so grateful for your leadership.

Bill and I got to spend 3 years together on the CDFI advisory board at the Treasury during the mid-2000s, and Bill was a great teacher and educator as we collaborated there.

And thank you, too, Bill, for coming to Arkansas and serving West Memphis and Little Rock with your locations and beautiful College Station. So, thanks for helping our citizens here.

Mr. BYNUM. Thank you.

Mr. HILL. The first question, Bill, is, thinking about all the new banks, existing banks that have been certified as CDFIs, it boosts the numbers of people who are certified as CDFIs. But does it dilute the mission, given sort of your intensity of effort and that of our mutual friend, Darrin Williams, the CEO at Southern Bancorp, probably the largest CDFI in the region and the largest in our State? Does that dilute the mission when we certify all of these other banks?

Mr. BYNUM. Congressman, thank you.

I think it is important to note that, just like in any industry, all CDFIs are not created equal. Darrin, Liberty Bank, some others, are doing great work in driving resources in a way that is consistent with the purpose and intent of CDFIs. However, we saw as the follow opened up, a lot of banks were able to become CDFIs just because of their geography, not because they were driving funds into the most-needed places like the Arkansas and Mississippi Delta.

And we have seen that in Mississippi, CDFIs banks, when you look at the HMDA data, only lend at 13 percent to Black borrowers, compared to 17 percent. Hope lends at 80 percent. So, there are disparities, and I think there is some accountability that should be incorporated into the program.

Mr. HILL. Yes, because I do like the fact that we spread the resources and the networking of the resources out. But there is also a real specialty that comes with this niche and commitment and vocational commitment to it.

Mr. Sands, congratulations on your great PPP performance in the fintech industry. Thanks for that leadership. We had a lot of challenges with the SBA in that program, standing it up. But I think they, with some changes, delivered pretty well. But now I am concerned about them suddenly displacing the banks and trying to replace the 7(a) program with a direct lending Program.

Do you support the SBA cutting the banks out of underwriting in the 7(a) program?

Mr. SANDS. Congressman Hill, it's good to see you. I know, as a fellow community banker, we probably have some similar thoughts.

I think there is definitely a fine line here. I think what we are seeing is that there are some smaller loans that are being underserved, and some small businesses that are being undercapitalized. We do have to take that into consideration, and if SBA could help with that, I think there is an opportunity there. I also think SBA could help by bringing in additional lenders and focusing on other programs as well.

Mr. HILL. Let's talk about that and collaborate because the Economic Injury Disaster Loan (EIDL) program has been helpful, but sort of a black box and a bit of a disaster in the pandemic. It is not really designed for an ongoing emergency. It is designed for a very short-term weather or tornadic or hurricane-type emergency. I think there is a lot of need for reform there. I would be eager to hear your views on that as well as to make the 7(a) Program more effective.

Let's talk about reporting small business loans. I noted that there are 38 percent fewer CDFIs, despite my comment of the additional certifications. Instead, the numbers are dropping just like the numbers of small banks are dropping. Are you concerned that this 1071 small business data collection will actually cause more people to leave the small business lending business, as it just adds too much cost?

Mr. SANDS. No, I think one of the things we actually recognize with PPP is that if we could have a streamlined, what I will call formatting process, and maybe leverage API's technology, et cetera, that we can get that information. I think it is critical. If I were sitting in your chair or in anyone on this committee's chair, to really understand the data that is coming in, because if you are sitting there and you are in Arkansas and you are saying, look, I would like to allocate resources or money to a certain place, it helps to just have the data to know where it should be at indicated, whether it is race, location, et cetera. And I think we have an opportunity with 1071 to get some of that information.

Mr. HILL. I hope we can streamline it to make it a lot less costly for smaller institutions. The overhead to run a small institution is already overwhelming. I thank you for your advice, and I look forward to following up with you.

Madam Chairwoman, I yield back.

Mr. SANDS. Thank you.

Chairwoman WATERS. Thank you very much.

The gentleman from Missouri, Mr. Cleaver, who is also the Chair of our Subcommittee on Housing, Community Development, and Insurance, is now recognized for 5 minutes.

Mr. CLEAVER. Thank you, Madam Chairwoman.

This is, in some ways, related to the questions that were raised by Mr. Hill, but a little different case.

Ms. Urrutia, I have adopted a plan to introduce the CDFI Bond Guarantee Program Improvement Act of 2022, which has been attached to today's hearing. The bill would make the bond program permanent, reduce the minimum bond size from $100 million to $25 million, and would make a technical change requested by the CDFI Fund.

How would this bill help CDFIs such as yours, if they were interested in participating in this program? And can you tell us how you might use these funds?

Ms. URRUTIA. Yes. Good afternoon.

Our CDFI, Accion Opportunity Fund, does not currently take advantage of the bond program. We do find CDFI support to be very instrumental in helping us continue to deploy capital to underresourced communities. We are in full support of any type of program that can help us access capital and equity to scale up our lending operation.

Mr. CLEAVER. Just to be clear, if we made this technical change, this program would be of significant value to you, and would help CDFIs?

Ms. URRUTIA. Absolutely, yes. Any program that can provide capital access to CDFIs, which is part of our challenge, liquidity, accessing liquidity, and I want to back, because SSBCI, I think it goes without saying, that what SSBCI can bring to CDFIs is the ability to access liquidity and off-balance sheet leverage and resources so that we can scale up our lending, which is really one of the limitations that CDFIs have today, because there is not sufficient capital. And because of the way that we are structured, where we have to raise equity via grants mostly, it becomes very difficult to continue to deliver the mission without having the access to these programs that are leveraging private sector capital.

Mr. CLEAVER. Historically, the limit on bond guarantees provided in the annual appropriations bill far exceeds what has been issued each year. The program has been authorized for $500 million annually since Fiscal Year 2017, but CDFIs have successfully accessed only a fraction of the potential of the program.

It is particularly unfortunate that I am receiving reports that smaller CDFIs and CDFIs in rural communities—I represent Kansas City, Missouri, and probably 30 little towns all around it, and I am also adding communities of color and indigenous communities—who would really love to benefit from long-term, low-cost capital but they are unable to participate.

Do you or any of the panelists object to making the bond guarantee program more accessible to CDFIs?

Ms. URRUTIA. I think one of the things that you find is that CDFIs sometimes are like small businesses. We don't necessarily know all of the programs that are available to us to access. So, I think a recommendation from this would be for marketing and information provided by the CDFI Fund for all of the different programs that are available, the purpose of each, and how can those funds be accessed.

Mr. BYNUM. And, Congressman, if I could add, I think the reduction to $25 million is critically important in getting the resources to those smaller communities. They need projects, but they may not be $100 million or $200 million. And making more available CDFIs to drive funds into those communities is critically important and it allows them to leverage some of the other infracture dollars that are being made available by Congress as well.

Mr. CLEAVER. I think this has nothing to do with Democratic or Republican ideology. This is a common-sense kind of thing that would help communities both large and small.

I think my time has run out, Madam Chairwoman. Thank you very kindly.

Chairwoman WATERS. Thank you so very much.

The gentleman from Tennessee, Mr. Rose, is now recognized for 5 minutes.

Mr. ROSE. Thank you, Chairwoman Waters and Ranking Member McHenry, for holding this hearing, and thanks to our witnesses for their testimony.

I want to also express concern regarding the forthcoming cost of servicing our national debt. I will note that JPMorgan expects 5 rate hikes this year, Goldman Sachs and Bank of America are predicting 7 rates hikes, and HSBC is predicting a 50-basis point hike next month, followed by 4 additional 25 basis-point increases.

Obviously, as has been noted, we have just surpassed $30 trillion in debt and we need to get our fiscal spending on track and in order in this country if we are going to be able to support many of the programs that we need to have in place to assist historically-disadvantaged groups, and to make sure that every American has a chance to realize the American Dream.

As my time is limited, I also want to touch on some other topics. But before I get to that, Mr. Bynum, I appreciated the conversation between you and my colleague, Mr. Hill from Arkansas. And as I sit here at my home today in Cookeville, Tennessee, I know that we have a number of functioning CDFIs here in Tennessee, including one right here in my hometown of Cookeville, the Tennessee Rural Development Fund, and, of course, Pathway Lending in Nashville, and The Housing Fund in Nashville.

And I wonder, Mr. Bynum, are these CDFIs in my home State and in my home community—do you feel like they are getting the job done? And what could I do as a Member of Congress, what can our committee do, what can the Congress do to help them do the job that we intend for them to do, if they are not already getting it done?

Mr. BYNUM. Thank you, Congressman.

I am really glad that we have housing partnerships, The Housing Fund and Pathway and CDFIs in Tennessee that are driving funds into rural parts of the State, as well as in the inner cities, in Memphis and in Nashville and Chattanooga. There are gaps that unfortunately small businesses, lower-wealth families, and entrepreneurs don't have access to.

You have some strong CDFIs, and the work that this committee, and this Congress has done to make sure that CDFIs have capital, flexible capital, that allows them to do what they do well, really tailor resources to meet the needs of their communities, not have a one-size-fits-all solution but sit down with businesses, with families and make sure they are their financial bankers, they are their financial problem solvers, which is what CDFIs do better than any other financial institutions.

Thank you for supporting CDFIs and for making sure that they have the kind of capital they need.

Mr. ROSE. Thank you for that insight. And I hope we get the chance in the future to talk in greater detail.

During the pandemic, regulators took important steps to provide temporary relief for community banking organizations who experienced unexpected and sharp increases in assets due to their participation in many of our Federal coronavirus response programs such as the Paycheck Protection Program. Unfortunately, in my view, that relief expired on January 1, 2022. Regulatory compliance continues to be burdensome, particularly for these organizations.

Dr. Faulkender, I think this brings up a broader question. Should we be looking into permanently raising these regulatory thresholds to allow for greater flexibility with these community banking organizations?

Mr. FAULKENDER. Generally, the capital requirements and regulations we place on community banks are probably excessive, given the types of activities they engage in. We should not be thinking that they are megabanks and holding them to the same standards. At the same time, of course, we don't want to invite regulatory arbitrage.

But, yes, we should differentiate the environment we impose upon them from a regulatory standpoint based on the activities in which they engage and how systemically important they are. We should not treat all of them uniformly. We should recognize the differential business models they have.

Mr. ROSE. Thank you. I appreciate that perspective, and I share that. And having served on the board of a community-based national bank, I can tell you firsthand that unfortunately, many of those regulations and that regulatory burden are what cause these small, for-profit financial institutions to oftentimes not be able to meet the needs of emerging businesses and smaller organizations. I share the view that we need to relax that standard and recognize the difference between big banks and our small community banks.

Thank you, Chairwoman Waters. And I yield back.

Chairwoman WATERS. Thank you.

The gentlewoman from Ohio, Mrs. Beatty, who is also the Chair of our Subcommittee on Diversity and Inclusion, is now recognized for 5 minutes.

Mrs. BEATTY. Thank you, Madam Chairwoman, for holding this hearing. And to all of our witnesses, thank you very much.

First, let me just say I would like to thank our distinguished panel of witnesses for being here today and for their testimony.

My first question is for Ms. Elam, and you, Mr. Bynum. In your testimony, you cite the fact that Black-owned banks control 27,000ths of 1 percent of total bank assets in the United States.

In 2020, in the aftermath of the murder of George Floyd, dozens of companies, as have you witnessed, made public commitments to racial justice within the outside of their workforces. Netflix, for example—we all know that they were going to place $100 million of their assets in Black-owned financial institutions. And they followed through.

Ms. Elam, what kind of impact would this have if more companies made similar commitments?

Ms. ELAM. Thank you for that question. It is a phenomenal question if you had more than a few companies doing that, but if you had 10, 20, 30, 40, 50, or hundreds of companies doing that, you could certainly change the trajectory of these organizations, of these banks.

There have been a lot of conversations around deposits and capital. But I think one thing that doesn't get enough conversation is, how are these companies integrating Black banks into the way that they do business? Are they integrating them into their financial services supply chain? When customers are swiping their credit cards, are they using our banks for merchant processing?

Those are the things that we need to be focused on and talking about. Not only do we need more of them, but we need diversity in what they are doing. Everybody can't just do deposits. Everybody can't do equity investments. You need some of these long-term, systemic revenue-generating business opportunities in order to really change the dial.

Mrs. BEATTY. Thank you.

Mr. Bynum, the Hope Credit Union received $10 million as part of this commitment. Can you briefly tell us the impact? Because I have one more question I am going to try to get to.

Mr. BYNUM. Certainly. When you think of the region that we serve in a place like Itta Bena, Mississippi, where Mississippi Valley State, an HBCU, is located, if we had all of the deposits, we would only have 1½, 1¼ million dollars. So, the $10 million from Netflix imports capital into these capital-starved communities and allows us to make more mortgages loans, more business loans, to help make payday alternative loans that get people out of debt traps.

Unfortunately, communities where you have such a dire wealth gap don't have the deposits to fuel their growth, so deposits are important, as is equity. It all goes together, and also contracts where they can buy from the businesses is something that we should also emphasize as well.

Mrs. BEATTY. Thank you.

Here is my last question, and I will open it up to anyone whot wants to talk about this. I would, however, like to start with Ms. Elam.

Here is the thing. This may sound a little self-serving. As you all probably know, I am the Chair of the Subcommittee on Diversity and Inclusion, and this is something that is in the forefront of Chairwoman Waters' and my leadership.

Here in the Midwest, we unfortunately don't have MDIs—currently, there are very few in the Midwest and none in my great State of Ohio. In my district, there is a group that has recently submitted an application for a banking charter that would now give Ohio its first MDI, right in the heart of my district.

What resources are out there for persons or groups who want to form an MDI? What incentives are available for them? As a Member of Congress, I have this unique opportunity to go talk to my community and say, here is what I fought for, and here is what the experts told me to do.

Ms. ELAM. Starting a new bank is certainly challenging. Not only is it capital that prevents folks from starting new banks, but it is also the regulatory requirements that can be onerous for starting a new bank.

At the NBA, what we try to do is we work—we have actually talked to that bank that is going to be starting in Ohio, to learn best practices. This is what you need to know. This is what you need to be focused on, when you are thinking about who is going to be doing deposits, because you want to have support from corporations, you want to have support from the State and local government. Who is going to be doing business with you? And those are some of the things that at the NBA—

Mrs. BEATTY. And I hate to cut you off, but I have about 15 seconds.

Is there anybody in particular? Should they call your organization?

Ms. ELAM. Yes, call our organization.

Mrs. BEATTY. Should they—

Ms. ELAM. Call the National Bankers Association, and we have already had a call with them, but they can certainly feel free to call our organization.

Mr. BYNUM. And inclusive is the National Association of Community Development Credit Unions.

Mrs. BEATTY. Thank you so much. I will follow up with both of you.

Chairwoman WATERS. Thank you very much.

The gentleman from Ohio, Mr. Davidson, is now recognized for 5 minutes.

Mr. DAVIDSON. Thank you, Madam Chairwoman. I appreciate this hearing, and it is timely that we talk about the consequences of all of this spending that has gone on.

We want a Federal Government to exist. Our Founders created one on purpose. It is defined by our Constitution. But we have a limited government. Right now, we are only talking about how much more government we should have. And, unfortunately, there is not a way to pay for all the government that we already have.

We have seen the Federal Government's balance sheet grow to the point where we have $30 trillion in debt. And that is not even debt that people lent us. The Federal Reserve's balance sheet has grown to over $9 trillion. So, in a way, we have monetized it. How did all this inflation happen? We monetized the debt. And I think that is really one of the big problems.

And not only have we spent the money—and we spent it for things that were needed. We spend money when there is a time of war. But you have to pay for it. The country realized that, and other countries realized that at the end of World War II. In fact, the last time that the planet had as much debt as the planet has right now was World War II, total debt in relation to GDP. And at that time, the monetary system was reset.

I wonder, Mr. Faulkender, if you could talk about the consequences for debt and deficits, the importance of paying that off, and whether you believe that this concept of modern monetary theory or quantitative easing, where we don't even need a lender, we can just keep creating money, is that fact or fiction and how will it turn out for people? And, frankly, any implications for the wealth gap if we keep doing this?

Mr. FAULKENDER. Yes, thank you, Congressman, for that question.

We have seen other nations historically have debt-to-GDP ratios in excess of 100 percent. That tends to be where you see the financial crises take place. When firms have fiscal policies that are sustainable relative to their overall economy, they are largely able to avoid panics and inflationary bouts, whereas when you see the kinds of debt that we were incurring recently and the urge to monetize it, then that is where you start to worry about inflation coming.

So, I think it is important to recognize that inflation is a combination of both the fiscal and a monetary policy outcome.

As I was saying before, the Fed has its work cut out for it, if it is going to curb some of the inflation we have seen recently. What we need is for fiscal policies not to exacerbate those challenges.

Mr. DAVIDSON. Yes, thanks for highlighting that. And we spent $6 trillion just COVID-related, not of any of the other spending, which we spend more than we can really fund in a normal process. But that $6 trillion didn't all go to GDP. What did it go to? It inflated assets. And I would hazard to guess that, as members of the committee, we have more assets than most of our constituents. And the wealth gap continues to grow.

And, unfortunately, the solution that I hear from many—most of my colleagues, frankly, is more government. And even when there is talk of taxes that would pay for some of the spending, the taxes don't even pay for all the new spending that they are talking about. There is no real cohesive plan to do this.

I will say that it is a bipartisan problem. When Donald Trump was first President, he proposed a budget that balanced in 15 years, which was hardly aggressive, but at least it balanced. As we stare down a clock of funding that expires Friday, the 18th, there is only a plan to kick the can down the road until March 11th on the table right now. And my Democrat colleagues are just biding time to try to spend far, far more money than we have right now. It will burn inflation.

And I think the last thing I would just focus on is that benefit cliffs are dividing people in another way, because when you do have inflation, the government policies don't catch up as much.

And that is another barrier to people participating in the workforce.

As my time expires, I just want to highlight a little bit of good news. Mr. Sands, throughout the pandemic, fintech companies have really focused in minority and disadvantaged communities in my own area and in rural areas. Fintech has really provided a lot of access to capital. Could you highlight how important fintech has been in the response to this current crisis?

Mr. SANDS. Thank you for opportunity, Congressman Davidson. I think fintech has been able to show that we can go into places that maybe others can't. And when we look at places like the rural United States, there is a huge opportunity for fintech to play a role. Thank you.

Mr. DAVIDSON. Thank you. My time has expired, and I yield back.

Chairwoman WATERS. Thank you very much. The gentleman from Connecticut, Mr. Himes, who is also the Chair of our Subcommittee on National Security, International Development and Monetary Policy is now recognized for 5 minutes.

Mr. HIMES. Thank you, Madam Chairwoman. And a big thank you to the panel for your testimony today, and for all of you who are operating in challenged areas, thank you for the work you do. For many years, I worked in affordable housing, and it was the CDFIs and MDIs that were serving the need and serving the need in some really challenged communities. So, I really have an appreciation for the work you do in Bridgeport, Connecticut, which I represent, and surrounding areas like New York City.

I just have one question that I would like to direct to Ms. Urrutia, first, and then to Mr. Sands, and that question is, you have made a good case today for additional resources for some things that we could do to ease your passage in the work that you do. I recall from my own days in and around this sector really being impressed by the extent to which particularly extending credit, but also even just getting people banked was an incredibly labor-intensive process. It involved a lot of close-in underwriting. It involved a lot more technical assistance often to borrowers. Often, you have first-time borrowers who require technical assistance that a more sophisticated borrower may not. That always struck me as just a nearly insurmountable barrier to extending credit at the rates that would we like to do it.

My question is, setting aside everything that we have heard about the need for additional resources and other things today, what progress is being made in terms of upping the scalability? And Mrs. Urrutia, I would love to start with you. I have huge respect for Accion. My sister actually worked there for a long time. And I know you are at the forefront of doing a lot of really interesting lending. Let me ask you, for a minute-and-a-half, and then I am going to turn to Mr. Sands. What data science, technical innovation, what is out there that would allow us to do this very good work but on a larger scale?

Ms. URRUTIA. Absolutely. That is a very good question. Thank you for asking. The city of my industry, if we are going to scale, we have to employ a combination of technology and data analytics. I think the pandemic catapulted many of us to accelerate a road-map for online and remote servicing to replace the face-to-face interaction. Almost overnight, as an example, most customer interactions across the country went to digital platforms, texts, emails, phones, instead of the branch and community-based locations that have traditionally categorized or represented that CDFI.

We believe that as much as possible, there should be technology involved for reaching businesses for different channels. Some people are ready to come to you online, others want help that you can provide for them via phone or text or chat. That is one piece, how do you engage with the customer? The other piece is, how do you improve and get to a quicker response to a loan request? And that is very important because accessing alternative data sources via APIs has gone up significantly.

Looking at creditworthiness that extends beyond credit, there are a lot of immigrants who don't have credit and can file, they have bill payments and they have cash flows from their business, that is very important for us. And I do believe that CDFIs are starting to move in that direction. But it is a challenge because technology and investment and infrastructure and systems and people cost money, and that is why we are looking forward to the bill that the chairwoman has introduced to provide some grant funding for CDFIs to be able to invest in this capacity, to accelerate their lending, and to improve getting much more capital to underresourced communities.

Mr. HIMES. Thank you, Ms. Urrutia. Let me give my last 50 seconds to Mr. Sands. Again, what can we to increase scalability here.

Mr. SANDS. Thank you, Congressman Himes. I think there is an opportunity to leverage kind of the tailwinds of social media and smartphones, et cetera, and kind of meet the applicant where they are at. Roughly, a couple of decades ago, we would always talk about that younger user in the household who was translating or helping out or going on the computer and filling out—well, that younger user is now our borrower, so we have some opportunity there. I think the other thing is to look at innovative products.

One of the things we are leveraging is leveraging bank statements as an ability to repay, versus kind of traditional products where you say, okay, it is only a credit profile. Bank statements actually show an ability to repay, actually, I would say equally or better than the traditional credit model.

The other thing I think we have an opportunity with, Congressman Himes, is to really take some of these technology partners and bring them into the fold, bring them into responsible lending. And that is one of the things, I think, that is out there, that could be a licensing exemption.

Mr. HIMES. Thank you. My time has expired.

Mr. SANDS. Thank you.

Chairwoman WATERS. Thank you so very much. And let me just say, I am surprised no one has talked about incubators and what they could do to respond to what Mr. Himes is talking about.

The gentleman from Wisconsin, Mr. Steil, is now recognized for 5 minutes.

Mr. STEIL. Thank you very much, Madam Chairwoman. Thanks for calling today's hearing. It is a really important topic that we are covering. Let me tell you, though, we have been staring at the screen for 2 hours, and personally, I cannot wait until we get back to work in person. People in Wisconsin are back to work. They are off Zoom. They are getting it done in person. So, knock on wood that we are able to do that soon.

But either way, this is a big topic here. And I want to piggyback on what my colleague from Ohio, Mr. Warren Davidson, was commenting on with you, Mr. Faulkender, if I can, in particular, the inflation environment that we are in. You wrote a great op-ed in The Baltimore Sun, back when inflation was at 5 percent. We are now at 7.5 percent, when Chairman Powell was recently at the committee, I think about 18 months ago. I say that recently. I talked a lot about my concern about the monetary policy that we were doing, the implications that would have as it relates to inflation. We also have a fiscal policy going on in Washington where Washington continues to spend money like drunken sailors.

And now, we are in an inflationary environment. And I think one of the big things with inflation is it doesn't hit everyone equally. If you are a homeowner, if you own assets, inflation isn't good for you, but your assets inflate along with everybody else. But if you are not a homeowner, if you are a renter, if you are somebody who doesn't have significant assets, inflation is really clobbering you.

And let me tell you, in southeast Wisconsin, I hear it time and again, when I speak with our lower-income workers, and when I speak to seniors on fixed incomes—and so, we are here having, actually, I think, a good conversation about the importance of some of our Minority Depository Institutions, about community development work. Could you shine some light as to with this really high inflationary environment we are having due to monitory and fiscal policies that are running amok, the unique impact that that is having at some of our MDIs and CDFIs?

Mr. FAULKENDER. Congressman, you raised a very important point that I should have distinguished earlier about how inflation is different this time than it has been traditionally. We are operating in a 7½ percent inflation environment, while the fund's rate is at 25 basis points. So, think about that differential that is going on. You have anybody who is in any kind of fixed income assets, anybody who is taking kind of a safer approach for their investment profile and is only realizing less than 1 percent rates of return on their assets—

Mr. STEIL. That is our seniors on fixed incomes. That is a huge issue. But let's also talk about people who are struggling to get by. I think of a single mom with two kids who doesn't own her home currently; she is renting. She is paying $800 to $900 a month, and rent is going up, and her wages aren't keeping up. How does that impact that type of a person that a lot of our MDIs are directly interacting with on a regular daily basis, low-income workers, in particular?

Mr. FAULKENDER. It is low-income workers who are hit in particular, because they generally have less of a savings bump, or the difference between the 7½ price increases they are incurring, and the less than that increase in wages. And it is very much putting pressure on their budgets. They are having to cut back. When they can even find products that they are working for, they are having to reduce their quantities of them. And so, yes, there is then reliance upon local institutions, generally, for some kind of assistance. And yes, it is important that we have a diversity of financial institutions that conserve these needs. And let me also just stress the role that CDFIs and MDIs play in financial literacy.

Mr. STEIL. Being cognizant of time, this could be a great 5-hour conversation we are having, but I think it is really important. I think Congress needs to get our fiscal house in order. And I would like to see the Fed get some more monitory policy in order.

But let's jump because I had a great conversation—I served as the ranking member with Chairman Himes on the Select Committee on Economic Disparity & Fairness in Growth, and we held a hearing about banking the unbanked. And I think one of the most interesting things for me that came out of that was the percentage of Americans who now have a smartphone. And, in particular, it doesn't deviate as much with race, according to pure research, as it does with age. That study showed that while 85 percent of Americans have a smartphone, it was 83 percent for Blacks, and 85 percent for Hispanics. So a difference, but not a massive difference, if you will. And I am wondering if you could comment on how fintech could really help us bridge the gap to the unbanked?

Mr. FAULKENDER. Right. Fintech can bring down the cost of providing those services. The best experience of fintech arguably is overseas, where there is a much larger percentage of unbanked and underbanked, and similar cell phone penetration. You are seeing this shift in a number of developing countries to adopt cell phone-based technology to serve traditionally-underbanked communities that we can call upon if we—

Mr. STEIL. Mr. Faulkender, cognizant of the time, and I appreciate the dialogue, but, Madam Chairwoman, I will yield back.

Chairwoman WATERS. Thank you.

The gentleman from Colorado, Mr. Perlmutter, who is also the Chair of our Subcommittee on Consumer Protection and Financial Institutions, is now recognized for 5 minutes.

Mr. PERLMUTTER. Thanks, Madam Chairwoman. I would like to get into a debate with Mr. Steil and Mr. Davidson, but I will start with a question that is on topic for you, Ms. Urrutia.

In many cases, Community Development Financial Institutions are meeting the demand or small micro business lending demand where traditional financial institutions are not. This is a quote as reported by The Colorado Sun, from a small business borrower in Colorado who worked with a local CDFI after being turned away from traditional lenders: "The traditional lenders didn't really want to take the risk. There just wasn't collateral in it for them to take that risk. I tried to pull every card I could—I am a female, I am a minority, I am a veteran—but traditional banks did not want to look at us." And then speaking of a positive experience, she said, "It wasn't just money. The Colorado Enterprise Fund, the CDFI offered to help with marketing, offered to help with QuickBooks for accounting, and offered to help with getting our business plan together to make it stronger. They just gave us more support."

Ms. Urrutia, what makes CDFIs more able to make loans where other lenders take a pass? Uh-oh. She is frozen on my screen. Would anybody else like to take a shot at that?

Mr. SANDS. Sure, I could talk about it. I think the opportunities that CDFIs have or what CDFIs are leveraging is both the intentionality of working with those who might not be able to be in the mainstream credit. I think the other thing that we have talked about here is programs like SSBCI, which gives us an opportunity to take some of that risk and also leverage the opportunity to participate in credit enhancement and others to have some innovative credit products.

Mr. PERLMUTTER. Let's talk about that for a second, Mr. Sands. So, you or other organizations, can you come in and help a particular business or organization with their accounting—can you give additional assistance beyond what would be traditional banking?

Mr. SANDS. Absolutely. And that is—

Mr. PERLMUTTER. Do you?

Mr. SANDS. We do. We have a nonprofit affiliate called The Center, and we give one-on-one classes. Today, they are via Zoom. They used to be face-to-face and Zoom and also seminars. We teach everything from procurement, which is obviously a hot topic right now with the infrastructure bill, et cetera, to more specialization, which could be things like restaurant funding and different things like that.

Mr. PERLMUTTER. Let's talk about restaurant financing for a second.

Mr. SANDS. Sure.

Mr. PERLMUTTER. Because Mr. Hill said earlier that we we don't need the SBA anymore. We are really out of the emergency. In Colorado, we have a big hospitality industry. And Omicron hit the restaurant business again. Now, we are coming out of it. It was a quick, sharp spike, but it basically shut down the restaurants from Christmas until a week ago. We are expecting half of our restaurants to fail. It is the one area where we are really seeing some trouble. How can CDFIs and MDIs help the restaurant industry? And are you all doing that? This is to the whole panel. I will start with you, Mr. Sands.

Mr. SANDS. During COVID, what we talked to the restaurant industry about was insurance, how to handle their team members, how to look at their leases, other things that will be important that aren't exactly QuickBooks and how you borrow money, right? So, we gave them that fortification and the understanding of how they want to move forward.

Today, what we are talking to them about is, again, not only QuickBooks and financials, but we are talking to them about how they bring in the PPP, how they think about diversifying their business. It could be something like working with some of the DoorDashes, and the Uber Eats, and the different things to kind of modify their business, like getting a liquor license.

We are teaching them other things in addition to just the traditional financial principles. And they are very supportive of us helping them to grow their business. And we are also connecting them with other businesses. So, if you think about the manufacturing within a restaurant, where they can get their goods and services and other things, that has also been very helpful for the restaurateurs' tours that we have been advising.

Mr. PERLMUTTER. Okay. Thank you. And Madam Chairwoman, I would like us to have a hearing on inflation and the economy because we have a great economy. GDP is up more than it has been in 40 years, and unemployment is down, with 6 million people added to the job rolls.

Mr. Faulkender, I can tell you that Peloton failed to produce—they have a glut of stuff, with prices dropping. Purell has a glut of stuff, and prices are dropping. So, we are not in a typical scenario. And we have troubled industries, like the restaurant industry. This isn't an ordinary inflationary cycle. I have been through a lot of these. I am a bankruptcy lawyer. I will yield back.

Chairwoman WATERS. Thank you so very much. The gentleman from South Carolina, Mr. Timmons, is now recognized for 5 minutes.

Mr. TIMMONS. Thank you, Madam Chairwoman, and thank you for holding this hearing today.

Dr. Faulkender, I am going to begin with you. What type of financial institutions were most effective in helping minority-owned businesses obtain PPP loans? Were there any noteworthy patterns that we, as policymakers, should take note of?

Mr. FAULKENDER. In addition to CDFIs and MDIs that serve minority and underserved communities, the fintechs really stepped up. There is some academic research that has come out demonstrating that where some of the traditional banks may have underserved those communities, fintech has really filled that gap in order to help traditional unbanked borrowers gain access.

Mr. TIMMONS. Sure. Thank you for that. Were there any trends in MDIs and CDFIs providing PPP loans for existing customers, new customers, unbanked, to underbanked? Again, I think it is important for us to examine what worked and what did not work, especially given that a significant portion of PPP loans were set aside for these institutions.

Mr. FAULKENDER. Yes, my recollection is that the fintechs and the CDFIs did serve disproportionately minority borrowers. At the same time, as I recall from the data, the very largest banks served their clients pretty proportionately by the end of the program. It was really some of the smaller community—it was some of the smaller banks that saw some of the shift from them towards the fintechs during the PPP program.

Mr. TIMMONS. Sure. Thank you. I think how PPP played out within the eyes of the CDFIs should inform how Treasury administers the Emergency Capital Investment Program. But moving on to a different topic, staying with you, Dr. Faulkender, the White House seems to think that some of the economic data coming out recently has proved that their policies are working. Yet, consumer confidence has not been so low since 2011. And GDP growth forecasts for the first quarter of this year estimates less than 1 percent growth. The President claims he created millions of new jobs last year. But who in their right mind thinks people finally going back to the jobs they were forced to leave because the government posted lockdowns as job creation? These jobs, which are still a few million short of pre-pandemic levels, came back despite what the Biden Administration and Democrats in Congress have done, not because of anything they have done. And now, because of the extremely dovish acts taken by the Fed over the last year, coupled with the reckless spending we have seen in this past Congress, we are facing the highest levels of inflation we have seen in literally 40 years.

I did a little digging recently on how the Fed has responded to similar rises in inflation. I could not find an example in modern history where they successfully achieve a so-called soft landing and avoided a recession, while simultaneously avoiding—we have problems. I don't want to keep going on and on, but consumers and business owners have seen the warning signs in the last several months, but it seems my colleagues across the aisle are just waking up to the seriousness of the situation. Hopefully, it is not too late.

Mr. Faulkender, is inflation the primary culprit for the lack of confidence in the economy, or is it something else?

Mr. FAULKENDER. The Consumer Sentiment Survey that came in from the University of Michigan really pointed to two things: number one was the Omicron variant; and number two was inflation.

Mr. TIMMONS. And what are your thoughts on supply chain challenges? I can't help but think of the fact that people in California were getting paid $900-plus a week up until December 16th, and they are just now getting back to work. We have lines of cargo ships in the Pacific. We have people who are being paid more to stay home. And it is no wonder that shelves in South Carolina are—we are having trouble keeping them stocked. What role do you think supply-chain challenges play in the inflation that we are seeing today?

Mr. FAULKENDER. They play a significant role. The pandemic itself is going to challenge the supply chain, but when we have policies that then exacerbate those problems, then you get a delay in the realization of a return to normal. So, when you shock one particular manufacturing location due to, say, the pandemic, that is going to already create a delay. But then, when you have reductions in workforce participation, when you have truckers sidelined whether because they are making less working than they were paid on unemployment, or because you impose vaccine mandates, or some kind of other burden on them, that reduces participation, which is going to further elongate the delay in quantity. What happens in the interim? Prices go up on the products that you can find.

Mr. TIMMONS. Sure. Thank you for that. Madam Chairwoman, I yield back.

Chairwoman WATERS. Thank you. The gentleman from Florida, Mr. Lawson, is now recognized for 5 minutes.

Mr. LAWSON. Thank you, Madam Chairwoman, for calling this hearing today. It is a very informative hearing. And because of the way things have gone, one of the things I would like to say is I have heard many of my colleagues make reference to some of the spending that we did in this past year with inflation. But one of the things I hope they realize is that if we hadn't spent a lot of this money, many of our businesses would be lost forever. It was necessary that we reinvest in the economy to make sure that the economy could respond to this pandemic.

My question to the panel is—and anyone on the panel can comment on it—the ability to place small business loans with the Federal Home Loan Banks enables the lenders to make mobile loans with the funds prior from the Federal Home Loan Bank (FHLB). Under the Federal Home Loan Bank Act, only a small community bank under $1.2 billion can pledge small business loans to FHA Bank. Does this make sense to allow small banks' ability to use these loans to borrow it from the FHLB? Anybody on the panel can respond.

Mr. SANDS. Congressman Lawson, I brought this up in both my oral and my written testimony. I think we have a unique opportunity here for small banks, CDFIs, et cetera, to be able to pledge business assets. That is number one.

Number two, I think there is another opportunity here to be able to leverage guarantees, SSBCI and others.

And number three, I think there is a third opportunity here as we look at the credit rating within FHFA that flows down to FHLB in which CDFIs could be considered similar to banks, and/or we could create some type of credit enhancement to make them feel more secure. We know that the FHLBs have never lost money. And we are not looking for them to lose money. What we are looking for is an opportunity to be able to leverage FHLBs to provide lower interest rates and also more capital to undercapitalized communities. Thank you.

Mr. LAWSON. Any other comments?

Mr. BYNUM. If I can piggyback on that. I think CDFIs and MDIs, particularly mission-driven CDFIs, should have full access to the toolkit of resources that are available to any bank. We play an outside role in driving capital, providing tools that help people climb the economic ladder. And we should not leave these critical frontline financial first responders with one hand tied behind their backs. And so, whether it is the Fed window, the Federal Home Loan Bank, or the SBA, CDFIs should be a priority consideration as these programs are designed and have full access to them.

Ms. ELAM. And just to double down on that point, I think PPP is the perfect example of, when you don't utilize small lenders, or when they don't have set-asides or access in a way that would be helpful to communities, those communities aren't served. And so, what happened with PPP was that small businesses weren't able to participate in the program because those lenders that serve them had challenges as well. So, any way that you can make it easier for these small lenders to participate in programs is helpful.

Mr. LAWSON. And, Dr. Faulkender, in your analysis about inflation and where we stand now in investments that the Federal Government made in order to stimulate this economy, do you think from an academic standpoint, that we went in the wrong direction, or did it really help the economy from where we are today?

Mr. FAULKENDER. Thanks for that question, Congressman. I would differentiate between some of what we did early on in the pandemic versus what we had done more recently. I think that you would have pretty uniform agreement that the $3 trillion that we spent on the CARES Act was absolutely essential. Whether it was the various grounds of PPP funding, whether it was enhanced unemployment claims, we were looking at a 32-percent drop in annualized GDP in the quarter in which we had the depth of the pandemic recession.

We have been expanding since May of 2020. We have an unemployment rate that has been in the 4-percent range for a while. We have largely gotten our economy back open. And so, we don't need yet another round of fiscal stimulus when we already have an accessible amount of liquidity out there. What we need is for people to return to the workforce.

Mr. LAWSON. Your analysis, do you have any—I know what people are saying—why do you think people are not returning to the workforce?

Mr. FAULKENDER. I think part of it is that when they have as much liquidity as they have, there is less reason to be in the workforce. When they are paid more on unemployment than they make working, they have also delayed being in the workforce.

Mr. LAWSON. Madam Chairwoman, I yield back.

Chairwoman WATERS. Thank you very much.

The gentlewoman from North Carolina, Ms. Adams, is now recognized for 5 minutes.

Ms. ADAMS. Thank you, Madam Chairwoman. And let me say what a pleasure it is to be with you again. And I thank the ranking member as well for holding this hearing. And to our witnesses, thank you for your testimony. I want to briefly talk about the work that our committee and the Biden Administration is doing to uplift minority communities.

As part of our second COVID relief bill, Congress included $9 billion—billion, with a "b,"—for the Emergency Capital Investment Program (ECIP.) ECIP is historic, and it will be transformative for millions of Americans for whom access to capital is dependent on their MDI or CDFI, so, I would like to address some of you about ECIP.

Mr. Bynum, your organization is a CDFI and a credit union. Can you tell me what kind of impact the ECIP dollars will have on the communities that Hope serves, and what does that mean in terms of support for your organization?

Mr. BYNUM. Thank you, Congresswoman. ECIP is a game changer, we are hoping for other CDFIs. It took us nearly 14 years to grow to roughly $88 million. And in one injection, we are getting $88 million in capital that we can then leverage to grow to $900 million in deposits to drive into communities that have a much lower homeownership rate, where the businesses close at 40 percent compared to 20 percent for non-Black and Brown businesses. We are working to use these resources to work with Historically Black Colleges and Universities (HBCUs), with small towns led by people of color, and with inner cities to help them leverage some of the infrastructure dollars and drive them into those well-starved communities that need more infrastructure, need affordable housing, need healthy food stores, but don't have bank branches. And CDFIs are the only way that these dollars are going to get in. And then, we can bring Federal dollars and private capital from the Netflixs, and the Nikes, that are providing deposits that we are leveraging with the ECIP to help to improve conditions and close these capital gaps that have existed for centuries in these underserved communities.

Ms. ADAMS. Thank you. As a proud, two-time HBCU graduate, I certainly appreciate that. But let me ask you in terms of follow-up, do you believe that CDFIs that aren't banks or credit unions should be eligible for support from Federal programs like ECIP? Why or why not?

Mr. BYNUM. Absolutely. There are many, many more non-depository CDFIs. And so, we are relieving these vital assets on the sideline by not providing them with the similar type of equity capital that has fueled the depositories. These loan funds, these venture funds, these micro funds also need small balance sheets so that they can go to the banks, the Bank of Americas, the Citis, the Wells Fargos, and the Chases, and accept their debt. They don't give you grants at the level that we are talking about with ECIP. They will give you debt. And you can't take debt without the balance sheet support.

So, it is critical that we inject capital into loan funds and into these small credit unions as well that were not able to get ECIP. They need more ability to leverage these funds as well.

Ms. ADAMS. Thank you. Let me get another question in. Ms. Urrutia, your organization is a CDFI loan fund which was not eligible to participate in the ECIP program. If Congress were to fund a similar program, do you believe that CDFIs that aren't depositories should be eligible?

Ms. URRUTIA. Absolutely. The borrowers that we serve deserve the same opportunities as those of depository institutions. And these small business borrowers really face the same challenges, no matter who they are going to get their financial services from. ECIP or a similar program would allow us to offer extensive relief to small business owners, particularly, those who had been most impacted by COVID-19, and further allow us to continue investing in low-income communities. I mentioned earlier that we got part of the $3 billion. We got $1.8 million, and we were able to leverage that to $10 million in capital to help 650 new businesses.

So, this is very important, and we are pleased to be here today as a CDFI, having a seat at the table, and being able to share the importance and the impact of our work that we do with underserved communities.

Ms. ADAMS. Thank you so much, Madam Chairwoman. I am out of time, and I yield back. Thank you.

Chairwoman WATERS. Thank you very much.

The gentleman from Illinois, Mr. Casten, who is also the Vice Chair of our Subcommittee on Investor Protection, Entrepreneurship, and Capital Markets, is now recognized for 5 minutes.

Mr. CASTEN. Thank you, Madam Chairwoman, and I really appreciate all of our witnesses taking the time to testify today. And I hope this isn't overly intellectual, but I have this sort of trouble in my head in thinking about MDIs and CDFIs in the sense that we created these institutions to address the lower levels of wealth and lower rates of wealth creation in minority and disadvantaged communities, which is good. But we also created the circumstances that created those lower levels of wealth from racially-preferenced subsidized loans, blockbusting red line, and, of course, the whole parts of our ugly original sin that predated that.

And I don't share all that to go into a history lesson, but I find myself wondering when the issue that we have is that we preferentially subsidized equity, not racial equity, cash equity, and the accumulation of equity among non-marginalized communities in our country is the best tool always to provide debt to the marginalized communities. That is a big, meaty question. I get it.

But what I am wondering, and, Mr. Bynum, I will start with you, is, have you ever seen any good data, relative to total wealth? How indebted are the communities you serve? And are there tools that we could provide to help get those communities equity that you don't currently have? And I realize that is kind of open-ended, but it is intentional. I would love to hear your thoughts.

Mr. BYNUM. No, no, Congressman, I appreciate you driving there. I think you have to really acknowledge—and I appreciate your acknowledging the history that had created these conditions. And it goes back generations. If you look at a map of where you had the highest concentration of slaveholding, and where you have the lowest housing conditions, the worst education outcomes, or the fewest banks and the most payday lenders, they are largely the same areas. And these are in places where you have the highest wealth gaps—100 to one for a Black family with children, compared to a White family with children. So, layering debt onto them is not the solution. They need to be able to build equity in homeownership, and business ownership are the primary ways to accomplish that. Nothing closes those gaps more.

And CDFIs play a critical role in that. But right now, in this still weak economy—and I would love to have a conversation about the state of the economy, but it is still very fragile in many communities. And so, making sure that we don't just layer debt, but we layer flexible capital along with equity, and make sure people have the ability to support their families and their children, it is a combination of tools. It is not just debt. It is what it is putting them on a path toward ownership and building assets.

Mr. CASTEN. I guess what I am wondering is, at the end of the day, you are a bank. You are going to make money by loaning to people. I would love to see a world where we have a set of rules where you have a greater incentive to give somebody a scholarship than you do to give them a student loan, right? Because one of those creates equity, and one of them creates debt. I would love to see a situation where you have a greater incentive to help someone get out from under private mortgage insurance (PMI) rather than give them a mortgage. And maybe that is a Community Reinvestment Act (CRA) reform question, I don't know. But where within your business model could we provide you with tools to give people more accumulation of equity in the first instance, given that a lot of what I just described may feel more like charity than a business model?

Mr. BYNUM. No, and I acknowledge that our tool kit is limited as a regulated depository. Loan funds have more flexibility, but we are one piece of the ecosystem that is necessary to help these families and communities strengthen and climb the economic ladder. I also think it is really important to not vilify people for making smart decisions with some of these resources that have been made available to support their families. Full employment is our main goal, but we have 70 percent of Black Mississippians who don't earn enough to cover basic expenses, or they lose their jobs for 3 months. So full employment, if you don't earn a living wage, is not adequate. We need to help people earn more, and build wealth. And, again, we are a piece of the puzzle, but making sure that people have opportunities to build wealth is critically important.

Mr. CASTEN. Good. And, Ms. Elam, I was hoping to ask the same questions of you, but this clock is counting down, so maybe we can follow up with you off the record, so I don't eat into my colleague's time. But thank you all for your time, and I yield back.

Chairwoman WATERS. Thank you, Mr. Casten.

The gentlewoman from Massachusetts, Ms. Pressley, who is also the Vice Chair of our Subcommittee on Consumer Protection and Financial Institutions, is now recognized for 5 minutes.

Ms. PRESSLEY. Thank you, Chairwoman Waters. Thank you for convening this hearing. And thank you to our witnesses for joining us today. Our small businesses are what is in our neighborhoods, their character, and our families, their jobs. While it is not easy to run a small business, the sacrifice creates opportunity, freedom, and tradition as well.

Chairwoman Waters and Chairwoman Velazquez have been delivering for small businesses for decades. When I was on the Boston City Council, I fought to lift a cap on liquor licenses so that for the first time in decades, new, small, locally-owned restaurants could open in neighborhoods like Roxbury, Mattapan, and Dorchester. Unfortunately, decades of hard-won progress like this can be unraveled in an instant.

As a result of the COVID-19 virus, those same small restaurants that nourished my neighborhood have struggled. I once again found myself fighting for their very existence. With the rise of power and prevalence in multi-billion-dollar corporate companies, well-connected financial institutions and products, Congress must be precise and intentional about investing in small businesses, and Black-owned small businesses specifically, or else their doors will be the first to close and remain permanently shuttered. And yet, during the pandemic, many businesses applied for and waited on PPP funding that never came. Instead, billions of dollars went to large corporations and chains. And overwhelmingly, the majority of Massachusetts PPP recipients were White.

Mr. Bynum, following advocacy from your organization and many others, certain changes were made to the PPP program to better engage CDFIs and MDIs. Can you describe those specific changes and how they benefited Black-owned small businesses in your network?

Mr. BYNUM. Yes, Congresswoman, thank you. First, it was opening up the PPP program to participation by CDFIs. We were not on the first round, and the resources went to larger businesses, businesses that had long-term relationships with the banks, and ignored smaller businesses, smaller—and sole proprietors were not eligible to participate in the first round. That was changed, which opened it up, and CDFIs outperformed banks, quite honestly, in driving capital into the small, underserved communities and to minority businesses, and rural businesses. That was critically important.

I think the lessons from that also fueled the other recovery programs, the rapid response and the ECIP, which are driving resources more to mission-driven CDFIs. And I am glad that those lessons are being applied. All CDFIs aren't created equal, and so, making sure that you get the frontline institutions like minority depositories, community-developed credit unions, loan funds that are small but powerful in driving these resources has been critically important. And I hope we continue that going forward.

Ms. PRESSLEY. Thank you, Mr. Bynum. Again, I am grateful for your advocacy and that you raised your voice, and even more grateful that our Chairwoman Maxine Waters listened and heeded those calls and fought for those changes to be made. Certainly, CDFIs and MDIs are powerful opportunity-builders. One barrier to receiving financial and technical support for our Black-owned businesses that I have noticed is the lack of awareness of the resources that are available in the first place. It is not true that if you build it, they will come, if they don't know about it, specifically, those made available by our CDFIs and our MDIs.

Mr. Bynum, if the CDFI Fund is made easier for individuals, small businesses, and communities to locate CDFIs and MDIs, do you think that that would help Black-owned small businesses?

Mr. BYNUM. Absolutely. One of the things that we have seen is that Black banks and Black credit unions have shrunk dramatically over the past decade from the financial crisis. And so, it is essential that we stem that tide. The CDFI's programs are critical in making sure that happens. And it is not going to happen if those resources are not targeted in a way that benefits the communities that are hardest-hit, that are most financially-fragile. Again, small loan funds, small credit unions, and minority depositories, I think should be considered as priorities in investing CDFIs and Federal resources as we continue to climb out of this economic crisis.

Ms. PRESSLEY. Thank you, Mr. Bynum. And to the point that I raised a moment ago in terms of getting the word out, to any of the witnesses who would like to expound upon that, are there ways that Congress and government agencies can better raise awareness about CDFIs and MDIs and the capital and technical assistance that they provide?

Chairwoman WATERS. The gentlewoman's time has expired. But we would like you to get back to her directly with some responses on how to get the word out. Thank you.

The gentlewoman from Pennsylvania, Ms. Dean, is now recognized for 5 minutes.

Ms. DEAN. Thank you, Chairwoman Waters, for this hearing. And thank you to all of the experts who are here with us today. This has been really enlightening. In the CDFI space, what I wanted to talk about is an area that I think does not get enough attention, which is the important role that CDFIs play in providing financial and technical assistance to people with disabilities. People with disabilities face a range of financial challenges, often encountering barriers in securing traditional financial services. According to the National Disability Institute, the percentage of unbanked households is more than 3 times higher for households with an individual with a disability. When you also consider race, the numbers are even more staggering: 17.8 percent of Black households include someone with a disability, and a full 28.5 percent of those households are unbanked. Moreover, according to the National Disability Institute, over 20 percent of households with a disability have an unmet need for basic credit.

Given the financial challenges faced by households with a disability, CDFIs have a vital role to play, given the importance of CDFIs for ensuring that people with disabilities have access to credit. I have fought for targeted CDFI funding for financial and technical assistance for people with disabilities through something we have here in Pennsylvania, the Pennsylvania Assistive Technology Foundation.

Mr. Bynum, Mr. Sands, Ms. Urrutia, do your organizations have experience lending to people with disabilities? Can you speak to the importance of CDFIs in this space? How can we do better? And who is being left behind?

Mr. BYNUM. Yes, we do. And it also speaks to the point of CDFIs as part of an ecosystem. We partner closely with other organizations that provide appropriate assistance that is culture-appropriate, that targets the needs of those communities that we are trying to serve, including the disabled. And the access to flexible capital is critically important, because you cannot—again, as we were talking about earlier—layer unaffordable debt that these families cannot sustain given their particularly fragile financial position. You have to make it stretch out. You have to make it work for them, and a combination of debt and equity and grants are necessary. Flexible capital allows us to put the tools that CDFIs have to best use.

Ms. DEAN. Mr. Sands, did you want to add anything, or Ms. Urrutia?

Mr. SANDS. Yes, I would say we are doing similar to what Mr. Bynum said, and I will just add a couple of extra things. We also adjusted all of our online applications so they would have accessibility. As you know, that is a big tool whenever you are trying to go online and you are trying to leverage or be able to make the—a wet tool or technical application a little bit more accessible.

Now, the second thing we are doing is we are monitoring the data in which those who mark themselves disabled where they might be struggling with an application so that we can make our system more fluid for them.

And then the final thing I will say is that we also introduced some online education tools, which we believe are going to be pretty expansive in terms of getting the education out. Again, leveraging cell phones, which we recognize that these individuals do have for a variety of tools that they are obviously using as basic services in their own lives. Thank you.

Ms. DEAN. And Ms. Urrutia?

Ms. URRUTIA. Yes, some of the same. We have launched a call center that is available 7 days a week, 15 hours a day, cross times with bilingual customer care and ability to offer support in other multiple languages. And then, one-on-one coaching directly through partnerships that work with the community. For us, it is continuing to evolve, I believe, technology and flexible capital which Bill spoke about are going to be key drivers in better supporting the community.

Ms. DEAN. Thank you. And maybe one of you would like to answer this. As the COVID-19 pandemic continues to evolve, many small businesses have yet to recover. In your work, how has small business lending changed during COVID-19, and again, who has been left behind? And I say this knowing that I am proud that my district has the largest number of small business employees in all of the Commonwealth of Pennsylvania. Would somebody like to give 10 seconds to that?

Ms. URRUTIA. Sure. I will start. Underwriting has evolved significantly. Credit scores are no longer what they used to be. They don't give us the view of the future; they only tell us about the past. And we know the past is very different. And we see how additional data sources and technology-driven solutions have become significantly more important for small businesses and access to flexible capital.

Ms. DEAN. Thank you. I yield back.

Chairwoman WATERS. The gentlelady's time has expired. Thank you very much.

The gentleman from Massachusetts, Mr. Auchincloss, who is also the Vice Chair of the committee, is now recognized for 5 minutes.

Mr. AUCHINCLOSS. Thank you, Madam Chairwoman. I wanted to ask about incubators for small businesses, which are designed to help businesses in their earlier planning stages. And Congress, as I am sure our witnesses know, has a growing interest in small business incubators, including a billion dollars in funding to establish and uplift incubators to help entrepreneurs in underserved markets. That is included in the Build Back Better Act.

Lendistry and Accion Opportunity, you participate in lending to small businesses, including using SBA financing. Have your companies, either of you, had the opportunity to work with incubators or entrepreneurs in underserved communities that are members of incubators?

Mr. SANDS. I will go first on this one. I think we both have—we absolutely have. And the way we tend to look at this, Congressman, is we look at this is there is a continuum of capital that we must make sure that the small business has. Accion Opportunity Fund is more focused on kind of microlending, and we are looking at that next stage of capital. And the game plan is not only technical assistance and business abidance with the accelerator's offer, but also thinking about that capital path so that they could be job creators as well.

Ms. URRUTIA. I would just add that when you look at a lot of startups, they do not have revenue to demonstrate their ability to pay loans. And so, we always say that a loan is not a replacement for revenue. And many of these smaller businesses that we work with need equity, but there is really not a fully-developed equity market for the type of businesses that we are talking about here. In these situations, we try to work with them to find grants, and those are hard to find, but there needs to be a better-developed market for equity capital for these small businesses that have a longer-term view, as opposed to a view to get liquidity events.

Mr. AUCHINCLOSS. That must be challenging, because unlike in the venture software industry, for example, there is the potential for uncapped upside. And so, equity is an attractive investment. For a small business incubator, that has to be a more challenging market to set up. Do you have any advice for Congress as we look at these uplift incubators for how we can attract equity, knowing that this is for small businesses?

Mr. SANDS. My suggestion would be some of the things that you have already put into place as you think about procurement, Build Back Better, and you think about the infrastructure bill. Naturally, we know that minorities have a tendency to focus on service-oriented businesses. However, I think there are also opportunities for them to expand beyond leveraging either technology resources that you somewhat described, but also, opportunities for larger contracts where they can get bonding, insurance, et cetera, that these accelerators are also helping them with. I think the ability to grow revenue overall will lead to more venture capital money. And so, if we can find ways to get them into components which drive revenue or opportunity for revenue, there are some huge opportunities there for the capital to flow accordingly.

Mr. AUCHINCLOSS. Yes, and to be clear, the goal for a lot of these businesses is not necessarily venture capital investment. That is a very specific niche type of business. And we want a whole flourish, an ecosystem of small businesses, some of which are service-oriented and aren't going to have either venture scale chances to fail frankly, but also, venture upside, and that is perfectly appropriate.

Both of you have emphasized that customer acquisition is really the key. Loans and grants are great, but they are not revenue. Procurement help with the government as a customer makes a lot of sense to me. Are there other important ways that small-business entrepreneurs in underserved communities can get help in accessing those first couple of key customers that you have seen really work?

Mr. SANDS. I think if you double down on the strategy of having government contracts be accessible, speedier pay or faster pay, when a government contractor is available. I would also encourage you to look at the Small Business Investment Compnay (SBIC) program. There has been some conversation about making that a better entry process for CDFIs, mission-aligned venture capitalists, et cetera. And I know I am using the venture capitalist, but just generally, investors. And I will pause there in case Ms. Urrutia has anything to add.

Ms. URRUTIA. Yes, the SBIC program at the SBA, I believe, already does that.

Mr. AUCHINCLOSS. In a previous hearing, we discussed, and I had raised the accounts receivable payback time from the Federal Government. Do you ever hear any of your businesses complain about the amount of time it takes for Feds to pay their bills?

Mr. SANDS. In a simple word, yes. But I do believe that there has been some great progress lately in that.

Mr. AUCHINCLOSS. Madam Chairwoman, I yield back. Thank you.

Chairwoman WATERS. Thank you very much. The gentleman from Illinois, Mr. Garcia, is now recognized for 5 minutes.

Mr. GARCIA OF ILLINOIS. Thank you, Madam Chairwoman, for this important hearing today, and thanks to all of the witnesses. You know, 26th Street in the neighborhood of Little Village in Chicago is one of the most vibrant commercial areas in the country. Small businesses—restaurants, beauty salons, grocery stores, bars—primarily owned by immigrants, sustain a rich economy. But when the COVID-19 pandemic hit, even strong businesses that have been around for decades were worried. Many didn't have relationships with existing banks or the Small Business Administration. And that is where CDFIs like The Resurrection Project and Allies for Community Business stepped in.

CDFIs and MDIs have proven their value. They strengthen and promote economic opportunity for underserved working-class communities like the ones I represent in Chicago and Cook County. They were a lifeline to immigrant small businesses when disaster struck in 2020. But it is imperative that we make the necessary investment to support these institutions that are vital to helping families recover and prosper in our economy.

Ms. Urrutia, during the COVID-19 pandemic, Latino small businesses were hit particularly hard, and we know they could not access PPP funding at the same rate that other business owners did. What needs to be done to reach the Latino community? I heard it every day in my neighborhood. Do you think traditional lenders did a good job in providing Spanish-language access to businesses during the COVID-19 pandemic?

Ms. URRUTIA. I think that every financial institution, large financial institutions, many of them announced that they have servicing in Spanish, but it is really very basic. I think we need the recognition that the Latino community is rapidly growing, and it is one of the fastest-growing populations in the U.S., and Spanish-speaking populations in general are one of the most underbanked communities in this country.

In our roots, we are headquartered in California, so our expertise lending to Latino-owned businesses goes back several decades. And what we have found is that the service in what Spanish-speaking customers need, spans all the way the spectrum of lending products, technical assistance, and how to. As a result, we have launched—I mentioned a call center, and it is open 7 days a week, in Spanish, to help customers through the entire application process, to provide the support of coaching, webinars, and technical assistance in their language because that is how they feel comfortable interacting. And that is how you get to build trust with the community. I think that is a very important component for anybody who is going to address this community to engage and have culturally-competent engagement actions with the community.

Mr. GARCIA OF ILLINOIS. Thank you for that. Mr. Sands, how can the Small Business Administration be more responsive to businesses that don't have a traditional banking relationship? And do you think that changes that Congress made to broaden access to PPP loans will have permanent benefits?

Mr. SANDS. Yes, absolutely. Thanks for the question, Congressman Garcia. I think that, essentially, Congress has always had this army, the mission-based lenders. And the mission-based lenders, as you heard Mr. Bynum say, have kind of fought with one arm behind their backs. PPP was one of the first times there were changes made in policy to allow for them to have forward deployment, whether it be the PPPLF facility, some changes in SBA, or the ability for us to lend nationally. These are things that I think we have an opportunity to not wait for the next pandemic and to keep moving forward on, in addition to Congressman Cleaver's bill in terms of lowering the CDFI bond guaranteed entry level. I think there are many, many opportunities here for Congress to say, let's look at what was successful, and let's continue going regardless of whether or not there is a pandemic.

Mr. GARCIA OF ILLINOIS. Thank you. And Dr. Faulkender, there is no question that inflation is a challenge to our small businesses, but raising the interest rate can have unintended consequences. If we slow down our economy, and my neighbors have less money, small businesses will suffer too.

Dr. Faulkender, when the Fed raised interest rates in the past, what impact has this had on small businesses in working-class communities like mine, and has it hurt their ability to borrow? You are going to run out of time. I have about 15 seconds.

Mr. FAULKENDER. There is a tradeoff to raising interest rates in that you are going to benefit savers, but anybody who is in a credit position is going to pay a higher cost for it. But to the extent the price stability is an important mandate of the Fed, it is important that they use their tools to keep prices in check.

Mr. GARCIA OF ILLINOIS. Thank you.

Madam Chairwoman, I yield back.

Chairwoman WATERS. Thank you. The gentlewoman from Texas, Ms. Garcia, who is also the Vice Chair of our Subcommittee on Diversity and Inclusion, is now recognized for 5 minutes.

Ms. GARCIA OF TEXAS. Thank you, Madam Chairwoman, and thank you to all of the witnesses. I know it has been a long hearing, but the end is in sight. We are near the end of the questioning, and it is always really great to see people who are so willing to be here, interested in providing so much information, because I have really learned a lot today.

Madam Chairwoman, it is important to make note that low-income Latinos are disproportionately impacted by an inequitable financial system. The FDIC estimates that 30 percent of Latinos, many of whom are Spanish speakers, don't have a bank account or use alternative financial services. Lots of community banks have already adopted practices that make it easier for Spanish-speaking populations to use bank products. For example, many of them do employ bilingual staff or they translate materials in Spanish.

However, adopting this program is not enough. It is a great first step, but we need to make sure that they also get into planning and give some careful thought to how they do this for our Spanish-speaking community and, frankly, other communities who have language barriers.

The technical assistance program with the CDFI Fund is the perfect tool to ensure that grant recipients have the resources they need to thoughtfully set up language barrier services. Bolstering the technical assistance program to include training and resources could build upon CDFIs' existing capacity to serve Spanish-speaking populations.

Ms. Urrutia and Ms. Elam, my question to you is, you heard my compadre, Mr. Garcia of Chicago, talk about some of these barriers. It is not enough to just go to Google Translate and translate materials, if people go home and don't really understand them. Or some banks and some companies provide the loans, but there is somebody else who services the loans, who then starts sending them everything in English.

What could we do more in terms of the technical assistance, in terms of funding? And can you be specific of what else people should be doing other than just providing materials in Spanish?

Ms. URRUTIA. Sure. Just to comment on the technical assistance program offered by the CDFI Fund, we do not apply for it. It is a very small program. We applied for the financial assistance program award, and you cannot apply for both. The technical assistance, I believe, is $125,000.

But I think that the most important thing here is that these awards need to be allocated more proportionately, according to the organization size and the impact and the value that they bring to the communities, and lending and technical assistance. For example, CDFIs that have drastically different portfolio slices generally are awarded the same amount as CDFIs in the financial assistance program and the technical assistance program.

It would be prudent and really more impactful to allow for more funding to organizations that really wish to scale their lending and/or their technical assistance and can provide projections and prove portfolio and customer growth.

To your second question about what can be done, the trust needs to be built by getting to know the customer. Not every Latino customer is created equal. They all have different situations and circumstances and needs. And I think it is incumbent for any lender or provider of financial technical assistance to really meet the customer where they are and to be able to design specific solutions, products, and coaching that meet the needs of that business owner at that moment in time.

Ms. GARCIA OF TEXAS. Ms. Elam, would you care to add anything?

Ms. ELAM. Yes, I think Ms. Urrutia hit the nail on the head in terms of knowing your customer. I think you have to really know your customer in order to provide products and services that are responsive to their needs, as well as materials that are responsive to their needs.

One of the things that I can say is when I think about my Hispanic banks is they are very intentional about working with their partners to ensure that their partners understand that. Whenever they are creating a new partnership with a fintech or a government agency, they are very intentional in making sure that their partners understand the uniqueness of the demographics that they are serving.

Ms. GARCIA OF TEXAS. Right. And what about the contractors that you may use? I belong to a credit union, but I have always had problems with the folks who service the mortgage. I don't want to get into war stories, but they don't provide everything in Spanish, and that is where the problems begin, because that may lead to misunderstandings, delinquencies, and maybe even repossessions, depending on what they want.

Chairwoman WATERS. Thank you very much. The gentlelady's time has expired.

Ms. GARCIA OF TEXAS. I yield back, Madam Chairwoman.

Chairwoman WATERS. Thank you.

The gentlewoman from Georgia, Ms. Williams, who is also the Vice Chair of our Subcommittee on Oversight and Investigations, is now recognized for 5 minutes.

Ms. WILLIAMS OF GEORGIA. Thank you, Madam Chairwoman, and thank to you all of our witnesses who have waited until the very end today.

When marginalized communities can access capital, we can help secure the promise of the American Dream for all of us. And today, I would like to focus on the impact that lending from mission-driven financial institutions can have on solving the affordable housing crisis in this country. In metro Atlanta, we only have 29 affordable and available housing units per 100 extremely low-income households. The national average of 37 isn't much better. And we can't afford to not make big investments in building and updating our nation's affordable housing including by empowering mission-driven financial institutions focused on housing.

As a CDFI in my district, the Atlanta Neighborhood Development Partnership Loan Fund has financed thousands of affordable housing units through the years.

Mr. Bynum, how can we encourage more existing mission-driven financial institutions to make affordable housing production the focus of their lending?

Mr. BYNUM. Thank you, Congresswoman.

This is so important. As I mentioned earlier, nothing closes the wealth gap more than housing and ownership, business ownership, home ownership. Home ownership perpetuates business ownership. It yields equity and you can do things and you can invest in entrepreneurship.

I think I also appreciate your distinction of mission-driven CDFIs, ones that are actually going to drive capital into the communities that have not been able to get a mortgage loan from traditional financial institutions or developers that need financing to build affordable, quality, rental housing. And that is where CDFIs come into play.

I think, again, building on the work that you have done, let's finish the job. Let's continue and sustain programs like ECIP and drive them to not just banks and credit unions but loan funds as well, and let's bring HUD into the picture. Down payment assistance is critically important. You cannot—we have 100 percent down payment products. That is something that we choose to do because it helps us to drive 80, 90 percent of our loans to first-time home buyers, to minority and women borrowers. But down payment assistance will be critically important as well as making sure that CDFIs have the capital to provide the financing that these homeowners and developers need to provide the services that you described and that are so important.

Ms. WILLIAMS OF GEORGIA. And, Mr. Bynum, no place is this more evident on the need to close the racial wealth gap than Atlanta, which unfortunately leads the nation with the largest racial wealth gap. So, we clearly have our work cut out for us.

In 2020 alone, CDFI dollars financed 50,000 new affordable housing units. However, when we are looking at a deficit of nearly 7 million affordable housing units across the country, we know that we still have a lot of work to do.

Mr. Bynum, what kinds of changes or resources would it take to expand the number of mission-driven financial institutions, funding the development of affordable housing in a way that better meets existing need?

Mr. BYNUM. I think, again, more capital. You have members of Ms. Elam's association that are banks, that are ready to grow if they have the capital. It's the same thing with credit unions. NeighborWorks America—the organization you mentioned is a part of NeighborWorks America, which drives grants to help them build their capacity. I think Mr. Sands is a great example, as well as Ms. Urrutia's organization, of how fintech, properly targeted, can help expand the deployment capacity of CDFIs.

I think also making sure that we use the tools that exist to hold banks accountable, as well as CDFIs. The Community Reinvestment Act, and the Fair Housing Act, have been under attack. And we need to make sure that those are shored up and that we ensure accountability in the deployment of capital that is supported by the Federal Government. We can't have CDFIs that widen the capital gap or banks that widen the capital gap. They have to be held accountable to deploy capital in a way that ensures access to everybody, regardless of their race, gender, or place of birth.

Ms. WILLIAMS OF GEORGIA. Mr. Bynum, when mission-driven financial institutions are best-positioned to invest in community assets like affordable housing and extend mortgage credit to borrowers of color, they can address longstanding economic inequities that impact people who look like me.

You made several recommendations about how to best position mission-driven financial institutions to close the racial wealth gap. And if these are implemented, how would you characterize the impact that these financial institutions could have on closing the racial wealth gap?

Mr. BYNUM. It would be transformative. I also would encourage us to use Fannie Mae and Freddie Mac to drive them even more in this direction. They play a critical role, but it will transform this economy and make us the more perfect union that we say we want to be.

Ms. WILLIAMS OF GEORGIA. Thank you, Mr. Bynum.

And, Madam Chairwoman, I yield back.

Chairwoman WATERS. Thank you very much.

Do we have any more Members on the platform? If so, now is the time to identify them. We are about to close out this hearing.

If not, I would like to take a moment to thank our witnesses for their testimony today. Your testimony here today will help me and the members of my committee keep our MDIs and CDFIs from being overlooked. And we will not only, not overlook them, we are here to make sure that we understand the capital needs, to make sure that there is cooperation with fintech, and to deal with all of those issues you have identified, whether it is CRA, or other kinds of issues. We are now focused. And we now have the opportunity to correct some of the ills that have been present for so long, dealing with financial institutions such as our MDIs and our CDFIs.

The Chair notes that some Members may have additional questions for these witnesses, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

I thank you all so very much, and this hearing is adjourned.

[Whereupon, at 3:17 p.m., the hearing was adjourned.]

A P P E N D I X

February 16, 2022

Testimony of William J. (Bill) Bynum
Hope Credit Union / Hope Enterprise Corporation/ Hope Policy Institute

Before the United States House Financial Services Committee
February 16, 2022

"An Unprecedented Investment for Historic Results: How Federal Support for MDIs and CDFIs Have Launched a New Era for Disadvantaged Communities"

HOPE (Hope Credit Union / Hope Enterprise Corporation/Hope Policy Institute) is a Black- and women-owned Community Development Financial Institution (CDFI) credit union, a CDFI loan fund, and a policy and advocacy organization. HOPE serves Alabama, Arkansas, Louisiana, Mississippi and Tennessee – a region that is home to over a third of the nation's persistent poverty counties, most of which are rural.

HOPE was established to ensure that all people regardless of where they live, their gender, race or place of birth have the opportunity to support their families and realize the American Dream. Since 1994, HOPE has generated over $3.6 billion in financing and related services for the unbanked and underbanked, homeowners, entrepreneurs and small business owners, nonprofit organizations, health care providers and other community and economic development purposes. Collectively, these projects have benefited more than 2 million individuals throughout the Deep South.

Of HOPE's 35,000 credit union members, sixty-nine percent (69%) have household incomes below $45,000 and eight out of 10 are people of color. Our branches are located in areas with less public, private and philanthropic investment, with 86% in counties where the majority of the residents are Black. More than 85% of HOPE's branches are in high poverty census tracts, and in many places, HOPE is the only depository with a local branch. HOPE's staff, management and governance reflect the places we serve. People of color comprise roughly 68% of HOPE's workforce, 60% of management and the majority of HOPE's governing boards. Similarly, 72% of HOPE's employees and 60% of management are women.

Through multiple recessions, natural disasters, the Housing Crisis of 2008 and COVID-19, HOPE has worked closely with government and bank officials to forge policy and programmatic responses to the challenges facing historically underserved people and places.

In normal times, and more so during times of crisis, HOPE has been guided by a simple premise: when afforded opportunity and access to the right tools, people can climb the economic ladder. Mission-focused Community Development Financial Institutions (CDFIs) and Minority Depository Institutions (MDIs), like HOPE, are on the frontlines providing vital tools and opportunities to people and communities far too often neglected by traditional banks, credit unions and even some CDFIs.

In my testimony today, I will highlight the transformative potential of the recent investments in mission-focused CDFIs and MDIs, and why ongoing and increased investment must continue.

Responding to COVID-19: Preserving Ownership and Opportunity

As COVID-19 bore down on the economy, HOPE responded by supporting financially fragile and neglected small businesses, homeowners and local governments. Anchored by federal investment and recovery policies, as well as a mix of private and philanthropic support, the following examples demonstrate ways that HOPE and other MDIs and CDFIs with a strong history of reaching underserved communities, are well-positioned to not only fill financial service gaps during times of crisis, but to also make strides in closing longstanding disparities that limit opportunity for people of color and other historically underserved people and places. This section provides examples related to small business ownership, homeownership, and community investments.

Small Business Ownership

As COVID-19 upended lives and the economy, it quickly became clear that federal responses like the US Small Business Administration Paycheck Protection Program (PPP) were not adequately designed to meet the needs of Black, Indigenous, and other business owners of color. Not only did PPP rely on traditional banks as the primary delivery system, but sole proprietorships, which nationally account for more than 90 percent of all Black businesses, were ineligible in the program's initial phase. These and other structural inequities devastated already undercapitalized entrepreneurs of color, and Black businesses suffered an initial closure rate of 40% and Latino businesses, 37%, compared to 17% for white-owned businesses as a result.[1]

HOPE was a leader in organizing CDFIs, MDIs and others to successfully advocate for modifying the PPP program in several aspects, including serving sole proprietors, reducing barriers for CDFI loan funds, and dedicating PPP funds to be deployed by CDFIs and MDIs. Consequently, HOPE made 5,216 PPP loans—89 percent to borrowers of color and 50% to women. The average amount of these loans was a modest $26,814, over $40,000 less than the program average nationwide. Of HOPE's $140 million in PPP lending, 98% of the loans were for amounts of less than $150,000 (in contrast to half for the program overall). Over 3,500 loans were to sole proprietorships (this is notable given that 96% of Black owned businesses in the Deep South are sole proprietors). In a normal year, HOPE makes roughly 50 business loans totaling $40-50 million.

The experiences of many businesses served by HOPE and other mission-based lenders reflect the realities of large swaths of small businesses that are neglected or underserved by traditional financial institutions. Several Black-owned HOPE PPP borrowers expressed frustration with mainstream financial institutions offering PPP loans, including those with whom they already had a banking relationship. For example, a Black dentist reached out to a bank with whom she had an existing relationship, but the bank never called to check on the application and the PPP request was never originated, much less funded. The dentist subsequently applied with HOPE which approved her $12,000 PPP loan. HOPE also approved a $7,200 loan for a 27-year-old Black-owned barbershop in New Orleans after the owner received no help from his bank of 31 years. Notably, the bank is one of the largest in the country and has major obligations under the Community Reinvestment Act. A Black female entrepreneur in Memphis, Tennessee recounted, "I'm sitting in my own bank's drive-through and the employee working the window told me to go to Hope Credit Union because he'd heard HOPE would make it easy for me to apply." Of note, is that her bank was one of the five largest banks in the country and one of the most active PPP lenders over the life of the program. Such stories were constant throughout the PPP lending process — an unfortunate reflection of a banking system that has historically failed people of color and low-income communities.

The scale and impact of HOPE's PPP lending was made possible by the aforementioned advocacy efforts, by a reservoir of trust, expertise and alliances built over nearly three decades, and by a Goldman Sachs credit facility. Another key factor was the use of technology to enhance our ability to rapidly process a large volume of applications during the first round of PPP. It is important to note that while technology was helpful, capital, sound policies, and local credibility and relationships were all essential to achieve deep impact lending in historically underserved communities.[2]

HOPE has built on this success by attracting new support from dozens of corporations such as Netflix, PayPal and NIKE, and from hundreds of individuals who are looking to advance racial equity and close opportunity gaps – a moment that would not have been possible without the injection of federal resources designed to improve conditions in economically distressed places like the Deep South.

Homeownership

HOPE fills mortgage lending gaps through products and practices designed specifically to mitigate the challenges facing low-wealth borrowers and communities, and to close the racial wealth gap. This approach includes manually underwriting loans, considering nontraditional indicators of credit repayment history, and discounting medical debt and deferred student debt. In addition, we offer a 100% loan-to-value product, as many low-wage earners have the cash flow for a monthly mortgage payment, but lack the ability to save for a down payment. HOPE's current mortgage portfolio is majority people of color, primarily Black borrowers. In 2021, 90% of HOPEs mortgage loans went to minority borrowers and 87% were to first time homebuyers. Notably, the portfolio performs well over time, with a charge off rate of less than 10 basis points.

The racialized impacts of the pandemic have taken a toll on HOPE's homeowners. In June of 2020, over a quarter of HOPE's mortgage loan portfolio was in forbearance. For context, the national rate of mortgages in forbearance was 8.55% at the same point in time.[3] As of the end of 2021, 3.6% of HOPE's borrowers remained in forbearance or deferment – more than twice the national rate of 1.41%.[4] While HOPE's borrowers are in forbearance and deferment, HOPE continues to make escrow payments on borrowers' behalf.

Community Investments

CDFIs and MDIs located in and close to historically underserved communities build upon the leadership and vision of local residents. In so doing, these institutions adapt to and address community needs, both as they change over time and in times of crisis. HOPE has formalized these relationships through efforts like the Hope Community Partnership, where HOPE serves as an economic and community development intermediary for a network of small rural towns; and the Deep South Economic Mobility Collaborative, a consortium of Black-led cities and Historically Black Colleges and Universities (HBCUs). Through these partnerships, HOPE has gained deep insight into the pervasive impacts of underinvestment in these communities, and works to draw attention and organize resources that address needs identified by local leaders.

For instance, in 2020, many state CARES Act programs for local governments required expenditures for reimbursement, a model that is commonplace for disaster relief aid. Communities with small budgets, however, often do not have the "up-front" funding required to provide assistance and then later be reimbursed. This was true for the 2020 CARES Act Coronavirus Relief Fund as small, rural, low-income towns and communities of color, such as those in the Delta regions of Louisiana and Mississippi, and the

Alabama Black Belt, where already weak economies were now further ravaged by the pandemic, lacked the resources needed to pay for personal protective equipment (PPE) and other vital pandemic-related needs. In Louisiana, HOPE's research showed that, due to this reimbursement model, majority people of color parishes that are also rural and areas of persistent poverty received only a third of the funding allocated to them, where as their white counterparts received 74%.[5] In dollar amounts, rural, persistent poverty, majority people of color parishes only received 6.9% of similarly situated white counties.[6]

In response, HOPE provided a range of technical assistance and financing support that enabled local governments to access the state-administered CARES Act funds. In Alabama, HOPE partnered with the Black Belt Community Foundation to establish a loan program that advanced towns up to $50,000 in recoverable grants, which were repaid when the towns were reimbursed by the state. This partnership, supported by local philanthropic partners, channeled $1 million to 23 Black Belt communities. In one town, the $24,000 recoverable grant was roughly half its annual budget, an amount that would have been impossible to outlay for reimbursement. Even with this model in place, several eligible towns still did not receive all that was needed.

Rapid Response Grants and the Emergency Capital Investment Program: An Update on Recent Funding to CDFIs and MDIs to Expand Reach into Underserved Communities

In December of 2020, Congress appropriated an unprecedented level of resources for CDFIs to respond to the economic crises existing prior to and exacerbated by the pandemic. The following section provides an update on HOPE's use of and plans for both programs.

Rapid Response Grant Program

The Rapid Response grant program served as a critical source of capital to stabilize homeowners and small business owners of color. To date, HOPE has deployed a majority of its award with plans for it to be fully lent out within 12 months of receipt. Examples of how we put this program to use included working capital for a Black-led nonprofit that provides mental health services in Memphis, TN and financing for a Black-owned video production company to revitalize a building in a distressed Jackson, MS neighborhood to fuel its expansion and provide space for other entrepreneurs.

Importantly, the Rapid Response program provided lessons to be considered for CDFI Fund program design. Smaller CDFI loan funds, community development credit unions, rural and minority lenders were all well-represented in the awards.[7] Unlike previous award programs, this approach deployed funds quickly to organizations on the front lines of the economic crisis. Commendably, within six months of being authorized by Congress, $1.25 billion had been moved into CDFIs to support communities. As such, administration of the Rapid Response Grant Program serves as a model for future crises.

Another promising practice was the announcement of Rapid Response award recipients along with amounts and MDI /Native CDFI designations.[8] While the MDI designation does not extend to CDFI loan funds led or controlled by people of color, the publication of award amounts by these designations is a practice the CDFI Fund should continue in future award announcements across all program lines.[9] Because Rapid Response awards were published with this information, it is possible to assess the distribution of the awards along racial equity lines.

Even with the successful deployment of the dollars, there are still opportunities to further advance the equitable distribution of funds to support historically underserved communities. Nationally, HOPE found that the distribution of Rapid Response dollars was proportional to the percentage of CDFIs that are also MDIs. CDFI MDIs represented 10% of CDFI awardees and likewise received 10% of the funds awarded. Even though the funding was proportional, more is needed to ensure that the resources address the greatest need, or in this case, where the health and economic impact of COVID-19 was the most severe.

Examining distribution of Rapid Response program funds in the Deep South provides clarity on why improved targeting is needed for future funding. Only six CDFI MDI depositories received an award, totaling $6.9 million of the $261 million awarded in the region. This means only 3% of the funds went to a Minority Depository Institution in a region of the country where over 32% of the population is a person of color. As discussed further herein this testimony, this means that the vast majority of Rapid Response award funds in the Deep South went to CDFIs with poor records of serving people of color.

Emergency Capital Investment Program

Without question, the Emergency Capital Investment Program (ECIP) was historic. However, more is needed to address the challenges faced by underserved communities. For HOPE, the groundbreaking investment will dramatically increase our impact in underserved Deep South communities. Over the next six years, HOPE estimates that the investment will allow the organization to double its annual consumer, mortgage, small business and commercial lending, serve over 33,000 homebuyers, entrepreneurs and households of color, and gain efficiencies that fuel continued growth and deeper impact.

The creation and deployment of ECIP incorporates lessons learned from the Great Recession, by taking into account to the track-record of CDFIs and MDIs in service to communities hardest hit by COVID-19. This type of mindful targeting was absent during the Community Development Capital Initiative (CDCI), created in 2010 to "to help viable certified CDFIs and the communities they serve cope with effects of the financial crisis."[10] CDCI's design resulted in scores of financial institutions in low-income areas becoming CDFI-certified. As a result, Mississippi now has the most CDFIs in the country. However CDCI was administered in a way that failed to ensure that federal investments would benefit the people and communities most harmed by the foreclosure crisis. Consequently, the 13% rate of mortgage lending to Black mortgage applicants by the state's CDFI banks is lower than the 17% overall HMDA reported lending by in the state. As such, HOPE applauds Congress and Treasury for including a participant's track-record in serving the most economically distressed people and communities as a meaningful factor in informing the allocation of ECIP resources.[11]

Reflecting on the design and rollout of the program, several points are of note. First, ECIP only reached depository institutions, meaning CDFI loan funds, a large number of which serve communities of color and persistent poverty communities, were unable to benefit from this major source of long-term capital. Congress and Treasury should examine ways to ensure that loan funds have access to the equity capital needed to support the hardest hit communities. Second, fair treatment across CDFI types should be addressed in program design, including coordination among federal regulators. In ECIP, it was critical that NCUA determined that credit unions could utilize the ECIP resources for the full-term allowed by Treasury, thus ensuring CDFI credit unions would have the same opportunities as their bank counterparts.[12] This determination was key to furthering racial equity in the program's implementation.[13] Notably, there are 518 MDI credit unions compared to 146 MDI banks. Similarly, in the initial implementation of the Paycheck Protection Program, the Small Business Administration erected higher barriers to entry for non-depository lenders, which disadvantaged CDFI loan funds, [14] a significant number which are led by and have high levels of service to people of color. Eventually, SBA opened the program to CDFI loan funds, thus enabling them to provide PPP loans to thousands of small businesses that were otherwise shut of out the $800 billion relief program.[15]

As ECIP continues, ensuring accountability for the deployment and repayment of the funds will be key to ensuring the program investments are used as Congress intended.[16] This accountability extends to ensuring that CDFIs and MDIs with strong records of reaching the hardest to serve communities do not face less advantageous repayment terms than CDFIs with historically lower-levels of impact.[17] For example, financial institutions that increase their lending to targeted communities from 10% to 30%, while important, benefit from a lower ECIP interest rate than institutions that have historically demonstrated higher rates of lending to distressed populations. ECIP guidelines have correctly moved to mitigate this outcome by incorporating a “deep impact lending” framework allowing “CDFIs and MDIs to do more challenging types of lending to more underserved target communities without experiencing a disincentive in the rate-reduction structure that could otherwise arise, in light of the fact that deep impact loans can be more time-consuming and burdensome for a lender to make than other types of loans.”[18]

Additionally, we look forward to continued progress on implementation of the $1.75 billion under the Emergency Support and Minority Lending Program, to fulfill the promises of the Consolidation Appropriations Act of 2021. We applaud Congress for enacting this vitally important program to ensure that communities hit hardest by the health and economic impacts of COVID-19 have the opportunity to thrive in the post-pandemic recovery.

Fueling the Impact of MDIs and CDFIs with Track Records of Reaching Underserved Communities

Hopefully, these historic investments underscore the importance of and make the case for appropriate resourcing of CDFIs and MDIs, particularly those with strong track records in reaching historically underserved communities, such as communities of color and persistent poverty areas. Importantly, it is not just the amount of resources that matter, but also having accountability measures in place to ensure scarce federal investment dollars are flowing in a way that closes existing wealth gaps rather than widening them. Key to this strategy is the provision of resources that are both flexible and targeted for use by CDFIs and MDIs with a history of serving communities of color and other underserved communities such as persistent poverty areas. The outsized contributions of mission-focused CDFIs and MDIs to an inclusive recovery underscores the importance of increased and targeted investment by banks, private industry, philanthropy, and government to fortify this vital segment of the financial system.

Evidence of Impact of MDIs and CDFIs

In 2019, the FDIC released a report on the structure, performance and social impact of MDIs.[19] The report found that MDIs are a proven way to advance economic mobility in Black communities. An estimated six out of 10 people living in the service area of Black owned banks are Black, in contrast to six out of 100 for banks that are not Black-led. Moreover, Black owned financial institutions originate a substantially higher proportion of mortgages and small business loans to Black borrowers than non-minority financial institutions. While a comparable analysis has not been conducted for MDI credit unions, one could extrapolate from the FDIC analysis the same conclusion.

Further evidence of impact comes from coalitions of CDFIs with significant experiences in serving historically underserved communities. For example, the African Alliance of CDFI CEOs consists of "56 Black-led community development financial institutions (CDFIs) committed to the support and growth of Black communities and the Black executives leading CDFIs that serve those communities."[20]Collectively, Alliance members have deployed more than $1.5 billion in loan capital in the communities they serve. The African American Credit Union Coalition and Inclusiv also found that "minority designated credit unions help build inclusive communities [that] serve nearly 2 million people and manage over $17 billion in community controlled assets across the country."[21]

As another example, the Expanding Black Business Credit Initiative (EBBC) is comprised of seven Community Development Financial Institutions (CDFIs) that are Black-led, or focused on financing Black-owned business. Collectively, EBBC members are long-standing, highly respected organizations that manage $795 million in combined assets, and operate across the U.S. in markets home to 74% of the nation's Black businesses. As a group, EBBC organizations' loans have an average charge-off rate of 1.0%, lower than the 1.47% for their peer group average. In 2018, EBBC members originated $34 million in loans to Black-owned businesses. As EEBC notes, "CDFIs, particularly Black-led CDFIs, are well-positioned to serve as a critical link to close the credit gap for Black businesses. Black-led CDFIs, as Black small businesses themselves, are particularly adept at navigating these challenges, and have deep knowledge about what it takes to lend to Black businesses."[22]

As another example, the Partners for Rural Transformation (PRT) represent six CDFIs that serve three-quarters of the country's persistent poverty counties, communities that are overwhelmingly rural and people of color. With headquarters in the Mississippi Delta, Appalachia, Native American communities, the Deep South, the Rio Grande Valley and regions in the Rural West, PRT members have collectively deployed over $2 billion in capital, reaching millions of people in persistent poverty areas. In the rural, persistent poverty counties served by PRT members, 43% of residents are people of color.[23] As just one example of their impact, from 2016 to 2020, Partners for Rural Transformation generated $366.9 million in small business lending, with the majority of the 3,100 loans directed to businesses owned/led by people of color (65%) and a significant portion owned/led by women (41%). By geography, 56% of loans were to businesses located in counties with a majority of persons of color, over one third ($122.3 million) to persistent poverty communities, and 72% to low-income communities. Nearly 30% of PRT's small business capital flowing to businesses in rural communities.[24]

Why Race Matters in the Resource Allocation of Support for CDFIs

Along with increased resources and opportunities, come new levels of complexity. As CDFIs and MDIs position themselves to deploy exponentially more capital, they must be steadfast in prioritizing a commitment to community development, over the countervailing forces of maximizing efficiencies and profit that characterize traditional banks. Similarly, investors must be circumspect in making their decisions. Because, just as the billions of dollars in capital flowing into this sector has the potential to dramatically close opportunity gaps, the reverse is also true.

An examination of Home Mortgage Disclosure Data (HMDA) in the Deep South underscores concern about potential disparities in track records among CDFIs and MDIs. Stark examples are evident in

Mississippi, where so much of the state qualifies geographically as low-income, and nearly 40% of Mississippi's population is Black.

- Among the 27 CDFI banks headquartered and engaged in mortgage lending in Mississippi from 2018-2020, 68% of mortgage loans went to white borrowers while only 13% went to Black borrowers. This is lower than the statewide rate of all HMDA reported mortgage originations from 2018-2020 to Black borrowers at 17%.
- Among the three CDFI credit unions headquartered and engaged in mortgage lending in Mississippi from 2018-2020, 59% of mortgage loans went to Black borrowers and 39% went to white borrowers. When HOPE's loans are removed from the analysis, it drops to 33% of loans to Black borrowers.
- By contrast, from 2018-2020, Hope Credit Union, an MDI and CDFI, made 81% of its mortgage loans to Black borrowers.

Similar patterns persist in Louisiana as well, where 32.8% of the population is Black. Using 2018-2020 HMDA mortgage lending data, statewide, among all lenders engaged in mortgage lending in the state, 14% of mortgage loans went to Black borrowers and 73% to white borrowers, with data missing for 13% of loans. Among 16 CDFI credit unions headquartered and engaged in mortgage lending in Louisiana, from 2018-2020, 19% of mortgage loans went to Black borrowers and 70% went to white borrowers. For CDFI banks in 2019 in Louisiana, of the 14 CDFI banks reporting HMDA information, 15% of mortgage loans went to Black borrowers. However, when Liberty Bank, an MDI CDFI bank that made 76% of its mortgage loans to Black borrowers, is excluded from the analysis, the percentage of mortgage loans to Black borrowers by CDFI Banks in Louisiana dropped to 9% in 2019.

Recommendations

In light of the response by mission-focused CDFIs and MDIs to COVID-19, the outsized role they have made in extending financial services to people of color and the unprecedented opportunity to scale those with long track records of serving communities most in need, HOPE makes the following recommendations to make significant progress in closing the racial wealth gap.

(1) Continued and increased funding for CDFIs through Treasury and other federal agencies.

Routinely, CDFI Fund applications for Financial Assistance awards exceed the available amount. In the wake of the pandemic, the applications for the historic Emergency Capital Investment was oversubscribed by $4 billion. These deficits in federal funding persist despite years of evidence of capital gaps in the nation's most economically distressed places. In the late 1990s, HOPE calculated an estimated $1 billion capital gap in available capital in the Mississippi Delta relative to the size of its economy.

Another, more recent, indicator of the capital deprivation, particularly in communities of color, is found in the persistent gaps in access to mortgage lending and small business capital. For example, across HOPE's five Deep South states, there is a 26.3% gap between Black and White homeownership, a number that has grown since the Great Recession.[25] This gap is not due to lack of people applying for it, but rather due to structural barriers and discrimination in the banking system. In Mississippi, for example, data from 2009 to 2018 show that Black mortgage loan applicants earning over $150,000 a year experienced higher denial rates than a white applicant earning between $30,000 and $50,000 a year.[26]

For small businesses, Black-owned firms—both employer and non-employer—apply for financing at equal or higher rates than white-owned firms but are denied at higher rates.[27] Only 13% of Black-owned and 20% of Latinx-owned businesses reported receiving the full share of financing requested from banks, compared to 40% for white-owned firms. Not surprisingly, Black firms cited lack of credit access as "the single most important challenge firms expect to face as a result of the pandemic" at a rate 2.5 times higher than for white firms.[28]

The scale of the wealth gap is an indicator of the scale of the resources still needed to close it. The benefits of doing so are also enormous. HOPE estimates that simply bringing the Black homeownership rate on par with white homeownership rates of 73.7%, would create an additional half a million Black homeowners in the Deep South. A recent McKinsey study found that closing the racial wealth gap could increase US gross domestic product (GDP) between $1 and $1.5 trillion by 2028.[29] While banks and other large financial institutions have a role in closing these gaps, sustained and targeted investment in CDFIs and MDIs with demonstrated a commitment to serving people of color is a proven solution for setting the nation on a path toward inclusive economic prosperity.

(2) <u>Provide long-term flexible capital that mission-driven CDFIs can tailor to meet the needs of historically marginalized communities.</u>

Among the strengths of CDFIs and MDIs is the ability to develop and deploy products tailored to the markets and communities in which they are located. This is particularly important for serving communities of color and persistent poverty regions, where a one-size-fits all approach does not work to address the fractured landscape caused by centuries of discrimination, divestment, and extraction. The structure of ECIP and support of multi-year grants from the CDFI Fund are good example of the type of long-term flexibility that is helpful to CDFIs and MDIs fulfilling the capital needs of their communities.

In addition to the terms of the capital itself, it must actually reach people of color in marginalized communities. Improvements could be made by looking beyond metrics simply related to the income-level of a community or target market. As shown by HOPE's HMDA analysis of mortgage lending by CDFI banks in Mississippi and Louisiana, where more than 30% of the population is Black, having a mission to serve low-income communities does not mean that a CDFI will serve borrowers of color. This concern expands beyond analysis of lending in HOPE's region. A recent report by the Urban Institute underscores this point that low-to-moderate income neighborhoods do not always overlap with communities or borrowers of color, and that capital access for Black mortgage loan borrowers in low-to moderate-income neighborhoods lags behind their proportional share. Urban's study concludes, that

> lending to LMI borrowers and LMI neighborhoods is not the same as lending to minority borrowers or minority neighborhoods. Moreover, LMI neighborhoods do not highly overlap with minority neighborhoods. We also find that even compared with the persistently low minority homeownership rate, minority neighborhoods do not receive their proportionate share of purchase loans from either institutions covered by the CRA...or institutions not covered by CRA...[30]

Rather than simply relying on the economic status of a target market, the CDFI Fund and Treasury can incorporate additional considerations in funding allocations to ensure a more equitable reach of these federal resources:

- Utilize the "other targeted population" framework already provided for in the Riegle Community Development and Regulatory Improvement Act of 1994. The Act's definition of "targeted populations," can either be individuals who are low-income or others who "lack adequate access to Financial Products or Financial Services in the entity's Target Market."[31] This latter category is codified as "Other Targeted Population" in the CDFI Fund Certification Guidance. It is defined as "African-American, Hispanic, Native American, Native Alaskan residing in Alaska, Native Hawaiian residing in Hawaii, Other Pacific Islander residing in Other Pacific Islands, People with Disabilities and Certified CDFIs."[32] The Fund allows other populations to be considered in this category only if "approved by the CDFI Fund before they can be included as part of an entity's Target Market for CDFI Certification purposes."
- Ensure reach into communities hardest hit by both the public and economic health impacts of COVID-19, such as mortality rates, as well as economic impact impacts (job losses, business closures, delinquency or defaults on outstanding debt and lack of access to CARES Act or other COVID-relief resources).

(3) <u>Ensure accountability and transparency in the uses of Funds deployed by CDFIs, both individually and collectively.</u>

The CDFI Fund should examine and report on which populations and communities are being served by financial products and services supported by the Fund's investments, particularly by race and ethnicity. In addition to examining whether CDFIs are meeting the minimum thresholds for CDFI certification, which are often based on low-income geography or low-income borrower, the CDFI Fund should seek to understand how much CDFI lending is reaching communities of color, borrowers of color, and underserved areas such as rural areas of persistent poverty. This data should be reviewed and published in the aggregate on a regular basis to Congress and on the Treasury's website.

Track records of individual CDFIs should be examined to inform future funding decisions. The CDFI Fund should be required to consider institutions' track-record serving communities of color, persistent poverty communities or other targeted populations, and incorporating findings into funding decisions on the front end of awards and in the performance evaluation of funded CDFIs after-the-fact. Data from HMDA and soon-to-be reporting under Section 1071 should be incorporated in this review, along with data provided by CDFI's Transaction Level and Institutional Level Reports. For example, if a CDFI's mortgage lending patterns in a low-income market consistently fall below an amount that is at least proportional to the representation of borrowers of color in its target market, the CDFI Fund should structure funding to increase their performance of reaching these communities.

(4) <u>Address capital gaps historically faced by CDFIs and MDIs led by people of color, especially given their outsized impact in reaching borrowers and communities of color</u>.

Despite the deeper reach of CDFIs led by people of color, they are historically undercapitalized compared to their white counter parts. To understand the asset gap between white-led CDFIs and those led by people of color, HOPE analyzed data from CDFI Fund awardees between from 2003 to 2017. In that analysis, HOPE found, during that 15-year span, the median asset size of white-owned CDFI Fund awardees has persistently been at least twice the median asset size of CDFI Fund awardees led by a person of color.[33] In some years, it was three times as high. In looking at awards specifically from the CDFI Fund during that time (2003 to 2017), the number of CDFI Fund awardees led by people of color never exceeded more than 34% of the total number of awardees in any given year.[34]

While the asset size for all CDFI Fund awardees has grown over time, the growth has not been evenly distributed. For example, in FY 2017, white-owned awardees held $35.1 billion in assets, up from $4 billion in 2003, whereas awardees led by people of color held $5.7 billion in assets in 2017, up from $530 million in 2003. It took awardees led by people of color until 2013 --10 years--to exceed the median asset size of white awardees in 2003 ($5.5 million).[35]

Unfortunately, similar patterns of racial inequity arise in the CDFI Fund's New Markets Tax Credit Program as well. From 2012 to 2020, organizations led by people of color were awarded 11% ($3.7 billion) of the total NMTC allocations compared with the 89% ($29.5 billion) awarded to white-led organizations. NMTCs are allocated to Community Development Entities (CDEs), organizations that serve low-income communities, through a competitive application process. Those organizations then partner with private investors to deploy economic investments in their communities.

The outcomes of which communities benefit from NMTC investments are shaped in many ways by the community development entities that receive the allocations and make decisions about which projects to fund. More than one-third (34%) of HOPE's NMTC projects have been in rural, persistent poverty communities. By contrast, just 5% of all NMTC projects during this time have been invested in rural persistent poverty counties.[36] Over half (55%) of HOPE NMTC projects have been in counties where the majority of residents are people of color, compared to 44% of all NMTC projects between 2003 and 2019.

The benefits of a NMTC allocation go beyond the critical community investments deployed by CDEs in distressed areas. A NMTC allocation also provides an infusion of capital for the CDEs (which can be CDFIs or MDIs), and earned revenue that can then be the basis for growth and attracting other types of investment for years to come. HOPE outlined several recommendations for expanding access in its recent report.[37]

(5) Prioritize CDFIs and MDIs as strategic partners in deploying federal resources to financially fragile, harder to reach, and historically underserved communities.

The Paycheck Protection Program demonstrated that CDFIs with long track-records of success serving communities of color are the most effective conduits for capital to places facing economic distress in times of crisis. At the same time, states, particularly in the Deep South, have shown a consistent inability to serve people of color and economically distressed communities with any sense of urgency or level of effectiveness. As noted earlier in the testimony, Deep South states' implementation of CARES Act funds to local governments made them largely out of reach for economically distressed communities and communities of color.

This problem extends beyond the deployed of local government funding. In our states' deployment of CARES Act small business funds, similar challenges persisted. For example, In Tennessee's CARES Act-funded, Small Business Relief Program, which provided direct payments to designated businesses, 90% of the relief funds went to white-owned businesses in the state due to an underlying racially-biased funding formula.[38] In Mississippi, despite efforts by the state legislature to create a $40 million, 60-day priority set-aside for minority and women-owned businesses, the state only deployed $2 million in the designated time frame.[39]

Given these realities in our region, as programs are designed and funded by Congress to address the unique capital needs of communities of color, appropriations for HUD, Treasury, USDA, Commerce and other agencies should leverage the capacity of the CDFI and MDI Sector and fund these institutions directly to respond. There are several good examples of this approach. One good example is a proposal to make permanent a USDA pilot program to increase lending in Native Nations. During the pilot phase, two Native CDFIs (Four Bands Development Fund on the Cheyenne River Reservation and Mazaska on the Pine Ridge Reservation) made **nearly double the number of loans on their reservations than the USDA deployed on the same two reservations during the previous decade**. S. 2092 would make permanent the USDA 502 relending pilot program, harnessing the longstanding impact of Native CDFIs to increase financial inclusion in their communities.[40] As another good example, in the proposed Build Back Better Act of Nov. 21, 2021, $2.25 billion of the $10 billion downpayment assistance program for first-generation home buyers would be eligible to be administered by CDFIs and MDIs with a strong track record of serving low-income and minority communities. Another example is the proposed Rural Partnership Program, which will allow long-term, flexible capital to go from USDA directly to local partnerships, and not through the states.[41]

The State Small Business Credit Initiative from 2010 to 2017 shows another key proof point of how CDFIs expand the success and reach of federal resources. Just over one-third (34%) of total SSBCI funds went to businesses located in low to moderate income areas. CDFIs, again, outperformed the program as whole, with 46% of lending directed to businesses in low- to moderate income areas as compared to 32% for non-CDFI lenders.[42] The outcome of Mississippi's SSBCI 1.0 is informative as well: in Mississippi, despite nearly 50% of loans going to rural businesses, only 28% of loans were directed to businesses in low-income areas in the state. The majority of loans went to larger agriculture businesses.[43] In the first iteration of SSBCI, Treasury did not report on the extent to which these funds went to communities or borrowers of color. In this next round, Treasury and Deep South states have to opportunity to ensure a more equitable distribution of this critical capital resources.[44]

Finally, when Congress builds recapture provisions into programs to reallocate funds by underperforming states, it should ensure the flexibility to reallocate these funds to non-governmental entities such as CDFIs or MDIs. For example, a fail-safe recapture provision in programs such as the Homeownership Assistance Funds, State Small Business Credit Initiative, and Rental Assistance Funds would advance the equitable distribution of capital in states, particularly in the Deep South, that have historically struggled to deploy the money to people and communities of color.

(6) <u>CDFIs and MDIs cannot do this work alone, so require banks to do more, directly and in partnership with CDFIs and MDIs.</u>

Traditional banks, by far, have the greatest ability to invest in ways that close the financial services gap in America, both directly and through investment in community development financial institutions (CDFIs).[45] Through mechanisms such as the Community Reinvestment Act, banks should triple the amount of lending, services, and investment in underserved markets, even where they do not have branches. Long-term capital and equity investments in CDFIs and MDIs is a critical part of this strategy, and one that must be equitably deployed.

Consistent with historic undercapitalization for CDFIs led by people of color, banks investments motivated by the Community Reinvestment Act have also underserved these same CDFIs. Examining the data from CDFI Fund awardees for FY 2017, HOPE analyzed trends of capital held by CDFIs that came from banks.[46] Based on an analysis of 315 CDFI Fund awardees, white-led CDFI Fund awardees held, on average, $32 million of bank-infused capital, compared to an average of $9.6 million for CDFIs led by people of color. Increasing investments to CDFI Fund awardees led by people of color at levels commensurate with the bank-infused capital investments in white CDFIs would yield an additional $2.7 billion in capital, a more than a three-fold increase in bank-infused capital.

The Community Reinvestment Act (CRA) is credited with fueling growth in the CDFI industry after 1995 changes to incentivize CRA investments in CDFIs.[47] Bank investments motivated by a race-neutral CRA created the foundation of disparities present today. Since federal government action played a role in the origins of these disparities, it can and should play a role in addressing them.

(7) <u>Place increased priority on ensuring that MDI ownership by people of color is not lost through mergers or acquisitions.</u>

Given the outsized impact of these institutions in providing economic opportunity in the Deep South, particularly to communities of color, future looking policy recommendations must address not only targeted infusions of federal resources, but also greater attention by regulators to prevent the loss of these institutions due to collapse or merger.

On matters of resourcing, more resources should be allocated with urgency to certify MDIs as CDFIs. Nationally, there are 518 MDI credit unions, among which only 97 are CDFI certified. Similar rates of CDFI certification among this sector exist in the Deep South (82 MDIs with 16 CDFI-certified). Whereas, larger, non-MDI banks and credit unions have access to the legal, accounting, and technology services often used to gain certification, many smaller MDIs do not have the resources or the networks to tap these resources to obtain CDFI status. As a result, the vast majority of MDIs are not certified – and therefore not eligible – for the financial resources managed by the CDFI Fund. The inability to access these resources limits the reach of these institutions and ability to tap CDFI Fund resources to grow.

The rates of certification are disturbing given the amount of contraction experienced by the MDI sector, particularly on the heels of the Great Recession where communities of color were disproportionately affected by unemployment, the foreclosure crisis, and resulting wealth drain.[48] From 2013 to 2021 the number of Deep South MDIs shrank from 121 institutions holding nearly $3 billion in assets to 82 institutions comprised of $2.7 billion.

To monitor and act on this trend, Congress should require credit union and bank regulators to report on the all merger activity inclusive of the number of mergers between MDIs and non-MDI institutions. Furthermore, when MDIs are required to merge due to regulatory action, every action should be taken by regulatory bodies and resources should be made available to support merger activity between two MDIs.

Conclusion

Given the experiences, data, and impact of CDFIs and MDIs in serving historically underserved communities, HOPE supports the "H.R. ___, Promoting and Advancing Communities of Color Through Inclusive Lending Act". Many of the specific provisions of the proposal are in alignment with HOPE's policy recommendations for continued support and improvement of the CDFI and MDI sector, and ultimately increasing the financial inclusion of borrowers and communities of color, and others who reside in historically excluded communities.

Consistent with the goal of sustaining sufficient levels of support to CDFIs to further the work of closing existing opportunity gaps, HOPE supports the proposal to allocate an additional $4 billion to the Emergency Capital Investment Fund and the ability of the CDFI Fund to utilize this allocation to deploy as grants to CDFIs, including CDFI loan funds. Because of these persistent disparities in access to CDFI Fund resources and the resulting limitations in deploying capital to communities of color, HOPE also supports the bill's proposal to allocate 40% of funding under Section 108 of the Reigle Community Development Act to minority lending institutions. HOPE supports funding available to support increasing access to technology, while at the same ensuring that the technology deployed by CDFIs and MDIs as well as other financial institutions, does not perpetuate discriminatory and predatory lending practices. Finally, the bill through its reporting requirements seeks to increase the transparency and accountability of resources flowing through Treasury and the CDFI Fund to ensure they reach communities most in need of capital access, particularly capital which opens and sustains opportunities for closing the racial wealth gap.

In an April 2020 report tilted Analyzing the CDFI Asset Gap, Hope Policy Institute detailed wide disparities in the funding and asset size of Black CDFIs compared to their white counterparts, and the outsized impact CDFIs of color have in Black communities.[49] The efforts of Congress in the winter of 2020 represented an important first step at actually allocating the level of resources needed to close the racial wealth gap. Similar efforts are needed in a sustained way over time. Let's finish the job and continue to make progress through bold investments in the organizations that do it best – mission driven CDFIs and MDIs and bring banks into the fold along the way. Together we can right the wrongs of history and move all of us, every community towards the economic prosperity we know is possible when everyone is a part of the financial system.

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[3] Mortgage Bankers Association, "Share of Mortgage Loans in Forbearance Increases to 8.55%," June 8, 2020, https://www.mba.org/2020-press-releases/june/share-of-mortgage-loans-in-forbearance-increases-to-853
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[5] Calandra Davis and Georgia Barlow, "Racial Inequities in the Distribution of Louisiana's Coronavirus Relief Funds: A Report for Community Leaders," Hope Policy Institute and Power Coalition for Equity and Justice, Apr. 16, 2021 http://hopepolicy.org/blog/deep-south-job-losses-due-to-covid-19-likely-to-far-eclipse-those-of-the-greatrecession/

[6] Id.

[7] See, U.S. Dep.'t of Treasury, Press Release, "U.S. Treasury Awards $1.25 Billion to Support Economic Relief in Communities Affected by COVID-19," https://www.cdfifund.gov/news/420 (showing that 244 credit unions and 463 loan funds received awards, as did 245 CDFIs serving rural areas).

[8] CDFI Fund, CDFI RRP Award Recipients List, June 2021, available at https://www.cdfifund.gov/news/420

[9] See, e.g., 2021 CDFI Fund Award Book, https://www.cdfifund.gov/sites/cdfi/files/2021-12/Final_2021_CDFI_Award_Book_v2.pdf (data points related to the awardees does not include data by whether the CDFI is an MDI or otherwise a CDFI led or controlled by people of color).

[10] U.S. Dep't. of Treasury, Community Development Capital Initiative (CDCI), https://home.treasury.gov/data/troubled-assets-relief-program/bank-investment-programs/cdci

[11] ECIP's enabling legislation provided that applicants must demonstrate, among other things, "that not less than 30 percent of the lending of the applicant over the past 2 fiscal years was made directly to low- and moderate income borrowers rowers, to borrowers that create direct benefits for low- and moderate-income populations, to other targeted populations as defined by the Fund, or any combination thereof, as measured by the total number and dollar amount of loans." 12 USC 4703a(b)(4)(a)

[12] NCUA, Press Release, NCUA Issues Guidance, Announces Upcoming ECIP Action, Oct. 20, 2021, https://www.ncua.gov/newsroom/press-release/2021/ncua-issues-guidance-announces-upcoming-ecip-action

[13] Statement by Renee Sattiewhite (African American Credit Union Coalition), Maria Martinez (National Association of Latino American Credit Union Professionals) and Bill Bynum (HOPE), on NCUA guidance and upcoming action regarding the Emergency Capital Investment Program. https://hopecu.org/manage/media/Statement-on-ECIP-Guidance.pdf

[14] SBA, Interim Final Rule, Apr. 21, 2020, (providing requirements for non-depository lenders which included among other requirements, "and has originated, maintained, and serviced more than $50 million in business loans or other commercial financial receivables during a consecutive 12 month period in the past 36 months…"). https://home.treasury.gov/system/files/136/PPP--IFRN%20FINAL.pdf

[15] SBA, Interim Final Rule, May 5, 2020 (providing that for non-bank lenders that are CDFIs or "a majority minority-, women-, or veteran/military-owned lender" then the threshold for previous lending would be $10 million, rather than $50 million) available at https://www.federalregister.gov/documents/2020/05/04/2020-09576/business-loan-program-temporary-changes-paycheck-protection-program-requirements-corporate-groups

[16] ECIP was established "to support the efforts of low- and moderate- income community financial institutions to, among other things, provide loans, grants, and forbearance for small businesses, minority-owned businesses, and consumers, especially in low-income and underserved communities, including persistent poverty counties, that may be disproportionately impacted by the economic effects of the COVID." 12 USC 4703a(b)(2)

[17] U.S. Dep't of Treasury, Rate Reduction Incentive Guidelines, Aug. 20, 2021, https://home.treasury.gov/system/files/136/Rate-Reduction-Incentive-Guidelines.pdf (noting "under the terms of the program, the dividend or interest rate will decrease if a participating institution increases its loan originations to target markets above certain thresholds.")

[18] U.S. Dep't of Treasury, Rate Reduction Incentive Guidelines, Aug. 20, 201, https://home.treasury.gov/system/files/136/Rate-Reduction-Incentive-Guidelines.pdf

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Testimony of Nicole Elam
President and CEO of the National Bankers Association

Before the House Financial Services Committee

"An Unprecedented Investment for Historic Results: How Federal Support for MDIs and CDFIs Have Launched a New Era for Disadvantaged Communities"

February 16, 2022

Chairwoman Waters, Ranking Member McHenry and members of the committee, good morning and thank you for this opportunity to testify on how federal support for MDIs and CDFIs have launched a new era for disadvantaged communities. It gives me great hope that one of this committee's first hearings of the new year is aimed at shining a light on this critical issue.

My name is Nicole Elam, and I am President and CEO of the National Bankers Association (NBA). The NBA is the leading trade association for the country's Minority Depository Institutions ("MDIs"). A critical part of our mission is to serve as an advocate for the nation's MDIs on all legislative and regulatory matters concerning and affecting our member institutions as well as the communities they serve.

Many of our member institutions are also Community Development Financial Institutions ("CDFIs") and have become banks of last resort for consumers and businesses who are underserved by traditional banks and financial service providers. Members of our association are on the front lines, trying to reduce the economic hardship faced by minority communities, which are historically the most vulnerable during good times and bad. We believe our banks are best positioned to help our communities recover and overcome many of the systemic issues that have placed them at an economic disadvantage.

The House Financial Services Committee and Chairwoman Waters have been instrumental in the inclusion of several provisions in multiple relief packages adopted over the past year that ensure that MDIs and the small businesses and individuals we serve are not forgotten. The creation and implementation of the Emergency Capital Investment Program and the $3 billion increase in funding the CDFI Fund can help banks like those within the NBA scale up and provide more access to credit for individuals and small businesses in low- and moderate-income communities. The Bipartisan Infrastructure Bill also provides billions of targeted dollars that can be instrumental in addressing the needs in our communities created by a changing climate and systemic exclusion.

The legislation included as a part of today's hearing aligns with the Committee's goal of preserving and protecting MDIs and CDFIs. The measures, taken together, will provided transformational opportunities for these institutions to not only survive but thrive. We support each measure and very much look forward to working with the Committee to ensure their passage into law.

The NBA applauds the Congress for the adoption and considerations of these important measures and looks forward to continuing to work with you on additional legislation to ensure that our communities, hardest hit by the pandemic and systemic inequity, experience lasting, material changes that will support broad and deep economic growth that will benefit all Americans. We believe additional legislation that will allow MDIs to continue to augment their capital bases, includes our banks and communities in opportunities that will flow from the infrastructure bill, and addresses a regulatory process that can hamper our banks' ability to bring the underserved into the financial mainstream continues to be needed.

MDIs and CDFIs have traditionally served as a source of strength and engines of economic development due to their relative concentration in minority and low-income communities as well as their established relationships created over decades of mission driven service. Our banks provide basic banking services to communities and racial minorities, especially Black and Hispanic, that are more likely to be unbanked or underbanked according to a Federal Reserve Report on the Economic Well-Being of U.S. Households in 2020.

Several studies have shown that minorities, especially Black and Brown Americans, are more likely to have bank accounts and access to fair and reasonably priced mortgage and small business loans if there is an MDI in their neighborhood.[1] It is important to note that an average of 70 percent of minorities do not have a bank branch in their neighborhood. At the same time, MDI branches are in census tracts with a 77 percent minority population. Properly scaled, MDI banks are best positioned to address the problem of the unbanked and underbanked and to provide access to capital for minority communities.

Unfortunately, MDIs' smaller size, especially among African American MDIs, has not allowed them to respond as quickly or with as much scale as the current economic situation in LMI communities demands. MDIs only make up 3 percent of all American banks, and Black-owned MDIs only 0.4 percent. When looking at total bank assets, the disparity is even more stark. As of the second quarter of 2021, Black banks held about $6 billion dollars in total combined assets, as compared to over $22 trillion dollars in total assets in the U.S. banking system as a whole. Put another way,

[1] [Broady et al, "An analysis of financial institutions in Black-majority communities: Black borrowers and depositors face considerable challenges in accessing banking services," Brookings (2021); Florant et al, "The case for accelerating financial inclusion in black communities," McKinsey & Company (2020); Barth et al, "Minority-Owned Depository Institutions: A Market Overview," Milken Institute (2019)].

Black-owned banks only control 27 thousandths of one percent of total bank assets in the United States.

Given the important role these institutions play in the communities they serve, we need to do more to preserve and promote them. Our obligation in this regard is not just morally justified but required by federal statute. Passed into law in 1989, Section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act, or FIRREA, requires the Treasury, Federal Reserve, OCC, and FDIC to preserve and promote MDIs in a variety of ways, including preserving the number of MDIs. This statutory obligation should be considered a part of Treasury and the regulators' overall mission to maintain stability and public confidence in the nation's financial system.

The Treasury and bank supervisory agencies have, unfortunately, failed to preserve and promote MDIs. The overall number of MDIs has declined by 33 percent since 2008, and among Black-owned MDIs, the problem is especially pronounced, as Black-owned banks have suffered from many of the same conditions and structural lack of access to capital as the Black community. Of the 4,951 total insured commercial banks in the U.S., only 143 are MDIs, and only 19 of those are controlled by Black people. Prior to the Great Recession of 2008-2009, there were 47 Black-owned commercial banks in 2001 in the United States, a loss of nearly 60 percent.

Tier 1 Capital, or the equity invested in a bank, is the most critical component of the resilience of any bank, and it is what allows banks to grow and scale. MDIs have historically lacked access to capital markets that would allow them to scale. Without sufficient Tier 1 Capital, not only are banks limited in the number of deposits they can take in, but they are also hampered in their ability to withstand loan losses. Without access to capital markets or large pools of high-net-worth investors, many MDIs were forced to exhaust their capital reserves, failing as a result. Those who have been able to participate in relief efforts have been limited in the amount of loans that can be extended, even with federal guarantees or direct support, as they are unable to weather loan significant loan losses.

ECIP

Access to capital will allow MDIs to not only respond better during times of crisis but allow us to reverse the situations in our communities that lead to worse outcomes during crisis. The ECIP capital is a historic step in the right direction but while 57 MDIs will receive $3.1 billion from the program, many of our banks were not able to access ECIP due to prior regulatory challenges. This is largely based on examination standards that do not consider the unique business models many mission-driven banks need to employ to provide basic banking services in markets that would otherwise be ignored by the financial services mainstream. We need regulators to be intentional and modernize the examination process for mission-driven banks that don't do business in wealthy areas. We also need to find additional ways to direct capital and business opportunities to those banks and the communities they serve.

We believe the remaining $300 million held in reserve for appeals should be prioritized for distribution to these institutions. In addition, we would ask you to consider utilizing some of the remaining $1.75 billion in the CDFI Fund to provide these institutions with much needed capital that they were unable to get through ECIP. By prioritizing these institutions, we believe that Treasury and the regulators can balance their obligations to protect Treasury funds and at the same time insist that institutions operate in a safe and sound manner. We remain convinced about the need to act now to preserve and promote MDIs and direct much-needed capital into banks that have a strong track record of serving the communities Congress intended to target for the ECIP investment.

Climate and Infrastructure

President Biden and Congressional Democrats have made good on their promise to steer money toward front-line communities as the United States makes historic investments in climate resilience and mitigation. The growing climate crisis has disproportionately hit low-income Black and brown communities in great measure because they are under resourced. Communities of color are disproportionately victimized by environmental hazards and are far more likely to live in areas with heavy pollution. People of color are more likely to die of environmental causes, and more than half of the people who live close to hazardous waste are people of color. Tackling environmental injustice and climate resilience in communities of color is important not just for those directly targeted by racial discrimination but also for society at large, as research shows that racism harms the whole economy in different ways.

People of color are on the front lines of the climate crisis. For decades, the power imbalances have constrained communities of color to respond to the impact of climate change and contribute local knowledge to climate solutions. Building political and economic power, as well as speaking up about the challenges, are critical components of climate resilience. It's time to expand the conversation around climate justice to ensure that all people, regardless of race and ethnicity, are guaranteed protections from the worst effects of climate change.

Provisions in the recently enacted infrastructure law and a $29 billion provision included in the proposed Build Back Better bill go a long way in mitigating the impacts of the crisis, but MDIs must be included in the financing opportunities that will arise, giving our banks opportunity, but more importantly allowing us to connect our customers to opportunities to strengthen their businesses, add more jobs, and thereby make their communities more resilient.

While we commend Congress on its leadership to date in responding to the current crisis, we firmly believe much work remains to be done in supporting the MDI sector as we respond to the needs of the communities and small businesses that our member institutions serve that have disproportionately shouldered the burden.

Conclusion

The NBA again applauds the Committee for holding this important hearing and for its ongoing efforts to launch a new era for disadvantaged communities and ensure equity for all businesses and communities in the country. While we commend Congress on its leadership to date in responding to various crisis' (economic, health and environmental), we firmly believe much work remains to be done in supporting the MDI sector as we respond to the credit needs of the communities and small businesses that our member institutions serve that disproportionately shoulder the burden in most instances. In this regard, the NBA and its members banks look forward to working closely with the Committee on workable solutions that ensures LMI communities and minority small businesses do not just simply survive but ultimately thrive. Thank you again for the opportunity to testify. I will be pleased to answer any questions.

The NBA has recommended several potential solutions to Congress and the Administration including the following:

Passage of the Ensuring Diversity in Community Banking Act

The bill is a historic and important first step by Congress to more fully embrace its role in supporting MDIs and creating a regulatory and operating environment that will help to ensure that MDIs continue to play a vital role in meeting the banking and credit needs of communities of color throughout the country. The bill also provides a mechanism to ensure MDIs can be better capitalized and in turn provide services in LMI communities.

Consumer Credit Enhancements

As you know, the vast majority of U.S. economic activity is ultimately driven by consumer spending, and this activity is severely threatened by protocols to protect the public health and slow the progression of the virus. As a result, wage earners in the service sector across many industries are losing their livelihoods. Many of our banks' customers live from check-to-check. This phenomenon has been particularly acute among women, whose jobs have been disproportionately impacted by COVID-19. These are hard-working, low- to moderate-income wage earners, who typically have low balance ($1,000 or less), high-transaction checking accounts. While we fully support policy proposals to immediately transmit cash to consumers and offer our banks as vehicles to efficiently and effectively deliver that cash to our customers, we also recommend additional support in the form of a Treasury-backed consumer loan loss pool or other credit enhancement mechanism for MDIs that would allow us to offer our customers small-dollar loans that would function like overdraft protection, allowing them to continue to afford essentials like food, shelter, and medicine, without having to resort to expensive, predatory lenders.

Small Business, Faith-Based, Non-Profit Institution Credit Enhancements

The NBA supports proposals to stabilize and protect small businesses during this crisis, in particular streamlined U.S. government guaranteed loans or lines of credit that will allow small businesses to continue to make payroll. Our member banks are perfectly positioned to get this funding into the most vulnerable small businesses, but we need to cut through the red tape at the Small Business Administration to ensure we can make households available to our bank customers.

In addition, we call your attention to the financial predicament that confronts many churches and other faith-based institutions and non-profits. Many of our banks, especially African American MDIs, have traditionally been the lenders of choice and necessity for many churches in their communities. We know from decades of experience that these churches face bleak financial times, as attendance at worship services becomes limited by public health realities, and donations rapidly decline due to financial hardship among their members. These church customers are not only centers of spiritual solace, but often provide vital community services such as daycare, feeding programs, and the like, so it is imperative that we assist them. As such, we ask that Treasury partner with us to create a loan loss reserve or guarantee pool for churches, other faith-based institutions and non-profits. This would allow us to work with these customers to restructure their loans in advance, extend working capital lines, or provide other assistance to ensure that they are able to survive the downturn, maintain their staffs, and continue to be beacons for their communities.

MDI Investment Tax Credit

A handful of the nation's largest banks have made direct equity investments in MDIs, and some private equity funds have been assembled with a mission of providing long-term private capital to MDIs. The Association believes that a tax credit for equity investments in MDIs would further encourage private-sector investors to make equity investments in our institutions. Given our institutions' track record of impact investments in the LMI communities we serve, we believe that our institutions' work confers enough of a benefit on LMI communities that an investment tax credit is warranted. We look forward to working with House and Senate sponsors to introduce MDI investment tax credit legislation this year.

Amend the Bank Holding Company Act to allow MDIs and CDFI banks under $3B to raise additional capital without triggering the BHCA's change-of-control provisions

The Bank Holding Company Act's (BHCA) change-of-control provisions are triggered when an investment exceeds 25 percent of the institution's equity. For smaller institutions, like our member banks, relatively small equity investments implicate the BHCA therefore limiting both the attractiveness of smaller banks for investors and the size of the investments that investors are willing to make in our member banks. We are confident that modifications to these rules would allow our banks to attract more private capital and therefore multiply our impact. The BHCA should be modified to allow for significant infusions of non-dilutive equity investments in our member banks. The Association supports legislative proposals that would exempt community banks under $3 billion from the 25 percent change-of-control provisions of the BHCA to both attract more significant equity investments and to help protect the minority ownership status of our member banks.

Fully Supporting the Community Development Financial Institutions Fund

We fully support increased appropriations for the CDFI Fund and encourage the establishment of a permanent set aside of 40 percent of CDFI Fund appropriations reserved for award, guarantee, and grant programs for minority lending institutions, and required reporting on such activities. We also support the establishment of a new

Office of Minority Community Development Financial Institutions to administer these funds led by a new Deputy Director of Minority Community Development Financial Institutions.

Federal Deposits in Minority Depository Institutions

Current rules require that federal agency deposits in MDIs must be fully collateralized, which has proven an insurmountable hurdle to implementation of the Minority Deposits Program, as doing so locks-up capital that could be mobilized for lending. We call on Congress to clarify that any such deposits may also be insured, including through reciprocal deposits. Doing so will ensure that any such deposits do not pose any financial risk to federal government, while also allowing the deposits to be mobilized for lending and therefore having a positive multiplier effect in the communities in which these banks operate.

Custodial Deposit Program for Covered Minority Depository Institutions

Establish a new program whereby the Treasury Department will deposit into MDIs funds up to the FDIC insured amount, from Funds under management by the Treasury Department. The program is to be implemented by the Treasury Department, working via custodial banks, which can more easily and efficiently distribute the funds across covered MDIs. This initiative will help mobilize stable deposits into MDIs, which will have a multiplier effect on the communities they serve without creating any new exposures or loss risks for the Treasury Department.

Troubled Asset Relief Program Resolution

TARP effectively expired on October 3, 2010—two full years after its inception. After this date, funds could no longer be extended. In 2014, the U.S. government reported a $15.3 billion profit as a result of TARP. There are, however, MDIs who have not been able to exit the program. These institutions face significant hurdles in raising Tier 1 capital and were limited in their ability to participate in programs such as the Emergency Capital Investment Program created last year by Congress. The Treasury Department should work expeditiously to release these institutions from the program, so they are able to raise capital and better serve the communities in which the operate.

Establish MDI Offices

We strongly support the establishment of dedicated, staffed offices within the Small Business Administration, Department of Treasury, Department of Agriculture, and Consumer Financial Protection Bureau focused on unique issues related to MDIs. Minority participation in SBA and USDA guaranteed lending, especially among African American entrepreneurs, significantly lags that of businesses from majority communities. At SBA, for example, the head of this office should be primarily focused on ensuring that MDIs can more easily participate in core SBA programs, such as the 7(a) program. At USDA, the office should focus on making lending programs such as the Business & Industry Program, as well as USDA mortgage offerings, more accessible to MDIs. These offices should be direct reports to the highest level within these agencies and should report on their progress to Congress annually.

Chairwoman Waters, Ranking Member McHenry, and Members of the committee,

Thank you for the opportunity to speak with you today on the importance of capital to our nation's businesses, as well as the broader topic of the current performance of the US economy. I had the privilege of serving as the Assistant Secretary for Economic Policy at the US Department of the Treasury during the previous administration. In that role, I worked closely with the Small Business Administration to quickly implement the Paycheck Protection Program and ensure that the economic devastation that might have resulted from the pandemic was not realized.

Part of my team's work was to engage with a vast array of lenders across our nation to ensure that eligible small businesses were able to obtain their PPP funds. I worked closely with CDFIs and MDIs to better understand the issues they were confronting and to prioritize resolution of challenges they and their borrowers were facing. Treasury also worked quickly to bring FinTechs into the program. Recent academic work by Sabrina Howell and co-authors finds that FinTechs disproportionately lent to minority communities with smaller dollar loans. Their smaller physical footprint and investments in underserved communities meant that they could more economically serve those populations and improve PPP access. In December 2020, Treasury worked closely with Congress on legislative updates to PPP, extension of a second round of loans for the hardest hit small businesses, and enactment of ECIP to provide additional capital funding for CDFIs and MDIs.

The results of our efforts are apparent in the data. When the nation began shutting down, we were looking at weekly first-time unemployment claims of approximately 6 million per week. Quick passage and implementation of the CARES Act caused the unemployment rate to peak in April 2020 at 14.7 percent, well below the 20 percent many feared at the pandemic's onset. Instead of losing 8 million jobs in May 2020 as many predicted, we saw more than 2.5 million Americans return to their jobs. My co-authors and I estimate that as many as 17.7 million fewer Americans were unemployed during the pandemic as a result of PPP, with nearly 13 million of those workers at companies with fewer than 100 employees. The pandemic recession has been declared the shortest in US history and we have been expanding since May 2020.

While the funds deployed at the beginning of the pandemic proved vital in keeping us out of a depression and resulted in a V-shaped recovery once our economy reopened, challenges remain. All of us on the panel recognize that it is important for our nation's businesses to have access to the capital they need to operate and expand. The ECIP improved the capital positions of CDFIs and MDIs, which will likely result in greater capital availability for their customers. However, while capital availability was a critical issue during the crisis, is not now the primary issue confronting our nation's businesses. According to the most recent NFIB survey, just three percent of small businesses surveyed reported that their borrowing needs over the last three months were not satisfied.

Instead, the NFIB survey reports that the main issues confronting our nation's small businesses are inflation and employment. "Twenty-two percent of owners reported that inflation was their single most important problem." In addition, "Forty-seven percent of owners reported job openings that could not be filled." Both of these problems are the result of poor policy decisions made by Congress and the Biden Administration.

Recent fiscal stimulus has proved greatly excessive, leading to households' liquid funds rising from $11.0 trillion at the end of 2019 to $14.4 trillion at the end of Q3 2021, a 31% increase. Simultaneously, paying people to not work, taking energy resources out of our economy, mandates that remove people from the workforce, and excessive regulations have greatly reduced our capacity to meet the current level of demand. The number of Americans working is still nearly two million fewer than were employed prior to the pandemic. As a result of these factors, the Consumer Price Index was reported last week to have increased 7.5% over the last twelve months, the highest increase we have seen in the last 40 years. Even taking into account wage increases over the last year, this translates to an $800 reduction in annual purchasing power for the average worker.

While we have seen a slight uptick in hiring over the last few months, arguably this is the result of the expiration of some of the pandemic era policies that should not have been extended as long as they were. Since the expiration of enhanced unemployment benefits, job creation is approximately 50K jobs more per month than prior to the expiration. The recent expiration of the child tax credit that lacked work requirements will also likely increase the number of Americans participating in the labor force. Such an expansion would be welcomed by our nation's employers who, according to the latest JOLTS data, reported 10.9 million job openings at the end of December. Bad policy has sidelined too many Americans at a time when our businesses need more workers.

While this committee's work to improve access to capital for America's businesses is important, the most important thing we can do for our economy right now is to declare an end to the pandemic. It is time for the American economy to return to normal. In addition, Congress should stop providing money to prime age, able bodied adults who don't work. It should act to reopen our domestic supply of energy, maintain a competitive tax environment, and not over-regulate our economy. Following those policies prior to the pandemic, our nation saw a 50-year low in the unemployment rate, historic gains in household income, reductions in income inequality, and record low poverty rates across all races. We would be well-advised to return to that approach.

I look forward to participating in this important conversation.

TESTIMONY OF EVERETT K. SANDS, CEO OF LENDISTRY,
TO THE HOUSE COMMITTEE ON FINANCIAL

"An Unprecedented Investment for Historic Results: How Federal Support for MDIs and CDFIs Have Launched a New Era for Disadvantaged Communities"

February 16, 2022

I. Introduction

Committee Chairwoman Waters, Ranking Member McHenry, Vice Chair Auchincloss, Vice Ranking Member Wagner, and distinguished members of the Committee, thank you for calling this hearing to examine the critical role minority depository institutions (MDIs) and community development financial institutions (CDFIs) play in providing capital access to underserved and underbanked communities, and communities of color; and to explore additional steps that should be considered to enable Congress's significant work over the past 18 months in strengthening and empowering MDIs and CDFIs to achieve maximum potential.

My name is Everett K. Sands, and I have more than 20 years of experience in lending at Minority Depository Institutions, at one of the largest national banks, and at the only fintech Community Development Financial Institution, Lendistry. For the past six years, as founder and CEO of Lendistry, my focus has been on responsible lending to underserved small businesses, and particularly those owned by minorities, women, veterans, and people in rural areas.

Lendistry is a minority-led fintech CDFI and Community Development Entity (CDE), and a member of the Federal Home Loan Bank of San Francisco. Women and minorities comprise a significant majority of Lendistry's management team. Our proprietary technology and online application portal enable a faster and more widely accessible lending process for small business borrowers. As a CDFI, Lendistry is dedicated to providing economic opportunities and progressive growth for underserved urban and rural small business borrowers and their communities. The Center also offers business coaching, financial education, and technical assistance. Lendistry is a proud signatory of the Small Business Borrowers' Bill of Rights, guidelines set by The Responsible Business Lending Coalition.

I commend Congress for hearing and acting upon the learning, made clear by COVID's initial phase, that small and underserved businesses are far and away more successful in accessing capital from CDFIs and MDIs than from other sources. In response, Congress, with leadership from this committee and the Small Business Committee, took decisive action to allocate significantly more capital to CDFIs and MDIs, as detailed in the Hearing Memo. Thanks to your actions, a powerful freight train of capital access is supplied and on the move.

The urgent work that now remains for Congress is to enact a set of surgical repairs and enhancements to the track network, so that the freight train of capital access can move at the speeds that underserved and minority communities require. At stake in Congress finishing the job is nothing less than the opportunity to narrow the racial wealth gap. That's because when capital is available within communities on responsible terms, it naturally displaces predatory loans that disproportionately impact wealth, jobs and productive economic activity in communities of color. And because the economic model of predatory lending requires a high volume of loans, displacing even a moderate portion of the demand for predatory loans can be profoundly effective in making those businesses economically unattractive for their investors.

To summarize the specific recommendations that I discuss in greater detail below:

1. *Permit the Federal Home Loan Bank (FHLB) to accept federally guaranteed small business loans as collateral from CDFIs*
2. *Require the FHLB to assign CDFIs the same credit ratings as banks and/or create a loan credit enhancement fund*
3. *Lower the CDFI Bond Guarantee from $100 million to $25 million*
4. *Exempt CDFIs from state licensing requirements*
5. *Allow CDFIs to access the Federal Reserve discount window*
6. *Develop a reporting system for Treasury capital deployment programs that are geared to Socially and Economically Disadvantaged Individuals*
7. *Create a federal office dedicated to supporting the efforts of MLIs*

II. About Lendistry

I have more than 20 years of experience in the banking and lending fields. Prior to starting Lendistry, I worked in both national and community banking. I have served as a Board Member and an Executive for two minority deposit institutions; as a sales team leader for a national bank on both the East and West coasts; as a member of committees focused on compliance, rate-risk, and commercial lending; and as a leader of credit and operations departments. I also currently serve as a Board Member of the University of Pennsylvania's Institute for Urban Research, and of Lendistry's nonprofit small business advisory and technical assistance affiliate, The Center for Strategic Economic Studies and Institutional Development ("The Center").

As a banker I typically served in a change agent capacity, being called in to turn around a unit of a bank, and as such, units I have led typically recorded annual growth rates of between 300% and 600%. I have closed more than $10 billion in transactions. During my career, businesses I have led have been regulated by the Federal Deposit Insurance Corporation, Federal Housing Administration, Federal Housing Finance Agency, Federal Home Loan Bank of San Francisco, Office of Comptroller of Currency, Office of Thrift Supervision, Small Business Administration, Veterans Administration, and various state regulators.

Since launching in 2015, Lendistry has sought to use fintech—and partnerships with financial institutions, non-profits, and government organizations—to help solve the problem of disparities in access to capital, to open doors that were previously closed to small businesses owned by minorities, women, and veterans, businesses located in rural areas, or businesses whose financing needs to take the next step in their development are just too small for traditional banks.

As a hybrid of a fintech lender and community bank, and with roots in traditional banking as mentioned above, Lendistry combines the best of fintech—efficiency, scalability, and seamless user experience—with the best of traditional lending—low cost of acquisition, low cost of funds, and strong risk management—and all with an unwavering commitment to responsible credit culture and expanding access to small business funding.

Today, Lendistry is one of the top SBA Community Advantage lenders, a pilot program spearheaded in 2011 to increase SBA-guaranteed loans to small businesses in underserved areas. Community Advantage loans range in size between $50,000 and $250,000, and are the only type of SBA loan in which Black and Latinx borrowers, combined, account for more than 10% of annual loan volume. More than 60% of Lendistry's outstanding principal loan balance is with minority and women-owned borrowers, more than 70% is to underserved small businesses, and 60% is with low- or moderate-income borrowers.

Lendistry also has a highly nuanced understanding of small business ecosystems. In 2020, Lendistry, Next Street Financial, Concerned Capital, and other local stakeholders, published a detailed examination of the current small business community and supporting ecosystem in Los Angeles County, with a focus on local businesses owned by people of color and the COVID-19 response and recovery.[1] Based on the learnings from that study, Lendistry's nonprofit affiliate last year launched the Los Angeles County Small Business Resiliency Program.[2]

Ecosystems and partnerships are fundamental to Lendistry's operating method and philosophy. Lendistry has partnerships in place with more than 100 organizations, including business associations, chambers of commerce, Community Development Financial Institutions, and mission-based organizations. These partners in turn have extensive networks, enabling Lendistry to reach underserved geographies and demographics, and provide services and support in more than 15 languages.

With our reach, technology, and operational and capital capacity, Lendistry has both the ability and interest to serve a much larger geographic footprint and broader market than we do today and fill the lending gaps left by mainstream finance for the benefit of small businesses, and particularly those owned by minorities, women, veterans, and those in rural areas.

II. Lendistry and COVID-19 Small Business Recovery Effort

New business formation, and small businesses in general, are engines of job creation in economic recoveries. Small business ownership remains the most effective path available to minorities to narrow the racial wealth gap. Lendistry's focus on small and minority-owned businesses, and our ability to efficiently process high volumes of applications, have enabled us to make an impact during this period of urgent need.

[1] https://nextstreet.com/portfolio/la-county-small-business-ecosystem-assessment/
[2] https://www.newswire.com/news/the-center-by-lendistry-launches-small-business-resiliency-program-for-21410424

Over the past 22 months, Lendistry has deployed approximately $8.4 billion in government COVID relief grants and PPP loans to more than 570,000 small businesses, 94% of which employ fewer than 10 employees. We project that "capital deployed" figure to grow to more than $10 billion by year-end. In addition to providing PPP loans nationwide, Lendistry has served as the administrator for COVID relief grant programs offered by the states of California, New York and Pennsylvania, as well as New York City.

III. Bottlenecks in the Capital Access Landscape for Small Business Today, and Recommended Actions

The capital access landscape many small businesses must traverse as they try to grow resembles a desert, where the lifeblood of responsibly-priced capital is scarce. Worse, it is a desert that is made almost impossibly steep, by the prevalence of predatory lenders that have filled a void left by two decades of bank consolidation. The small businesses that tend to be most affected by these arduous conditions are those owned by minorities, women, and veterans; those located in rural areas; and those which, regardless of their ownership demographics, have capital requirements that are simply too small to be profitably served by traditional banks, whose median asset size ballooned by more than 500% between 2000 and 2019.[3]

All of the types of small businesses I just cited can be considered "underserved small businesses." Congress heard and acting upon the learning, made clear by COVID's initial phase, that small and underserved businesses are far and away more successful in accessing capital from CDFIs and MDIs than from other sources. In response, Congress, with leadership from this committee and the Small Business Committee, took decisive action to make significantly more capital available to CDFIs and MDIs.. Thanks to your actions, a powerful freight train of capital access is supplied and on the move.

However, a number of gaps and weaknesses combine to prevent the allocated capital from reaching its intended end-users quickly enough, with a large enough multiplier effect, and through enough distribution points.

The urgent work that now remains for Congress is to enact a handful of surgical repairs and enhancements to the track network, so that the freight train of capital access can move at the speeds that underserved and minority communities require.

[3] Most banks simply are too large to efficiently make small loans. Twenty years of bank consolidation has cut the number of FDIC-chartered banks in the U.S. by 45%. According to FDIC data, there were 8,315 FDIC-insured banks in 2000, compared to 4,519 in 2019, with just 32 new FDIC-insured bank charters issued since 2010. As a result, the median asset size of remaining banks has grown by more than 500%, from $751 million in 2000 to $3.9 billion in 2019.

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Following are the most common and negatively impactful bottlenecks in the capital access landscape today, and proposals for actions to alleviate them:

1) Bottleneck: Regulations prevent federally guaranteed small business loan programs, like the Small Business Administration (SBA) and the State Small Business Credit Initiative (SSBCI), from reaching their full potential and making the much more significant impact they're capable of making.

   Recommendation: The guarantees provided by SBA loans and by the newly re-established SSBCI are a powerful feature that cry out to be paired with low-cost sources of funds. The Federal Home Loan Bank is a source of very low-cost capital, and it already funds small business loans made by banks. However, Federal Home Loan Banks do not currently allow CDFIs to pledge small business loans as collateral, even if they are substantially guaranteed by programs such as SBA and SSBCI. The opportunity cost for CDFIs resulting from this capital inefficiency is enormous, because when capital is used to fund loans backed by guarantees, the capital can be multiplied and recycled on a more than 5-to-1 basis – meaning $1 million of capital can support about $5 million in guaranteed loans – and that ratio grows far higher when assuming loan repayment.

   It is clear that restrictions like the FHLBs' not only represent an enormous lost opportunity for CDFIs to gain access to low-cost capital, but also amount to a significant underutilization of the power of the SBA, SSBCI and similar programs offering guarantees. This gap is ripe for Congress to close, and Congressman's Torres's bill would be a positive step in that regard.

2) Bottleneck: Even though the FHLB does not experience defaults from member institutions, it assigns CDFIs a lower credit score than banks, which increases CDFIs' collateral requirements when borrowing from the FHLB and reduces their advance rates, as compared with banks. In other words, the FHLBs' policies for CDFIs prevents CDFIs from maximizing the impact that their capital can deliver.

   Recommendation: Require the FHLBs to assign CDFIs the same credit rating as banks, and/or create a loan credit enhancement fund that can be drawn down to provide the incremental collateral associated with CDFI borrowing.

3) Bottleneck: High minimum borrowing thresholds for the CDFI Bond Guarantee program are out of step with the CDFI landscape, where the median asset size in 2020 for all categories of CDFIs was $28.2 million, and for CDFI Loan Fund – which accounts for more than half of all CDFIs - was just $9.5 million.[4] The effect is to severely limit the

[4] Community Development Financial Institutions Fund, 2020 Annual Certification Report, October 6, 2021, p. 33. https://www.cdfifund.gov/sites/cdfi/files/2021-10/ACR_Public_Report_Final_10062021_508Compliant_v2.pdf

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number of CDFIs that can take advantage of the CDFI Bond Guarantee program, which in turn limits the availability of capital for the communities that CDFIs serve.

Recommendation: By lowering the CDFI Bond Guarantee from $100 million to $25 million, as proposed by Chairwoman Waters and Congressman Cleaver, smaller CDFIs will gain greater access to capital.

4) Bottleneck: The anachronistic state-by-state licensing requirement for CDFIs not only limits how quickly capital can be distributed but also how effective the CDFI designation can be as a force for displacing predatory lenders with responsible lenders.

   Recommendation: CDFIs should be exempted from state-by-state licensing requirements, thereby bringing about three clear benefits: i) CDFIs can move much faster to deploy capital where it's needed, ii) CDFIs can more easily attain the risk management benefits of geographic diversification, and iii) many more lenders would be motivated to attain CDFI designation, which would have the effect of significantly increasing the supply of capital provided on responsible terms and, through market forces, make predatory lending businesses less economically viable.

5) Bottleneck: No contingency has been made to ensure that, the next time there is an acute crisis facing small businesses, CDFIs will have rapid access to capital to support the disproportionately minority-owned small businesses that do not have traditional banking relationships.

   Recommendation: In order to respond with agility in the next crisis for small businesses, and especially for those that are underserved by traditional banks, CDFIs must have direct access to the Federal Reserve discount window, as proposed by Chairwoman Waters, rather than be dependent on other banks for capital. A further advantage of establishing Fed access for CDFIs would be that banks seeking to gain CRA credit would be incentivized to provide something else of value to CDFIs beyond capital, while allowing for flexibility and creativity in bank-CDFI relationships (e.g., one CDFI might want a partnership for customer acquisition to help keep costs down, another may want access to a technology, etc.).

6) Bottleneck: There does not currently exist a system for measuring and reporting on the progress of Treasury programs geared to Socially and Economically Disadvantaged Individuals (SEDIs) in deploying allocated capital to institutions in accordance with those programs' missions.

   Recommendation: Treasury programs that are geared to SEDIs should have accountability to ensure that deployers of capital report their performance so that progress in fulfillment of their missions can be measured, with the expectation of annual performance improvement.

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7) Bottleneck: There is not a single federal point of coordination for minority lending institutions to maximize their impact.

   Recommendation: Congress has taken multiple actions to support the CDFI and MDI ecosystem. It would be transformational for there to be a dedicated office, as proposed by Chairwoman Waters, focused on the following: 1) Supporting the growth of MLIs; 2) Helping with both policy and regulatory matters for current and new MLIs; and 3) Collaborations between MLIs and technology partners.

IV. Conclusion

Congress has allocated significant capital to be available to CDFIs and MDIs to help address the capital availability disparity for underserved communities. Through further focused action, Congress can act to ensure allocated capital reaches its intended end-users more quickly, with a larger multiplier effect, and through more distribution points. At stake is nothing less than the opportunity to narrow the racial wealth gap and harness market forces to replace predatory loans with responsible capital. We believe that our proposed solutions are common-sense ways to address real-world challenges, and hope that they garner bipartisan support. We look forward to working with you and members of Congress on both sides of the aisle on these critical challenges in the weeks and months ahead.

ACCION OPPORTUNITY FUND

**TESTIMONY BEFORE THE UNITED STATES
HOUSE COMMITTEE ON FINANCIAL SERVICES
BY
LUZ URRUTIA, CHIEF EXECUTIVE OFFICER
ACCION OPPORTUNITY FUND
ON FEBRUARY 16, 2022**

"An Unprecedented Investment for Historic Results: How Federal Support for MDIs and CDFIs Have Launched a New Era for Disadvantaged Communities"

Good afternoon, Chairwoman Waters, Ranking Member McHenry, and Members of the Committee.

I am pleased to join you today to discuss the critical role of Community Development Financial Institutions (CDFIs) and Minority Development Institutions (MDIs) in providing essential financial products and services to underbanked communities.

My name is Luz Urrutia, and I am the CEO of Accion Opportunity Fund—a leading CDFI providing capital, networks, and coaching to under-resourced and underbanked entrepreneurs. Prior to joining Accion Opportunity Fund, I spent almost 20 years at Wachovia, led expansion efforts for companies like Oportun and Dollar Financial Group, and founded El Banco de Nuestra Comunidad—a Georgia-based community bank for the underbanked Hispanic population. I have served as an expert in small business and consumer finance on several government-appointed boards and commissions, including the Consumer Advisory Council of the Federal Reserve Bank and the Consumer Financial Protection Bureau (CFPB) Consumer Advisory Board. My entire career has been focused on financial services, with the bulk of my experience devoted to serving unbanked and underbanked populations across all parts of society.

Accion Opportunity Fund

Small businesses uplift communities and anchor local economies, while creating opportunities for themselves, their families, their employees, and our neighborhoods. Yet underserved entrepreneurs—primarily people of color, women, and immigrants—struggle to secure capital and resources. For over 25 years, Accion Opportunity Fund has deployed over $1 billion in small business loans and New Market Tax Credit (NMTC) investments to underbanked resourced entrepreneurs and low-income communities across the country. Over 80% of our borrowers identify as people of color with nearly one in three identifying as female. Sixty-three percent are of low-to-moderate income. In the last year alone, we supplied $124 million in small business loans to nearly 3,000 entrepreneurs across the country.

In combination with our lending and community development efforts, Accion Opportunity Fund provides free technical assistance and educational resources to all small business owners, including those that are not Accion Opportunity Fund borrowers. In 2021, we had nearly 1 million visitors to our 24/7 online Business Resource Library and provided close to 5,000 small business owners with direct programming.

Transforming federal dollars into impact

As the nation engaged in the public health battle against COVID, the pandemic dealt heavy blows to Main Streets across the country. In the best-case scenario, businesses could pivot their business models to adapt to the ever-changing environment. In the worst-case scenario—and the unfortunate reality for many—businesses were forced to lay off employees and shutter doors permanently. At the height of the pandemic, Yelp reported 163,000 business closures with about 60% of businesses never re-opening.[1]

To face these unprecedented challenges, unprecedented resources were required. Accion Opportunity Fund is grateful for the federal government's support to small businesses in the form of Paycheck Protection Program (PPP) loans and supplemental funding for CDFIs and MDIs. For our part, Accion Opportunity Fund provided nearly $34.5 million in PPP loans to 2,100 diverse small business owners. We actively sought to serve the smallest of businesses at a time when the most prevalent PPP lenders prioritized existing banking relationships and larger, more profitable businesses.[2] In fact, our average PPP loan size amounted to $16,400—less than a quarter of the national average of $67,650.[3] Furthermore, at a time when the rate of PPP lending to majority-White neighborhoods was higher than those for any majority Asian, Black, or Hispanic neighborhoods in most large metro areas, 58% of our PPP loans went to people of color and 42% to women.[4]

When the smallest businesses and those owned by women and entrepreneurs of color needed immediate capital relief and support the most, CDFIs and MDIs rose to the challenge. Across the board, Community Financial Institutions (CFIs), including CDFIs and MDIs, made more than $34 billion in PPP loans—*more than double* the $15 billion reserved originally for

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[1] Yelp, Local Economic Impact Report, September 2020.
https://www.yelpeconomicaverage.com/business-closures-update-sep-2020
[2] New York Times, "Minority Entrepreneurs Struggled to Get Small-Business Relief Loans," April 2021.
https://www.nytimes.com/2021/04/04/business/ppp-loans-minority-businesses.html
[3] Small Business Administration (SBA), "Paycheck Protection Program (PPP) Report," May 2021.
https://www.sba.gov/sites/default/files/2021-06/PPP_Report_Public_210531-508.pdf
[4] Los Angeles Times, "Businesses in majority-white communities received PPP loans at higher rates, analysis shows," May 2021.
https://www.latimes.com/california/story/2021-05-01/ppp-loans-coronavirus-pandemic-businesses-trump

CFIs to lend under the program. Better yet, 78% of loans made by CFIs were under $150,000.[5]

As part of the historic $12 billion in capital investments and grants authorized by Congress to support CDFIs and MDIs, $3 billion was set-aside for non-depository institutions like ours. In June 2021, Accion Opportunity Fund received $1.8 million in Rapid Response grant funding. Our organization utilized the award to test and expand our underwriting criteria to reach more small business owners than before. We were able to extend loans to start-up businesses with just three months of operation and to businesses with lower annual revenues. We also utilized the funding to lower pricing for qualified loan recipients—on average, our interest rates were brought down by 5%.

Combined, the $1.8 million in Rapid Response Program funding allowed us to issue up to 400 new $10,000 loans to small businesses that would have otherwise been declined due to projected higher risk *and* lower the price on an additional 250 loans at an average loan size of $24,000. Ultimately, we were able to leverage the $1.8 million to provide $10 million in loans to under-resourced entrepreneurs.

Combining federal aid with targeted, regional assistance

In the past two years, a number of funds were launched to support small businesses that did not receive sufficient federal funds—the New York Forward Loan Fund in June 2020, the California Rebuilding Fund (CARF) in November 2020, the Southern Opportunity and Resilience (SOAR) Fund in April 2021, and the Washington State Small Business Flex Fund in July 2021.

Together, these programs have raised more than $315 million in private capital to leverage public funds from participating states and, so far, have made $200 million in loans to more than 3,300 small businesses through a network of 25 participating CDFIs.

In addition to delivering federal funds through the Paycheck Protection Program (PPP), Accion Opportunity Fund led initiatives at the state level to offer more affordable capital to small business owners impacted by COVID. In our home state of California, we led the charge to create the California Rebuilding Fund—a public-private partnership that matches small businesses located in economically-disadvantaged and historically-underbanked areas of the state with 14 CDFI lenders. Funding for the California Rebuilding Fund was aggregated from an innovative array of private, philanthropic, and public-sector sources, including the State Small Business Credit Initiative (SSBCI). Businesses employing 50 or fewer full-time employees with gross revenues of less than $5 million are eligible to receive low interest rate loans up to $100,000 and free technical assistance/business support. Accion Opportunity Fund is the largest lender in the California Rebuilding Fund, having already provided $28.2 million to 527 small business owners negatively impacted by COVID.

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[5] Opportunity Finance Network (OFN), "PPP Winds Down with CDFIs as Top Lenders," June 2021. https://ofn.org/articles/ppp-winds-down-cdfis-top-lenders

Outside of our home state, we are also one of a dozen CDFIs taking part in the Southern Opportunity and Resilience (SOAR) Fund—a regional loan fund spanning 15 southern states. Small business owners in states like Texas, Georgia, Tennessee, and North Carolina who have suffered financially from the pandemic can apply for low interest loans of up to $100,000 and receive free business support. Like the California Rebuilding Fund, the SOAR Fund received capital infusions from philanthropic and corporate partners like the David and Lucile Packard Foundation, JP Morgan Chase, and Microsoft.

Without public-private partnerships like the SOAR Fund, small business owners, like Ethea in Houston, would not have been able to find opportunities to expand during the chaos of the pandemic. After being laid off, Ethea started her own business so that she could never be put into a place of unemployment again. She began sourcing and selling Ghanaian waist beads—strands of beautiful glass beads meant to be draped around one's waist—as a means of connecting other Black women to their African diaspora roots. During the pandemic, she opened a second business, Wrapped and Waisted, and channeled her SOAR funding into inventory, rent, and payroll for the new location.

To date, the CDFIs in the four funds have made nearly $200 million in loans at an average loan size of approximately $59,000, and we have seen exciting results in reaching chronically underbanked businesses, including:

- 90% of loans having been made to businesses with 10 or fewer employees and less than $1 million in annual revenue (i.e., Very Small Businesses under SSBCI definitions)
- 65% of loans having gone to businesses owned by women and/or Black, Hispanic, Asian, or Native entrepreneurs
- 80% of loans having gone to businesses that would qualify as owned by Socially and Economically Disadvantaged Individuals (SEDI) under SSBCI guidance
- Overall, 98.4% of the businesses funded meet the definition of either a SEDI business or a Very Small Business.

Bridging gaps with private partnerships

Beyond channeling government funds into the hands of entrepreneurs, Accion Opportunity Fund sought new philanthropic and corporate partnerships to provide supplemental support to entrepreneurs. When small business owners shut down amid stay-at-home orders and struggled to cover existing debt obligations, we were able to provide over $10 million in debt payment relief to more than 5,000 small businesses through deferrals and forgiveness enabled by generous institutional and individual donors.

In addition to raising grant funds from institutional partners, we also established partnerships with corporations to raise loan capital and investment to under-resourced entrepreneurs. In April 2021, Accion Opportunity Fund entered into a partnership with American Express where they committed $40 million in patient, lower cost capital that we will leverage to provide $125 million in affordable loans to small Black-owned businesses, with the hopes of helping to support a more equitable financial system.

Latrice, an entrepreneur, Navy veteran, wife, and mother, benefited from this American Express partnership. She opened her Austin-based technical support business in February 2020. In need of a full-time operations manager, however, Latrice came to Accion Opportunity Fund after having worked with other lenders that did not offer the flexibility or terms that made financial sense for her business. Her Accion Opportunity Fund loan—her first-ever business loan—not only helped her hire an operations manager, but scale her company.

Corporate partnerships were not only essential to funding. We also launched partnerships to scale our education and network resources to reach more small business owners than ever before—at a critical time when existing business owners were looking for ways to transition their business models and never-before entrepreneurs were motivated to start their own ventures out of a mixture of opportunity and necessity.[6]

The pandemic disproportionately affected women, devastating female-dominated industries and leading the U.S. into its first "shecession," with job losses affecting women more than men.[7] As a result, women turned to entrepreneurship, spurring a wave of first-time business ventures. Research from Gusto and the National Association of Women Business Owners (NAWBO) reports that 49% of businesses launched in 2020 were founded by women.[8]

Our educational programming took aim at both supporting existing firms and uplifting burgeoning businesses—particularly those owned and operated by women and entrepreneurs of color. In 2021, our 24/7 online Business Resource Library attracted over a million visitors, and our direct programming reached nearly 5,000 entrepreneurs, with more than 65% of participants identifying as women, and roughly 75% identifying as people of color.

This includes our one-on-one coaching program that provided personalized business coaching to over 750 entrepreneurs in the last year, collaborating with non-profit and corporate partners like TrustPlus, Samuel Adams, and FedEx to address the individual needs of each business owner. Our business advisors had front row seats to witness and support small business owners and budding entrepreneurs during the pandemic. Among the entrepreneurs we supported through this program, a majority reported being women and entrepreneurs of color. We also hosted 30 webinars in the same year on relevant topics, such as how to access government COVID assistance and manage cash on-hand during

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[6] New York Times, "Surge in start-ups is a surprise in the pandemic economy," February 2021. https://www.nytimes.com/2021/02/17/business/pandemic-entrepreneurs.html

[7] The Guardian, "The 'shecession': why economic crisis is affecting women more than men," August 2020. https://www.theguardian.com/business/2020/aug/04/shecession-coronavirus-pandemic-economic-fallout-women

[8] Gusto, "Who Started Businesses During the Pandemic? A Survey of Women Starting Businesses During COVID," March 2021. https://gusto.com/company-news/who-started-businesses-during-the-pandemic-a-survey-of-women-starting-businesses-during-covid

emergencies. These webinars attracted more than 4,600 views from 49 states—again, with most attendees identifying as women or entrepreneurs of color. Many of our courses and webinars are done in Spanish to support Spanish speaking and Limited English Proficiency customers.

CDFIs, with our expertise and decades of community lending, were able to supply the hardest-hit communities with the financial means and educational support needed to weather the pandemic. We were able to do this with the unprecedented federal aid supplied to us in response to COVID and the additional government, philanthropic, and corporate partnerships we sourced.

The future of CDFIs

As we transition to life beyond the pandemic and the necessary crisis-level response from the government, CDFIs will benefit from bipartisan policies that use the vast resources of the federal government to attract private investment and capital. I believe that everyone on this committee wants to see a level playing field for entrepreneurs that have talent, determination and grit to build and scale a business, but may be held back by historic inequities and lacking the resources they need. To continue delivering affordable capital to the smallest businesses and work our way toward a more equitable financial system, we offer the following recommendations:

I. **Increase CDFI lending capacity**

CDFIs have proven their ability to deliver on capital promises and affect real change in the communities they serve for over 40 years. In order to continue and significantly expand this work, increasing the lending capacity of CDFIs would be critical to sustain our progress.

We believe that many provisions discussed in today's hearing would be beneficial in expanding CDFI resources and reach.[9] We find the provision requiring 40% of all CDFI Fund appropriations to be reserved for minority lending institutions (MLIs)—depository and non-depository—would be a welcome boost to CDFIs that consistently serve underrepresented populations.

We ask that this be paired with an increase in annual appropriations to the CDFI Fund; the CDFI Fund should be robustly funded at $1 billion annually given the historic work and impact of CDFIs. In doing so, CDFIs of all sizes would benefit from expanded lending and technical assistance support. We also ask that CDFI Fund financial awards be allocated more proportionally according to organization size and lending activity. For example, CDFIs with

[9] Committee on Financial Services, "February 16, 2022, Full Committee Hearing entitled, "An Unprecedented Investment for Historic Results: How Federal Support for MDIs and CDFIs Have Launched a New Era for Disadvantaged Communities," February 2022. https://financialservices.house.gov/uploadedfiles/hhrg-117-ba00-20220216-sd002.pdf

drastically different portfolio sizes have been awarded the same amount of CDFI Financial Assistance (FA) and Technical Assistance awards. It would be prudent and more impactful to allow for more funding to the organizations that wish to scale their lending and/or technical assistance and can prove portfolio and customer growth.

Organizations with the capacity to lend across state lines should be given the opportunity of adopting a national charter. Because lending caps and regulations vary drastically from one state to another, offering financial products across state lines requires a tremendous amount of legal complexity and cost that many CDFIs—despite ample lending capability—cannot shoulder. In markets where CDFI presence is minimal, this limitation restricts the amount of capital flowing to under-resourced entrepreneurs.

Instituting a national charter would allow for CDFIs, proven lenders with responsible track records, to compete more fairly in a marketplace that already tilts in favor of less transparent lenders. In doing so, a national charter would allow CDFIs to reduce their costs of operation, create partnerships between larger CDFIs and smaller ones, and ultimately provide small business owners with more freedom and choice when navigating financing options.

Regarding other provisions we support: the small-dollar loan program will allow CDFIs to provide low-cost loans to people that are denied by banks (and give them safe alternatives to debt-trap products); the establishment of the Supporting Young Entrepreneurs Program as a unique public-private partnership will cultivate start-ups by underserved entrepreneurs; and, while we are not a depository institution, the idea of impact banks and the mentor-protege program will help MDIs.

Furthermore, we support the proposed technology grants that would increase CDFI capacity to invest in operational support, including operations, technology, systems, and talent and fuel their on- and off-balance sheet growth. In addition, we recommend that marketing for customer acquisition be specifically covered under the grants as this is one of the major challenges CDFIs experience to scale. Finally, support for CDFIs, particularly the smallest ones, to help apply for this funding will be critical as well.

II. Encourage sustainable public-private partnerships

Public-private partnerships, enabled by the Treasury Department's State Small Business Credit Initiative (SSBCI) program, should be made a permanent fixture of government policy. SSBCI was created through the Small Business Jobs Act of 2010 following the Great Recession and enabled states with the flexibility to deploy a limited menu of high impact credit enhancement programs—capital access programs, guarantees, collateral support programs, loan participations, and venture funds. It is a proven mechanism and a highly efficient way to use government funds to spur private capital into entering small business credit markets that are traditionally deemed too risky to enter. For every $1 provided by the federal government, the initiative required that at least $10 in capital be leveraged from the private sector.

Accion Opportunity Fund was the most prolific user of the original SSBCI Capital Access Program across the nation, accounting for over 4,700 transactions with an average loan size of $12,000. We were pleased to see that SSBCI was renewed in response to the pandemic and are looking forward to leveraging the funds and programs to drive more capital into the hands of under-resourced small business owners.

SSBCI enabled the launch of the California Rebuilding Fund which helped to attract bank and corporate lenders with capital to support lending to small businesses impacted by COVID.

III. Financial inclusion through financial innovation

We firmly believe that financial innovation can lead to greater financial inclusion. Accion Opportunity Fund has partnered with financial technology companies, or FinTechs, to provide capital to entrepreneurs that would otherwise be denied for financing. Working in conjunction with firms like Lending Club and FundingCircle, we have fostered an ecosystem that allows for a smart exchange of ideas and practices, ultimately providing small business owners with greater ease in application experience and more affordable capital for their businesses.[10]

Paired with the technology grants mentioned earlier, encouraging innovative partnerships between the non-profit and for-profit sectors would help bring mission-oriented CDFIs and MDIs to the forefront of the marketplace and foster greater financial inclusivity. We encourage Members of the Committee to focus on this area of importance as we look towards the future.

IV. Transparency and competition in the marketplace

Accion Opportunity Fund is committed to financial innovation and smart regulations that help American entrepreneurs secure the best financing options for their businesses. Transparency in small business lending is critical to ensuring that the businesses powering the nation's economy can make free and fair decisions about how to fund their growth. Too often, underserved entrepreneurs are denied access to capital and, in desperation, turn to bad actors that trap them into cycles of debt, with some entrepreneurs misled into paying annual percentage rates (APRs) as high as 350%.[11]

As a founding member of the Responsible Business Lending Coalition (RBLC)—a bipartisan consortium of non-profit and private lenders, advocates, and investors—Accion Opportunity Fund supports legislative and regulatory efforts that require all small business lenders to disclose the full terms of their lending products, including APR, so that small businesses have

[10] LendingClub, "LendingClub Partners with Opportunity Fund and Funding Circle, Increasing Financial Inclusion and Small Businesses' Access to Credit," April 2019.
https://www.prnewswire.com/news-releases/lendingclub-partners-with-opportunity-fund-and-funding-circle-increasing-financial-inclusion-and-small-businesses-access-to-credit-300835943.html

[11] Accion Opportunity Fund, "Unaffordable and Unsustainable: New Business Lending," May 2016.
https://aofund.org/news/unaffordable-and-unsustainable-new-business-lending/

the necessary information they need to make apples-to-apples comparisons.

From truth in lending legislation to the implementation of Section 1071 of the Dodd-Frank Act, we believe these initiatives can encourage the development of more inclusive and higher-quality small business financing offerings simply by creating transparency into how the market is working today. Regulation that creates transparency to help the market improve its own behavior is a market-based, pro-competition alternative to imposing strict rules or costly subsidies.

Closing

I will conclude by sharing our gratitude for the many ideas we have seen from this Committee—including the series of provisions discussed in today's hearing to provide greater support for CDFIs and MDIs. The pandemic crucified small businesses across the country in a manner that fully unearthed our nation's racial wealth gap, and while CDFIs and MDIs were able to help provide for small businesses during this time, it is critical that the progress and momentum generated in the last two years continue onward. From maximizing the potential of the federal government's investment, to leveraging these funds to attract corporate and private capital and building public-private partnerships, our organizations have moved full force in providing capital and support for under-resourced entrepreneurs.

Much more needs to be done in the form of increasing CDFI and MDI lending capacity, encouraging novel partnerships and technology, and clearing the way for full transparency in the marketplace. I believe the Members of this Committee will invest in the support and resources to get this done.

Thank you.

BANK POLICY INSTITUTE

Statement by the Bank Policy Institute

Before the U.S. House Committee on Financial Services
'An Unprecedented Investment for Historic Results: How Federal Support for MDIs and CDFIs Have Launched a New Era for Disadvantaged Communities'

Feb. 16, 2022

Chair Waters, Ranking Member McHenry and members of the U.S. House Committee on Financial Services:

The Bank Policy Institute appreciates the Committee holding this hearing. BPI and our member institutions recognize the tremendous role that community development financial institutions (CDFIs) and minority depository institutions (MDIs) play in supporting historically underserved communities and populations.

In June 2021, BPI published a report featuring 30 best practices for banks as they intensify their efforts to support racial equity. The report, titled "The Time is Now: 30 Best Practices to Help Improve Outcomes in Black Communities," was the culmination of a year-long collaboration between BPI and its members to identify, study and share innovative steps banks are taking to deepen engagement within Black communities and increase financial inclusion opportunities – practices which many BPI member banks have already adopted.

Excerpts from the section of the report focusing on CDFIs and MDIs and offering specific recommendations are included below.

CDFI and MDI Opportunities
Community Development Financial Institutions (CDFIs) and Minority Depository Institutions (MDIs) are excellent delivery systems for financial resources in underserved communities. CDFIs are mission-driven organizations that provide a high-touch customer experience as well as culturally appropriate marketing and customer service. MDIs are depository institutions that are majority-owned by minority individuals. They help customers who may not engage with larger depository institutions or who do not feel valued by "mainstream" financial institutions. Most of the Black-owned MDIs are also certified CDFIs and their community development missions are built into their DNA, predating the creation of the U.S. Treasury's CDFI Fund, which was established in 1994 to certify CDFIs and support them with resources. The CDFI Fund has been historically underfunded relative to the demand in the marketplace. In short, CDFIs and MDIs often serve as a bridge for customers as they improve their financial health enroute to deeper engagement with the broader financial system.

These institutions play a critical role, but due to the chronic economic challenges faced by their customers and their stakeholders in general, these institutions could benefit from increased support. Black-owned MDIs have experienced challenges in recent years; declines in the past decade have left only 20 of these MDIs that primarily serve Black American customer bases.[1] Unfortunately the need for their services has not declined, as Black Americans remain far more likely to be underbanked compared to their White counterparts. Fifty percent of Black American households are unbanked or underbanked.[2]

CDFIs are an especially important delivery mechanism of capital to Black-owned small businesses that have been decimated during the pandemic; reports indicate that nearly half of the United States' Black-owned small firms have had to shut their doors.[3] A benefit to partnering banks, which must always be cognizant of the risks in their capital allocation, is that CDFIs have specialized risk management knowledge about their customers and how to ensure timely and fair repayment, which can promote risk-managed lending. With more support from banks, these institutions could significantly improve their reach, a significant benefit to the communities they serve.

Best Practice 17: Banks should consider bold partnerships, anchored by CDFIs and MDIs, which will result in significantly more lending directly to Black American consumers and businesses. *Banks could work with CDFIs* and MDIs to build more formal partnerships focused on providing different kinds of resources but sharing a singular focus of dramatically addressing pervasive economic inequality in American Black communities. Diverse stakeholders such as state, local and federal governments, the foundation sector, the non-profit sector, universities, high net worth individuals and corporate entities could all participate. There are different roles that can be played, including:

- Corporations, banks, foundations and high net worth individuals could work together to:
  - Provide large grants to or invest in preferred equity of MDIs/CDFIs
  - Partner with MDIs/CDFIs on various revenue-generating business opportunities as appropriate
  - Partner in providing deposits as needed for liquidity
  - Support operational improvements and efficiencies at MDIs/CDFIs by:
    - Helping to build and scale improved data science and analytics capabilities
    - Helping invest in superior technological capabilities
    - Leveraging their own personnel to provide relevant technical assistance to MDIs/CDFIs
- Government entities could work with the other coalition members to explore how to augment appropriate levels of subsidy or other means to support risk sharing across the deployment of various products or across various specific projects in partnership with MDIs/CDFIs. Forms of subsidy exist in various iterations but now is a time to explore how to optimize these policy tools given the high levels of interest by the private and non-profit sectors in increased investment in financially underserved communities.

For these partnerships to be successful, they will need coordination between bank partners and other stakeholders. These partnerships can take various forms. Banks should lead these conversations given their financial strength, technical expertise, varied customer networks, government and non-profit relationships and convening abilities. Establishing such a coalition and exploring ways to scale such a model to communities in need across the U.S. could have a powerful, sustainable and transformative impact for decades to come. BPI staff has engaged various relevant stakeholders in conversations about similar models and can help direct your personnel to these contacts accordingly.

Best Practice 18: Banks should help CDFIs and MDIs invest in compliance and customer-facing technologies. Banks have been investing in technology to drive efficiencies and better serve their customers for some time, but more must be done *to help build and scale these solutions* for MDIs and CDFIs which historically have not had the extra resources to invest in new technologies. If banks were to provide grants to help them transition away from legacy systems and customer-facing technologies, MDIs and CDFIs could benefit from improved customer acquisition and increased revenues. At a minimum, banks could leverage their significant technology talent to provide technical assistance to MDIs and CDFIs as they pursue these sorely needed investments. This could be done on a volunteer basis or through programmatic delivery systems such as endowed internships/fellowships for this express purpose.

Best Practice 19: Banks should support financial resilience in the MDI and CDFI sectors by investing in their equity and providing guarantees or credit facilities as appropriate. MDIs, which are more like traditionally regulated depositories than CDFIs, could be strengthened through more capital, and there is an opportunity for *larger banks to provide it.* The majority of CDFIs are loan funds and therefore not subject to capital regulation, but there are other mechanisms to *help bolster their financial stability* as well. Investing in the resilience of these institutions is currently a bipartisan policy priority in Congress, and banks' involvement in providing lifelines to these entities would be a significant benefit to the communities that they serve.

Best Practice 20: Expand project-specific investment partnerships with MDIs and refer rejected loan applicants to CDFIs and MDIs. What deals can be worked on in tandem with MDIs that will help increase their cash flow and ultimately return on equity? Banks should consider where MDIs could fit into various aspects of their business and decide if there is room to *engage an MDI or several as potential partners* in the provision of products, services or processes such as payments transactions, loan participations or Community Reinvestment Act projects. This approach would be especially powerful when paired with capital injections into these MDIs. Additionally, banks could also help credit applicants they have rejected seek out other options to meet their needs. A customer may not yet be prepared to borrow from a more mainstream bank, but banks could earn goodwill (and a potential future customer relationship) by referring a rejected applicant to MDIs or CDFIs. Banks have reported that this model is an effective one for making connections with new customers while helping them meet their needs.

Thank you for your consideration of our comments. Attached is a full copy of the report.

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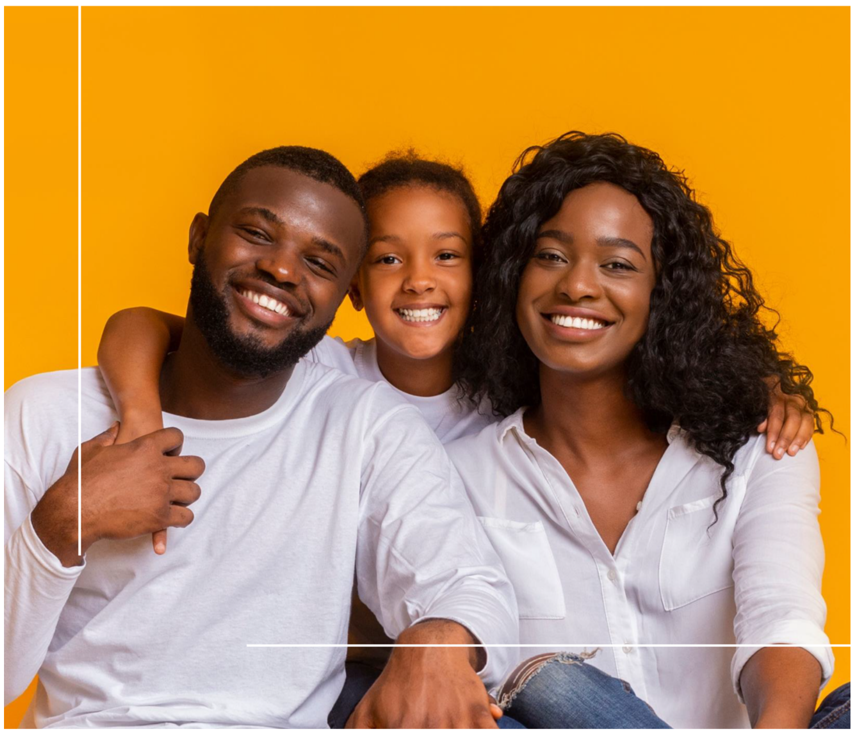
[1] https://www.fdic.gov/regulations/resources/minority/mdi.html
[2] https://www.fdic.gov/householdsurvey/
[3] https://www.nytimes.com/interactive/2020/06/18/us/coronavirus-black-owned-small-business.html

The Time Is Now: 30 Best Bank Practices to Help Improve Outcomes In Black Communities

BANK POLICY INSTITUTE

June 28, 2021



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Introduction

Americans of color, particularly Black Americans, face significant, interconnected barriers that have led to persistent financial and economic inequality and unacceptable outcomes across quality of life indicators, particularly regarding health care, education and wealth accumulation. While economic exclusion is a persistent problem for all marginalized communities, this document focuses primarily on the Black community. The Federal Reserve's most recent statistics show that Blacks experience adverse credit outcomes across all income levels, with Black adults with incomes over $40,000 a year more than twice as likely as Whites to have credit applications denied. Nearly one in five Black adults making over $100,000 a year reports being denied credit, more than twice the rate of White adults. And the rate of Black adults who are unbanked is more than double the rate of adults overall. [1]

The banking sector is the primary source of financial intermediation, providing credit and channeling savings into productive use. There is, undoubtedly, a complex historical element to acknowledge, from the use of Black American slaves as collateral[2] to the establishment of "plantation banks" that leveraged plantation and slave asset values as the basis for the expansion of bank operations.[3] In slavery's aftermath, the mainstream banking system remained largely closed to Black Americans, and so large-scale benefits of financial inclusion were denied to the community as a whole. [4]

Even deep into the 20th century, there was little economic advancement and financial inclusion for most Black Americans. [5] This disparity persists to the modern day, driven by the shortcomings of past policy, neglect and intentional exclusion. [6] The Social Security Act initially excluded domestic and farm workers, who were disproportionately Black, at the time of its passage, [7] and the federal government's Home Owners' Loan Corporation's[8] red-lined community maps led to private-sector financial exclusion of Black communities for decades and ensured that economic growth tied to homeownership was elusive for Black Americans. [9] These disparities persisted despite the passage of federal legislation in the latter part of the 20th century, such as the Equal Credit Opportunity Act, the Fair Housing Act and the Community Reinvestment Act. Into the early 2000s, Black borrowers paid more for subprime loans than their White counterparts, even controlling for credit profile.[10] Even in recent times, there has been a growing gap between White and Black homeownership rates, in part tied to higher unemployment and longer duration of unemployment experienced by Black workers. [11] Today, the Black unemployment rate is nearly double that of the White unemployment rate. [12] With the recent public debate about systemic racism and the reality of Blacks' position in modern American society, many are exploring what can be done to improve conditions in Black communities. As a part of these discussions, it makes sense to explore how to prioritize economic inclusion. [13]

Banks must be a part of the solution if there is to be meaningful change in improving outcomes for Black Americans. Many banks have worked to develop and implement strategies that seek to address racial equity concerns within their organizations and in their communities for many years, but the events of 2020–the disproportionate impact of the pandemic on Black communities and the global response to the murder of George Floyd–have spurred fresh thinking, engagement and action. These strategies have involved deep internal and external stakeholder engagement coupled with significant investments and innovative strategies. These areas of focus include increased small business lending, increased affordable housing lending or development financing and exploring methods to significantly increase omnichannel access to banking services.

After consultation with our member banks, BPI has catalogued below a number of best practices that banks may consider to help reduce economic difficulties facing Black Americans and advance the cause of equality. BPI banks are already pursuing many of these innovative strategies, and we hope that profiling these approaches will give all banks the opportunity to consider which practices are most appropriate to their engagement strategy.

Best Practices

Diversity, Inclusion, Philanthropy and Partnerships

Banks are working to promote progress in their own organizations and externally as well. These efforts have manifested themselves in disparate strategies as banks are selecting tactics that are best suited to their resources and the needs of their communities. Internally, BPI banks have been optimizing their diversity, equity and inclusion practices and programming. Externally, banks are looking at ways to immediately expand their philanthropic activities and boost their partnerships with other entities in ways that will benefit impacted communities and maximize the desired effects.

BPI member banks have been working with their teams to identify concrete next steps to ensure that their diversity, equity and inclusion efforts are meaningful and impactful. They have been engaging with employee resource groups, performing personnel check-ins, holding diversity dialogues around racial injustice and observing Juneteenth. Some firms have held "How to Be an Active Ally" discussions, while others have tied senior executive pay to diversity data improvements. Some programs have been underway for several years, but there is increased recognition that to move the needle on these seemingly intractable issues, new approaches and greater resources will be needed. BPI banks are aware that their racial equity strategy to recruit, retain and advance Black talent will make significant contributions to the broader cause of racial justice. They are also mindful that much more work needs to be done to ensure that diverse representation exists at the highest levels of the firm and that more accountability is needed to ensure that meaningful gains occur. BPI CEOs are also aware that leadership matters, and the tone for this set of issues must be set at the top to ensure proper resourcing and execution, particularly given the cross-functional nature of the work.

With regard to external engagement, BPI banks know that their philanthropy, partnerships and procurement actions should be driven by consultation with a diverse internal set of stakeholders with an eye towards constantly assessing the positive impact on the communities they serve. This year has been an inflection point, and banks are working to ensure that planned programming is executed quickly to speed resources to areas of great need and are doing the work of long-term strategic planning with these issues at the forefront of executives' minds as resource allocation and work plans are determined. This has resulted in tactical pivots to speed up the delivery of resources as well as expanded consultations as organizations do the important work of refining the opportunity sets for engagement to ensure that they are meeting areas of highest need. This has meant reinvigorating existing partnerships, seeking out new partners and exploring new areas of focus.

D+I EFFORTS

Best Practice 1: Continue listening to diverse voices on your team. Firms should continue to focus on elevating diverse voices on their teams and providing resources necessary to resolve latent concerns throughout the organization. This work is well underway at most BPI banks, while for some, this is a new effort. Most firms are ramping up engagements between firm leadership and their employee resource groups and holding internal town halls across business units in order to identify action items.

Best Practice 2: Ensure that D+I personnel report to the C-suite, CEO. Banks could consider elevating the function of Diversity and Inclusion at the firm ensuring that top diversity and inclusion officers serve at a senior level and report directly to the CEO or to the top of the house.[14]

Best Practice 3: Establish and invest in a cross-functional task force that will focus on executing needed changes that are identified by diverse personnel after robust consultation. Banks should consider establishing a permanent task force responsible for shepherding internal change addressing issues relevant to promoting diversity, equity and inclusion at the firm, from ideation to fruition. This task force should include personnel across business units and functions and should be properly resourced with requisite and continual access to the CEO or a designee, such as the D+I officer or a senior executive who reports directly to the CEO. This task force should be directed to leverage quantitative and qualitative approaches to improving the internal environment for underrepresented minorities. BPI banks that have pursued this tactic have leveraged existing metrics to observe trends and created dashboards for executive teams to identify areas for action using the metrics. This task force could also be responsible for working with other personnel at the firm to identify targeted external actions or philanthropic initiatives in addition to the work it is doing to execute internal change.

Best Practice 4: Publish diversity, equity and inclusion data. Define the metrics that matter related to the diversity of the bank workforce, equity in the relevant work outcomes for similarly situated personnel and the fostering of an inclusive workplace that welcomes and retains diverse talent. Firms should devote resources to tracking these data over time and publish the progress (or regress) for review by all stakeholders. This will help hold the bank accountable to the mission while also building credibility with external stakeholders. If the data do not improve meaningfully over a specifically articulated timeline, hold senior management accountable by, for example, tying executive pay to improved outcomes.

Best Practice 5: Establish robust policies focused on retention and promotion and invest in the pipeline. Tactics pursued by BPI banks include establishing or expanding mentoring programs, improving internal job opportunity communications, including flagging new opportunities for Black staff and creating a continual dialogue between Black employees and senior management, and establishing or expanding minority leadership development programs. Additionally, banks must work to ensure that the diversity of the applicant talent pool is deep and consider multiple diverse candidates for open roles, especially at the senior management or board level. Every open position should be filled after the consideration of a slate of candidates that should include minorities, especially underrepresented minorities in banking like Black Americans. Going further, banks should endow scholarships for finance, legal, computer science and engineering students and tie those to internships; tie the internships to permanent positions. They can achieve some of this by deepening their relationships with Historically Black Colleges and Universities (HBCUs). Additionally, they could identify high schools and junior high schools to "adopt" to execute programming related to banking to boost relationships and awareness.

Only ***intentionality*** can turn the pipeline into a truly diverse, equitable and inclusive workforce. Make it a priority to hire Black people and do it. Make them feel valued when they arrive and work to promote them and invest in their development. Make sure that your firm is not tolerating disparate outcomes for personnel of the same or substantially similar experience or skill.

PHILANTHROPIC SUPPORT

The pandemic and renewed focus on improving outcomes for Black Americans has created an important moment for philanthropy, with a surge in contributions. This could be an inflection point for a tailored delivery and injection of grants to diverse efforts, addressing pockets of need across the United States. To optimize this opportunity, banks should ensure that planning, communication and execution of philanthropic strategies are seamless and involve the whole organization, leveraging efforts across banking units as well as philanthropic operations.

Best Practice 6: Ensure that philanthropy works closely with business units, particularly those committed to community development and external outreach. To optimize delivery of funds for recipients, a "whole of organization" approach is necessary to leverage existing efforts across the bank. Senior management should ensure that this cross-functional collaboration occurs continuously. Absent senior leadership, bank units and the philanthropic arm can operate in silos which will hamper the scale of the impact that the bank could be having in its local and national footprints.

Best Practice 7: Empower bank personnel to assist in selection of philanthropic giving and spur personal involvement by matching your team members' generosity, tying efforts to workplace giving initiatives. Banks are listening to their employees' recommendations about new potential recipients of grant funding, with new types of organizations and new leaders emerging as potent partners for change. Some banks have chosen to match their employees' personal giving to causes of their choice, which can serve as a powerful incentive for personnel to develop a more outward-facing and charitable orientation.

Best Practice 8: Remove barriers to quick deployment of grant funds during the pandemic and broaden the permissible uses of funds. Several BPI banks are reassessing their grantmaking schedules and procedures to streamline the process and expedite payments to meet the massive social demands called for by the pandemic and the racial justice moment. Banks should also permit grantees to leverage the funding in more diverse ways, including for administrative expenses, given the significant revenue declines currently facing organizations.

Best Practice 9: As an industry, consider a massive joint investment in a particular sector or a fund. One possible model is the National Basketball Association team owners who have pledged to invest $300 million into a fund that addresses racial injustice. [15] (Since this would represent a collective industry action with potential market implications, banks should confer with legal counsel and potentially with relevant antitrust advisers to ensure that such a structure would comport with current law and regulation.) Joining forces would allow for larger-scale investments to be a powerful indication that the banking industry is committed to addressing pervasive inequality.

Best Practice 10: Bank foundations should explore partnerships with each other as well as with philanthropic operations in other sectors to scale up grants for diverse purposes even beyond banking. Banks could work with other corporations to help fill funding gaps for organizations with diverse missions, like education and healthcare. Several banks are already executing on this model with great success, partnering with foundations across their local geographic footprint to address racial and economic inequality. This combination of resources could leverage differing capabilities and areas of expertise and magnify the impact of the grant funding.

Best Practice 11: Never consider philanthropy a substitute for refining business practices to better serve overlooked communities or for emphasizing diversity and inclusion across the organization and its business processes. Firms should not be satisfied to give money to Black causes, as important as that giving can be. For significant economic change to occur, banks as lenders and employers need to do much more, as those dollars dwarf any philanthropic commitment.

MEANINGFUL PARTNERSHIPS THAT SCALE

As the work of racial equity continues, banks have a diverse set of organizations to consider supporting. To maximize their engagement, banks should consider their desired spheres of influence, goals and resources as well as their customers, employees, shareholders and potential partners' values and goals. After identifying partners engaged in work that aligns with their vision, banks should explore how to align national and local delivery of these services.

Best Practice 12: Focus on strategic partnerships with long-term impact and a scale appropriate to goals and reach. The most effective strategies for change require coordination at both the local and national level. Banks can partner with any number of entities and do great work with local organizations making an impact in their geographic footprints, but in addition should consider ways to optimize positive outcomes in Black communities by pursuing partnerships that have a local presence and a national reach. These organizations can help to build broader coalitions and are well-positioned to help banks refine their learnings, which can inform service delivery and improve outcomes.

Best Practice 13: Devise metrics to track partnerships, monitor goals and execution. "If you can't measure it, you can't improve it." Banks should closely monitor relevant metrics specific to their philanthropic engagements and partnerships to hold themselves and their partners accountable to specified goals and to address any areas that need improvement. Metrics would be specific to the engagement (e.g., loans disbursed to underserved borrowers, jobs created, houses built, lives saved, students educated).

Calibrating Banking Business Models to Expand Product Offerings and Drive Change

Best Practice 14: Work with regulators to keep customers in the banking system. Current banking agency guidance requires that banks charge off unpaid overdraft fees within 60 days of being incurred. [16] Often, in meeting this requirement, banks are forced to close the account. Beyond this, the charge-off is generally reported to a specialized reporting agency that impairs the customer's ability to open transaction accounts at other banks. This unnecessary result can and should be avoided to ensure that banks are not driving customers away from formal banking relationships but rather promoting deeper and safer engagements with the banking system. Banks should work with regulators to assess and deploy options for addressing this harm, by for example establishing special accounts that could help the customer address the shortfall responsibly without being involuntarily removed from the system entirely.

Best Practice 15: Expand small-dollar lending products as safer, more consumer-friendly alternatives to non-bank payday products. Too large a portion of American consumers face financial fragility; 65 percent of American households face hardship with a decrease in income and an expenditure spike. [17] As noted, Black Americans are especially vulnerable to an income shock. BPI banks should consider offering small-dollar loan and card products with consumer-friendly features that are also affordable and transparent. These products would serve as a viable alternative to payday loans while concurrently serving the borrowers' needs and helping them boost their credit profile. BPI recently secured CFPB approval for a Small Dollar Loan No-Action Letter template that banks should leverage to fashion their own iteration of small-dollar loan products. [18] BPI small-dollar lending research has demonstrated that these products could be highly useful in helping households deal with unexpected expenses. [19] These products, in conjunction with low-fee transaction accounts, could deepen banking system interactions by the unbanked and underbanked.

Best Practice 16: Consider offering low-fee transaction accounts with features that are attractive to unbanked and underbanked consumers. According to the FDIC, 17 percent of Black households are unbanked, meaning they do not have access to a bank account. The same FDIC study noted a correlation between being unbanked and turning to "alternative financial services."[20] Many BPI member banks have designed and offered low-fee or no-fee transaction accounts with features that are attractive to unbanked or underbanked consumers, and this could be a viable option to help more Black households engage with the banking system to develop deeper customer relationships and to access more affordable and consumer-friendly financial products than those available in the non-bank marketplace. [21]

One option for banks to attract underbanked and unbanked consumers is the Bank On program, which centers on low-cost deposit accounts and appears to be achieving major success in reaching its target population. Bank On certified accounts disproportionately associate with areas that are predominantly minority-populated, according to St. Louis Fed data analyzed by BPI – nearly 60 percent of accounts opened in 2017 were in ZIP codes that are more than 50 percent minority-populated. Likewise, Bank On accounts are disproportionately in areas that are predominantly low- or moderate-income.

CDFIs, MDIs, NMTC, LIHTC and CRA

BPI member banks are actively engaged in supporting the work of expanded community development finance across the United States. BPI members' efforts have boosted mission-driven lending that is transforming households and small firms while investing in neighborhood renewal and refurbishment across the United States. The difficulties presented by the COVID-19 virus have made worse already perilous conditions in many communities and left households, small businesses and entities of all kinds reeling. Banks are continuing to take these developments into account as they execute previous plans of action, renew their commitments and explore ways to expand their activities in this space.

CDFI AND MDI OPPORTUNITIES

Community Development Financial Institutions (CDFIs) and Minority Depository Institutions (MDIs) are excellent delivery systems for financial resources in underserved communities. CDFIs are mission-driven organizations that provide a high-touch customer experience as well as culturally appropriate marketing and customer service. MDIs are depository institutions that are majority-owned by minority individuals. They help customers who may not engage with larger depository institutions or who do not feel valued by "mainstream" financial institutions. Most of the Black-owned MDIs are also certified CDFIs and their community development missions are built into their DNA, predating the creation of the U.S. Treasury's CDFI Fund, which was established in 1994 to certify CDFIs and support them with resources. The CDFI Fund has been historically underfunded relative to the demand in the marketplace. In short, CDFIs and MDIs often serve as a bridge for customers as they improve their financial health en route to deeper engagement with the broader financial system.

These institutions play a critical role, but due to the chronic economic challenges faced by their customers and their stakeholders in general, these institutions could benefit from increased support. Black-owned MDIs have experienced challenges in recent years; declines in the past decade have left only 20 of these MDIs that primarily serve Black American customer bases. [22] Unfortunately the need for their services has not declined, as Black Americans remain far more likely to be underbanked compared to their White counterparts. Fifty percent of Black American households are unbanked or underbanked. [23]

CDFIs are an especially important delivery mechanism of capital to Black-owned small businesses that have been decimated during the pandemic; reports indicate that nearly half of the United States' Black-owned small firms have had to shut their doors. [24] A benefit to partnering banks, which must always be cognizant of the risks in their capital allocation, is that CDFIs have specialized risk management knowledge about their customers and how to ensure timely and fair repayment, which can promote risk-managed lending. With more support from banks, these institutions could significantly improve their reach, a significant benefit to the communities they serve.

Best Practice 17: Banks should consider bold partnerships, anchored by CDFIs and MDIs, which will result in significantly more lending directly to Black American consumers and businesses. Banks could work with CDFIs and MDIs to build more formal partnerships focused on providing different kinds of resources but sharing a singular focus of dramatically addressing pervasive economic inequality in American Black communities. Diverse stakeholders such as state, local and federal governments, the foundation sector, the non-profit sector, universities, high net worth individuals and corporate entities could all participate. There are different roles that can be played, including:

- Corporations, banks, foundations and high net worth individuals could work together to:
    - Provide large grants to or invest in preferred equity of MDIs/CDFIs
    - Partner with MDIs/CDFIs on various revenue-generating business opportunities as appropriate
    - Partner in providing deposits as needed for liquidity
    - Support operational improvements and efficiencies at MDIs/CDFIs by:
- Helping to build and scale improved data science and analytics capabilities
- Helping invest in superior technological capabilities
- Leveraging their own personnel to provide relevant technical assistance to MDIs/CDFIs
- Government entities could work with the other coalition members to explore how to augment appropriate levels of subsidy or other means to support risk sharing across the deployment of various products or across various specific projects in partnership with MDIs/CDFIs. Forms of subsidy exist in various iterations but now is a time to explore how to optimize these policy tools given the high levels of interest by the private and non-profit sectors in increased investment in financially underserved communities.

For these partnerships to be successful, they will need coordination between bank partners and other stakeholders. These partnerships can take various forms. Banks should lead these conversations given their financial strength, technical expertise, varied customer networks, government and non-profit relationships and convening abilities. Establishing such a coalition and exploring ways to scale such a model to communities in need across the U.S. could have a powerful, sustainable and transformative impact for decades to come. BPI staff has engaged various relevant stakeholders in conversations about similar models and can help direct your personnel to these contacts accordingly.

Best Practice 18: Banks should help CDFIs and MDIs invest in compliance and customer-facing technologies. Banks have been investing in technology to drive efficiencies and better serve their customers for some time, but more must be done to help build and scale these solutions for MDIs and CDFIs which historically have not had the extra resources to invest in new technologies. If banks were to provide grants to help them transition away from legacy systems and customer-facing technologies, MDIs and CDFIs could benefit from improved customer acquisition and increased revenues. At a minimum, banks could leverage their significant technology talent to provide technical assistance to MDIs and CDFIs as they pursue these sorely needed investments. This could be done on a volunteer basis or through programmatic delivery systems such as endowed internships/fellowships for this express purpose.

Best Practice 19: Banks should support financial resilience in the MDI and CDFI sectors by investing in their equity and providing guarantees or credit facilities as appropriate. MDIs, which are more like traditionally regulated depositories than CDFIs, could be strengthened through more capital, and there is an opportunity for larger banks to provide it. The majority of CDFIs are loan funds and therefore not subject to capital regulation, but there are other mechanisms to help bolster their financial stability as well. Investing in the resilience of these institutions is currently a bipartisan policy priority in Congress, and banks' involvement in providing lifelines to these entities would be a significant benefit to the communities that they serve.

Best Practice 20: Expand project-specific investment partnerships with MDIs and refer rejected loan applicants to CDFIs and MDIs. What deals can be worked on in tandem with MDIs that will help increase their cash flow and ultimately return on equity? Banks should consider where MDIs could fit into various aspects of their business and decide if there is room to engage an MDI or several as potential partners in the provision of products, services or processes such as payments transactions, loan participations or Community Reinvestment Act projects. This approach would be especially powerful when paired with capital injections into these MDIs. Additionally, banks could also help credit applicants they have rejected seek out other options to meet their needs. A customer may not yet be prepared to borrow from a more mainstream bank, but banks could earn goodwill (and a potential future customer relationship) by referring a rejected applicant to MDIs or CDFIs. Banks have reported that this model is an effective one for making connections with new customers while helping them meet their needs.

NEW MARKETS TAX CREDITS and LOW-INCOME HOUSING TAX CREDITS

The New Markets Tax Credit (NMTC) program helps transform underserved and challenged neighborhoods in low-income communities by leveraging the private capital of corporate and high net worth investors via a tax credit against those investors' federal income tax liabilities. Those investors make equity investments in NMTC intermediaries called Community Development Entities (CDEs) in return for the tax credit allocation and those monies are invested in low-income communities in development projects and small business lending. These tax credits can also be combined with other federal state or local incentives such as the Low-Income Housing Tax Credit (LIHTC) to finance needed projects. Many banks have affiliated CDEs, as do MDIs and CDFIs. MDIs in particular have faced challenges competing for NMTC allocations in the recent past.

Best Practice 21: Banks could help expand opportunities for CDEs affiliated with MDIs by partnering with these CDEs through mentorship opportunities, deal partnerships and sub-allocations of tax credits. Banks should consider how they can work with CDEs affiliated with MDIs to ensure that those CDEs are participating more effectively in the NMTC program. This will benefit the communities served as well as the affiliate of the CDE, bolstering their NMTC track records and including these organizations in complex NMTC transactions, giving them a better chance to compete for NMTC allocations on their own. Such relationships which will create a virtuous cycle, positively affecting the financial resilience and performance of the affiliated MDI, which can help further the cause of increased investments in those underserved communities. This is a positive feedback loop and banks already working with MDIs or supporting them in some fashion should ideate about how to best structure a supportive partnership.

COMMUNITY REINVESTMENT ACT OPPORTUNITIES

COVID-19 and the global calls for racial justice have overlapped with potential Community Reinvestment Act (CRA) reform. CRA is an incredibly useful framework with significant room for improvement. Banks are exploring ways to maximize the benefits of their CRA engagements while concurrently assessing how the CRA requirements are evolving in an environment of increasing need and complexity. Banks are increasing engagement with CDFIs, MDIs and expanding NMTC participation as CRA eligible activities that also improve outcomes in disadvantaged communities.

Best Practice 22: Banks should explore expanding their CRA product sets as well as the relationships they have "on the ground" in underserved communities. Banks are increasing their outreach to new partners and providers to deliver CRA-related value. They should also consider including in this more diverse set of partners entities that focus on micro-businesses, particularly given the significant challenges associated with COVID-19 for these businesses. They should also consider exploring innovative approaches to providing capital through venture capital investments in funds that focus on supporting minority entrepreneurs. Banks should also explore how deeper engagements with minority chambers of commerce and other intermediaries to bolster their CRA ground game. Lastly, banks are refining how their CRA responsibilities can be optimized with social justice partnerships by expanding current activities into new subject matter and impact areas such as addressing equity in policing, health care, educational or job training outcomes. These outcomes can be achieved via non-traditional partnerships with social justice-focused non-profits and social enterprises that are focused on these particular issues.

Best Practice 23: Expand investments in Small Business Investment Companies (SBICs) initiatives. Banks should explore participation in the SBIC program if they are not doing so already. [25] This program is particularly relevant now, due to the devastating impact of COVID-19 on small businesses in Black communities. SBICs allow small businesses to access debt and equity capital and banks could build engagements with SBICs managed by Black Americans or those focused on expanding Black entrepreneurship.

Best Practice 24: Banks should leverage technology to expand their online financial literacy offerings. With a greater percentage of Americans becoming more comfortable with online learning as a result of the pandemic, banks have an opportunity to leverage online communications and outreach tools. In-person financial literacy programs could be replaced with expanded digital offerings and tools, potentially in partnership with community groups, businesses or other established organizations with scaled networks that focus on the delivery of these tools. Some banks have already partnered with firms that are building and deploying these tools. One bank has already partnered with a firm to deliver engaging and age-appropriate online financial education courses for K-12 students.

Asset Management and Sustainable Wealth Creation for All

Banks with investment advisory services could play an important role in helping more Black Americans acquire and maintain intergenerational wealth and helping social justice-minded investors identify investments and allocate resources accordingly.

Best Practice 25: With more clients asking for ESG investment options, banks should help identify "S" opportunities. While to date banks have largely focused on the environmental aspects of the growing ESG (Environmental, Social and Governance) investment asset class, many banks are now in the early stages of building investment strategies around the social dimension, readying tactics related to racial justice investing. Banks could help clients explore investing in companies with diverse management or workforces, firms that work to advance the cause of racial justice and divesting from firms that hinder it. [26] Some banks have internal ESG committees that are focused on meeting this emerging set of client demands in their investment management approaches, and this work should proceed expeditiously to meet the needs of this historic moment.

Best Practice 26: To reach more Black customers, banks should diversify the ranks of private bankers, financial advisors and salespeople. Banks should also target investments in funds run by firms with a diverse leadership workforce. Many banks' investment management operations are working with human resources' diversity recruiting teams to boost diversity in these key roles. Banks should bolster these efforts by forging deeper relationships with Historically Black Colleges and Universities and Minority Serving Institutions as well as national professional, fraternal and other diverse organizations. Banks should prioritize working with and investing in funds that are managed by diverse teams which will create a virtuous cycle by increasing the ranks of Black professionals as funds respond to the incentives provided by banks' interest in working with more diverse teams.

Best Practice 27: Banks should resource targeted marketing spending to reach new Black clients and retain the relationship for the long run. Like all customer segments, Black customers should be prioritized and made to feel important. Given the history of financial exclusion faced by Black communities, it stands to reason that more could be done to restore trust and make Black customers feel more valued and that Banks desire sustained business relationships with them. [27] Black Americans are well aware of the challenging nature of the relationship with banks and of the disparities that Black borrowers face. Bridging this gap will take targeted messages and sustained outreach because the lack of trust persists and is informed by events and data in the distant and recent past. [28] Banks should make it a priority to include Black Americans in their outreach efforts when seeking out new wealth management clients.

Regulatory Hurdles and Opportunities for Policy Advocacy

As previously noted, Black Americans continue to face impediments to capital access and, relatedly, have lower property values, [29] lower wealth levels, [30] lower incomes[31] and lower credit scores than their White American counterparts. [32] These conditions create tensions among competing regulatory goals of safety and soundness, fair lending, community development and financial inclusion. These tensions are exacerbated by the complexity of the regulatory regime that executes enforcement of laws and regulations across a number of agencies and supervisory teams, leading to significant challenges in expanding capital access at scale. Banks should engage Congress and their regulators in conversations about striking the proper balances to ensure that these frictions do not create unnecessary impediments to the appropriate deployment of capital.

Best Practice 28: Advocate for reconsideration of the role real estate appraisals play in community development lending. Banks face challenges supporting commercial neighborhood renewal efforts due, in part, to current regulatory standards that may be making it prohibitively difficult to lend to community developers that face low appraisal values for the properties they seek to use as collateral for loans. [33] As a result, large-scale renewal and reinvestment efforts are hampered, as the costs of improvements exceed the appraised value. [34] This situation also creates a disconnect and tension between potential expanded CRA activity and safety and soundness requirements. Banks should advocate for policymakers and regulators to resolve this in a way that addresses risk but permits needed investment in communities that have been left behind.

Best Practice 29: Consider the tensions related to a bank's lending activity qualifying for CRA credit while also complying with fair lending statutes and regs and advocate for clarification of the Equal Credit Opportunity Act (ECOA) Regulation B's "special purpose credit program." Banks need clearer regulatory guidance on how best to design special purpose credit programs, both to enable banks to increase use of these programs and to ensure that banks can design their programs to be ECOA compliant. Currently, while special purpose credit programs are permitted, clearer guidelines for how they may be used (including incorporating innovative technology, such as the use of alternative data to inform credit decisions) would be helpful. Further, streamlining how these programs are viewed by examiners across regulating agencies would be useful to mitigate varying views and interpretations regarding safety and soundness and consumer protection considerations. It may also be useful to have regulators align CRA lending and Fair Lending obligations to ensure that banks are better able to support expanded economic development in these communities. Banks should remind policymakers of these tensions to ensure that targeted and meaningful programs (such as the special credit programs) optimize access to capital for Black Americans, businesses and communities.

Best Practice 30: Banks should ask regulators to clarify rules regarding AI and machine learning tools in credit underwriting. Currently, banks generally are required to base credit decisions on a FICO score, which comes with significant disparate impact, as FICO scores reward those who have already obtained credit and managed it well. Millions of Black Americans, including immigrants, don't even have a credit score, much less a good one. Considering other factors such as deposit behavior offers the opportunity to expand credit availability significantly, but the current regulatory and examination regime, and fear of enforcement action, has significantly deterred banks from adopting new technology. Meanwhile, non-bank financial technology firms that are not subject to regular examination are already leveraging powerful data science and machine learning tools to analyze non-traditional data inputs to refine underwriting decisions expanding the universe of potential borrowers, including low-income and minority borrowers.[35] Banks should engage regulators, particularly the CFPB, in a conversation about these issues to explore how clarity could help drive improved outcomes for Black borrowers.

Endnotes

[1] Report on the Economic Well-Being of U.S. Households in 2019, Featuring Supplemental Data from April 2020

[2] Sven Beckert and Seth Rockman, *Slavery's Capital, at 17. (2016).*

[3] S.A. Murphy, *Banking on Slavery in the Antebellum South, at 2. (2017).*

[4] After the Civil War, in 1865, Congress established the Freedman's Bank as part of the Freedman's Bureau in an attempt to expand credit availability to newly freed slaves. However, due in large part to self-dealing by a corrupt businessman who served on the board, it ultimately failed. See: http://freedmansbank.org/

[5] See: https://nces.ed.gov/pubs98/yi/yi16.pdf

[6] https://www.mckinsey.com/industries/financial-services/our-insights/how-covid-19-has-impacted-black-white-financial-inequality?cid=eml-app

[7] https://www.ssa.gov/policy/docs/ssb/v70n4/v70n4p49.html

[8] Congress established the Home Owners' Loan Corporation to refinance American mortgages during the Great Depression in 1933. See: https://www.mckinsey.com/industries/financial-services/our-insights/how-covid-19-has-impacted-black-white-financial-inequality?cid=eml-app . As a part of its duties the HOLC drew maps for more than 200 American cities to "document the relative riskiness of lending across neighborhoods." These maps became the foundation for private sector red-lining.

[9] Federal Reserve Bank of Chicago, *The Effects of the 1930s HOLC "Redlining" Maps.* 2019.

[10] Federal Reserve Bank of St. Louis, *Differences in Subprime Loan Pricing Across Races and Neighborhoods*. 2011.

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[15] https://www.nbcnews.com/news/sports/nba-foundation-created-pledges-300-million-black-growth-n1235984

[16] See: *See* OCC, Federal Reserve, FDIC and NCUA, *Joint Guidance on Overdraft Protection Programs*, 70 Federal Register 9127, 9129 (Feb. 24, 2005).

[17] See: https://institute.jpmorganchase.com/institute/research/household-income-spending/report-weathering-volatility-2-a-monthly-stress-test-to-guide-saving.

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BMO Harris Bank

Statement for the Record

On Behalf of

BMO Harris Bank

Before the

House Financial Services Committee

February 16, 2022

Chair Waters, Ranking Member McHenry and members of the U.S. House Committee on Financial Services:

BMO Harris Bank ("BMO") appreciates the opportunity to submit a statement to the Committee on today's hearing titled "An Unprecedented Investment for Historic Results: How Federal Support for MDIs and CDFIs Have Launched a New Era for Disadvantaged Communities."

We commend the Chair's extraordinary dedication to highlighting the crucial role that Community Development Financial Institutions ("CDFIs") and Minority Depository Institutions ("MDIs") play in our economy. Their work in low- and moderate-income communities financing business, non-profits and consumers who may not yet be "bank ready" is an essential element on the path to financial success. CDFIs and MDIs are not just a source of financing, but also provide financial education and technical assistance, further enforcing financial self-sufficiency for their customers and ultimately economic growth for the communities they serve.

CDFIs also play a critical role for banks helping us to target our community investments in the most efficient, effective, and impactful way. Their on-the-ground expertise in a particular market and ability to act as a conduit to the community are invaluable resources for the banking industry. Also, because traditional banks can be constrained by credit and risk requirements that sometimes preclude lending to certain customers, we see CDFIs as a way to build a strong financial foundation for these customers, with the goal that in the future they would transition to traditional banking services.

BMO has a long history of supporting CDFIs in the communities we serve as part of our commitment to small business expansion, increased availability of quality, affordable housing and targeted community-based commercial real estate. Since 2007, we have committed over $130MM to CDFIs. We support organizations such as the Madison Development Corporation, where we were an inaugural investor in their Dane Workforce Housing Fund. In the Fund's first year, it financed four affordable housing projects with 241 new, high quality multi-family units in Dane County, Wisconsin.

We also engage with CDFIs through large investments such as our multi-year, $20MM commitment to IFF. IFF – the largest non-profit CDFI in the Midwest – creates opportunities for low-income communities across our Midwestern footprint. Recurring, high-dollar investments like this give CDFIs a dependable and significant source of funding for the work that they do. Our relationship with IFF is more than just

BMO Harris Bank

the capital we supply – we have been active members of the IFF board and advisory committees and have worked collaboratively with the IFF through the years to jointly underwrite a range of high-impact community development loans.

While BMO is proud of our investments in CDFIs, there is always more work to be done. As part of BMO Empower, we have made a five-year, $5B commitment to address barriers faced by minority businesses, communities, and families in the United States through lending, investing, giving and engagement in our local communities. Our goal is for CDFIs to be a major beneficiary of this increased investment.

But CDFIs cannot fully serve their communities with private capital alone. We recommend that the Department of the Treasury commit more funding to the Capital Magnet Fund, which awards grants to CDFIs around the country each year. It is critical that adequate resources are available to these institutions, so they can grow and meet the increasing demand for services.

BMO appreciates the opportunity to submit this statement for the record on the importance of CDFIs and MDIs. We thank the Chair and the Committee for their interest in this topic and look forward to continued discourse on this important issue.

February 16, 2022

The Honorable Maxine Waters
Chairwoman
House Financial Services Committee
2129 Rayburn House Office Building
Washington, DC 20510

The Honorable Patrick McHenry
Ranking Member
House Financial Services Committee
4340 O'Neill House Office Building
Washington, DC 20024

Dear Chairwoman Waters and Ranking Member McHenry,

Thank you for holding this important hearing titled, "An Unprecedented Investment for Historic Results: How Federal Support for MDIs and CDFIs Have Launched a New Era for Disadvantaged Communities." Circle appreciates the opportunity to share our views with the committee and respectfully submits this letter for the record.

Circle was founded in 2013 on the principle that public blockchains and digital currency will make the global economic system more open, inclusive and efficient for people everywhere. Eight years later, Circle has become the leading digital financial services firm and the sole issuer of USD Coin, or USDC - a regulated, dollar digital currency supporting the extensibility of the U.S. Dollar in a competitive, always-on global economy.

As the committee explores the unique challenges and opportunities facing Minority Depository Institutions (MDIs) and Community Development Financial Institutions (CDFIs), please be aware that Circle recently announced an initiative called *Circle Impact* seeking to support and partner with MDIs and CDFIs.

Circle is committing to allocating a share of USDC dollar reserves to MDIs and community banks across the country. We hope this will accrue to billions of dollars over time, strengthening the balance sheet of these banks and, thereby, strengthening their communities. We are in the process of identifying MDIs and community banks that would benefit from holding USDC reserves and expect to announce the first allocation of reserves to these institutions in Q1 2022. Our criteria is simple: What communities would benefit from these reserves and what institutions would welcome additional reserves?

As a policy matter, one of the obstacles that precludes expanding this program are existing policies or market perceptions that hinder U.S. banks from providing services, including custodianship of assets, to the growing crypto and digital assets industry.

We will continue to update the House Financial Services Committee on the *Circle Impact* initiative in the days and years ahead.

Sincerely,

Dante Disparte

Dante Disparte
Chief Strategy Officer and Head of Global Policy

CIRCLE

Circle Internet Financial LLC circle.com

Creative Investment Research
PO Box 75574
Washington, DC 20013
202-455-0430 phone
http://www.minorityfinance.com
www.minoritybank.com
http://www.creativeinvest.com

STATEMENT FOR THE RECORD
by
WILLIAM MICHAEL CUNNINGHAM
and
CREATIVE INVESTMENT RESEARCH

Submitted to the
U.S. House Committee on Financial Services for a hearing entitled, "Virtual Hearing - An Unprecedented Investment for Historic Results: How Federal Support for MDIs and CDFIs Have Launched a New Era for Disadvantaged Communities" Wednesday, February 16, 2022 | 12:00 pm.

William Michael Cunningham and Creative Investment Research (CIR) submit the following Statement for the Record for the hearing noted above.

We thank the Committee for this opportunity. We urge the Committee to continue to get opinions from a culturally and economically diverse set of persons and feel this is especially important as you seek to maintain your position as "a leader in highlighting issues related to cryptocurrency and financial technology." As the Committee noted,

> *"Minority depository institutions (MDIs) and community development financial institutions (CDFIs) deliver critical lending opportunities to low- and moderate-income (LMI) communities and communities of color."*

Given the fact that incompetence, discrimination and exclusionary practices based on race are prevalent in investment and finance, including at regulatory bodies, we note that we have directly addressed the issues raised over the past 30 years. We confirm this by reference to the following:

Economist Offers $50 Billion Federal Solution to the Black Banking Crisis -
https://www.blackenterprise.com/black-banking-crisis-economist-offers-50-billion-solution/

Talk to the Government Blockchain Association on the Future of Money
https://youtu.be/n1i4J8df0t0

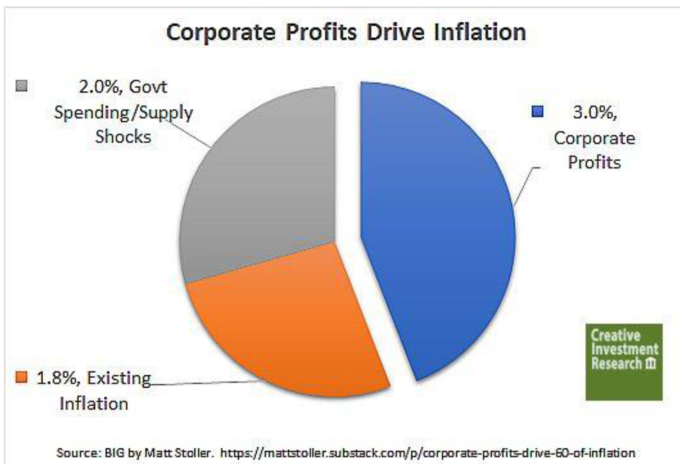
The Real Risk is not Inflation: it's Civil War
https://www.impactinvesting.online/2021/12/fed-rate-hike.html

Creative Investment Research
http://www.minorityfinance.com
www.minoritybank.com
http://www.creativeinvest.com

US. Bancorp and Union Bank/MUFG
https://www.impactinvesting.online/2021/11/us-bancorp-and-union-bankmufg.html

Inflation

Our analysis suggests that the inflation spike is due to fear and greed-based labor and supply chain disruptions resulting from the unprecedented and ongoing COVID crisis.



Thus, price increases are to be expected. The current pandemic is not fully comparable to earlier ones, given technology's role in facilitating the highly integrated nature of the global economy and the decline in ethical standards of business behavior, as evidenced by the prior occupant of the White House. The Fed is right to focus on inequality, now the greater risk, than it is on protecting the financial standing of a small group of mainly non-minority individuals and institutions.
https://www.impactinvesting.online/2021/08/inflation.html

Mr. Cunningham (WMC) has long been concerned with the failure of bank and financial institution regulatory agencies to protect the public interest. We base this on the following:

- WMC designed the first mortgage security backed by Targeted Energy Efficient Mortgages in June 2006. https://www.creativeinvest.com/EnergyEfficientMortgageMBSJune2006.pdf

- On July 3, 1993, WMC wrote to SEC Commissioner Mary Schapiro to notify the Commission about a certain, specific investing "scam." A timely warning was not issued to the investing public and members of the public were damaged. See: https://www.creativeinvest.com/SECNigerianLetter.pdf

- WMC designed the first mortgage security backed by home mortgage loans to low- and moderate-income persons and originated by minority-owned institutions. (See: Security Backed Exclusively by Minority Loans, at https://www.creativeinvest.com/mbsarticle.html)

- In October, 1995, the Washington Gas Light (WGL) Company retained WMC to create mortgage-backed securities (MBS) consisting of one to four family residential home loans originated by minority-owned financial institutions serving areas of high social need. Mr. Cunningham developed a completely original approach that involved geocoding and mapping, for the first time, the location of every loan in an MBS pool and tying that location to social data. A sample map WMC created in 1997 for this process is attached as Appendix A.

- On April 30, 1997, in Case 97-1256 at the US Court of Appeals for the DC Circuit, Mr. Cunningham opposed the merger of Citigroup and Travelers and the elimination of the Glass–Steagall Act.

- In November, 1997 and, again in December, 2003, WMC wrote to the Division of Market Regulation at the Securities and Exchange Commission, on behalf of WMC and Creative Investment Research to request that CIR be considered a nationally recognized statistical rating organization ("NRSRO"). WMC requested this status only with respect to rating securities issued by financial institutions owned by women and minorities. WMC never received a reply from the Commission. We have attached a copy of a letter sent to Ms. Nazareth, Director, Division of Market Regulation, Securities and Exchange Commission, as Appendix B.

- In October 1998, in a petition to the United States Court of Appeals for the District of Columbia Circuit in opposition to the Citigroup/Travelers merger, we cited evidence that growing financial market malfeasance greatly exacerbated risks in financial markets, reducing the safety and soundness of large financial institutions. We went on to note that:

> *"The nature of financial market activities is such that significant dislocations can and do occur quickly, with great force. These dislocations strike across institutional lines. That is, they affect both banks and securities firms. The financial institution regulatory structure is not in place to effectively evaluate these risks, however. Given this, the public is at risk."*

On July 25, 2012, the New York Times reported that Sanford I Weill, former chairman and chief executive of defendant Citigroup "called for a wall between a bank's deposit-taking operations and its risky trading businesses. In other words, he would like to resurrect the regulation (Glass-Stegall) that he once fought."

- On June 15, 2000, we testified before the House Financial Services Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises (GSE's) of the US Congress. We suggested that the GSE's (Fannie Mae and Freddie Mac) be subject to a thorough "Social Audit." A Social Audit is an examination of the performance of an enterprise relative to certain social objectives. It also includes a review of ethical practices at the firm. Had they been subject to this audit, certain flaws in their operation which led to their failure, including ethical shortcomings, may have been revealed earlier. See: https://www.creativeinvest.com/fnma/

- In 2001, Mr. Cunningham helped create the first wide scale home mortgage loan modification project. See: Property Flipping Remediation Yields Investment-grade Security at: http://www.creativeinvest.com/remediation.pdf and https://www.creativeinvest.com/PropertyFlipping.pdf

- On December 22, 2003, statistical models we created using the Fully Adjusted Return® Methodology predicted the financial crisis of 2008. See page 6: http://www.sec.gov/rules/proposed/s71903/wmccir122203.pdf

- On Monday, April 11, 2005, we testified before Judge William H. Pauley III in the U.S. District Court for the Southern District of New York on behalf of investors at a fairness hearing regarding the $1.4 billion-dollar Global Research Analyst Settlement.

- In 2005, we served as an expert witness for homeowners in a case against PMI Group, Credit Suisse First Boston, Moody's, Standard and Poor's, Fairbanks Capital Corporation, Select Portfolio Servicing, US Bank National Association, as Trustee of CSFB ABS Series 2002-HEI, et. al., in the New Jersey Superior Court Law Division - Monmouth County. Our expert witness testimony held corporate parties responsible for facilitating predatory lending practices. Had this single case been successful, we believe the financial crisis of 2008 would not have occurred.

- On Monday, April 11, 2005, WMC testified before Judge William H. Pauley III in the U.S. District Court for the Southern District of New York on behalf of the public at a fairness hearing regarding the $1.4 billion-dollar Global Research Analyst Settlement. See: https://creativeinvest.com/fairness.html

- On December 22, 2005, Mr. Cunningham met with Ms. Elaine M. Hartmann of the Division of Market Regulation at the U.S. Securities and Exchange Commission. At that meeting, he issued a strongly worded warning that system-wide economic and market failure was a growing possibility.

- On February 6, 2006, statistical models created by WMC using the Fully Adjusted Return ® Methodology signaled the probability of system-wide economic and market failure. (See page 2: http://www.sec.gov/rules/proposed/s71005/wcunningham5867.pdf)

- On June 18, 2009, WMC testified before the House Ways and Means Select Revenue Measures Subcommittee at a joint hearing with the Subcommittee on Domestic Monetary Policy and Technology of the Financial Services Committee concerning ways to improve the New Markets Tax Credit Program. See: https://www.creativeinvest.com/nmtctestimony.html and https://financialservices.house.gov/media/file/hearings/111/printed%20hearings/111-47.pdf)

- On January 25, 2012, WMC submitted a "Friend of the Court" brief in a case before the United States Court of Appeals for the Second Circuit (Case 11-5227). As a friend to the Court, Mr. Cunningham provides an independent, objective and unbiased view in support of broad public interests. His education and experience uniquely positioned him to provide objective, independent research and opinions concerning the issues central to the case.

- On August 13, 2015, Mr. Cunningham provided testimony on the Department of Labor's Fiduciary Rule. Online at https://youtu.be/kOGS-DdLYe0

- Our June 11, 2016 forecast predicted the election of Donald J. Trump. See: *Why Trump Will Win.* https://www.linkedin.com/pulse/why-trump-win-william-michael-cunningham-am-mba/

- Following the election, our December 26, 2016 forecast stated:

  "Under any conceivable scenario, the current situation is very bad, and I mean toxic, for democratic institutions in general and for people of color specifically. Bottom line: our Fully Adjusted Return Forecast indicates that, over time, ***things will get much, much worse....."***

  See: Trumpism. https://www.linkedin.com/pulse/trumpism-william-michael-cunningham-am-mba/

- As we predicted on January 27, 2022, the Russian Federation and the Bank of Russia have agreed on a future regime..in which cryptocurrencies are recognized as an analogue of currencies, and not digital financial assets (DFA)." See: https://youtu.be/n1i4J8df0t0

- Mr. Cunningham has been concerned with using new financial technologies to maximize social and financial return. See: Bitcoin and Blockchain Explained IN 30 MINUTES FOR FREE. https://www.udemy.com/course/bitcoin-explained/

- Mr. Cunningham was in the pool of Corporate Governance Advisors and Diversity Investing Advisors to CalPERS. He is currently under contract for Portfolio Assistance (Non-Fiduciary) Investment Consulting Spring-Fed Pool 2020 to the fund. See: http://www.creativeinvest.com/Calpers1.pdf http://www.creativeinvest.com/Calpers2.pdf and http://www.creativeinvest.com/Calpers3.pdf

- Creative Investment Research was one of the first signatories to the UN Global Principles for Responsible Investment (www.unpri.org). See: http://www.creativeinvest.com/PRINews2009land.jpg

Mr. Cunningham has a long track record of analyzing and offering solutions as part of his response to proposed regulatory agency rules:

- October 04, 2006. Roundtable discussions relating to the use of eXtensible Business Reporting Language (XBRL). [File No. 4-515]. https://www.sec.gov/news/press/4-515/wcunningham7465.pdf Page 17.

- Our 2003 comments on proposed proxy voting rules that would, under certain circumstances, require companies to include in their proxy materials security holder nominees for election as director. https://www.sec.gov/rules/proposed/s71903/wmccir122203.pdf

- See: Comments on Proposed Rule: Internet Availability of Proxy Materials Release Nos. 34-52926 IC-27182 File No. S7-10-05. Confirmed that system-wide economic and market failure was a growing possibility. (See page 2: http://www.sec.gov/rules/proposed/s71005/wcunningham5867.pdf)

- Shareholder Proposals Relating to the Election of Directors. Release No. 34-56161 File No. S7-17-07 https://www.sec.gov/comments/s7-16-07/s71607-495.pdf

- We have requested that the U.S. Securities and Exchange Commission (SEC) develop mandatory rules for public companies to disclose high-quality, comparable, decision-useful information concerning BLM Pledge fulfillment. See: https://www.sec.gov/rules/petitions/2021/petn4-774.pdf

Mr. Cunningham has been concerned with using new financial technologies to maximize social and financial return.[1] As his record shows, over the past 30 years, he has sought to protect the public by working with private sector and Federal regulatory agencies, including the Federal Reserve Board (FRB), the Securities and Exchange Commission (SEC), the Federal Deposit Insurance Corporation (FDIC), the Financial Crisis Inquiry Commission (FCIC), the U.S. Department of Justice (DOJ), the Consumer Financial Protection Bureau (CFPB), the Federal Housing Finance Agency (FHFA), the Department of Commerce (Minority Business Development Agency) and the US Treasury, as an employee or as a contractor. Despite his education and experience, all offers to provide consulting services and all employment

[1] Bitcoin and Blockchain Explained IN 30 MINUTES FOR FREE. https://www.udemy.com/course/bitcoin-explained/

applications have been denied (due to age, racial and class discrimination.) Further attempts to work with these institutions would be futile. This leaves Mr. Cunningham no option but to appeal to this Committee in order to have his independent, objective technical knowledge and experience given consideration. Mr. Cunningham's interest in this matter stems from his role as an economist and an expert in marketplace ethics and rests upon his status as a citizen of the United States.

As Mr. Cunningham demonstrates, inadequate consideration of the public interest has clearly damaged the public and investors.[2] Current regulatory practices protect the monetary interest of a narrow set of non-minority persons, fail to protect the interest of the general public, and damage the Country's long term economic prospects.

Inclusion Myths

We warn the Committee that claims by participants in the MDI/CDFI field resting on the ability of these institutions to increase financial inclusion are also suspect. These are the same faulty arguments used to promote subprime lending in the years leading up to the financial crisis of 2008. We note that there is no objective, fully independent data to support this contention, thus, we consider these statements false.

[2] For example, see: Fed Unveils Stricter Trading Rules Amid Fallout From Ethics Scandal. Jeanna Smialek, Oct. 21, 2021. The New York Times. Online at: https://www.nytimes.com/2021/10/21/business/federal-reserve-trading-ethics.html and Bankers Cast Doubt On Key Rate Amid Crisis https://www.wsj.com/articles/SB120831164167818299?reflink=desktopwebshare_twitter via @WSJ

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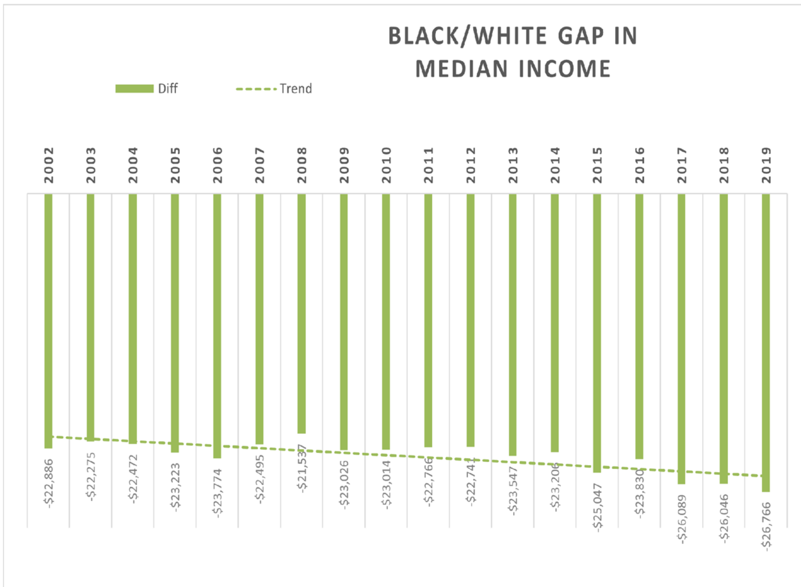
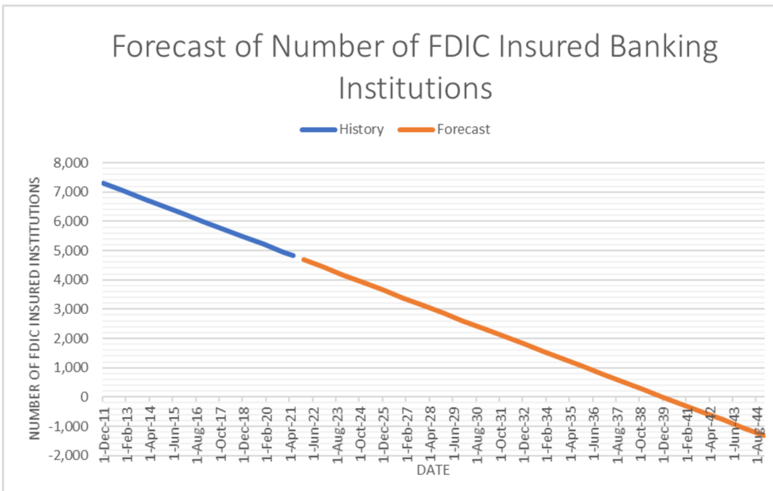


Industry Concentration Issues

Regulatory ethical failings have real implications for the banking industry and for the public. Regulators may have abdicated their responsibility to



consider the public interest, if that interest includes maintaining a competitive industry. Our forecast indicates that by 12/31/2039, if current trends continue in a linear manner, the number of FDIC insured institutions will be approximately 1-2. Note that, with growing competition from fintech firms and alternatives, like bitcoin, this may imply the wholesale exit of banking institutions from both the FDIC and Federal Reserve systems. This would not be in the public interest.

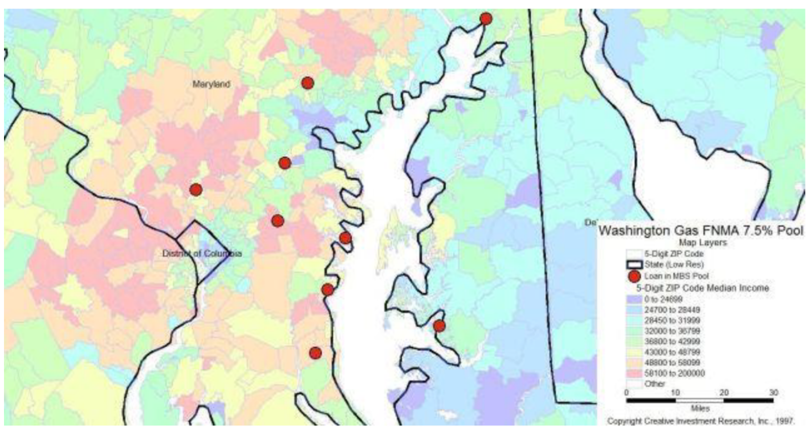
Creative Investment Research
http://www.minorityfinance.com
www.minoritybank.com
http://www.creativeinvest.com

Appendix A

William Michael Cunningham manages an investment advisory and research firm, Creative Investment Research, founded in 1989 to expand the capacity of capital markets to provide capital, credit and financial services in minority and underserved areas and markets.

We have done so by creating new financial instruments and by applying existing financial market technology to underserved areas. The Community Development Financial Institution Fund of the US Department of the Treasury certified the firm as a Community Development Entity on August 29, 2003. The Small Business Administration certified the firm as an 8(a)-program participant on October 19, 2005. (We did not receive any benefit or revenue due to our participation in the 8(a) program.)

In 1991, Mr. Cunningham created the first systematic bank analysis system using social and financial data, the Fully Adjusted Return® methodology. In 1992, he developed the first CRA securitization, a Fannie Mae MBS security backed by home mortgage loans originated by minority banks and thrifts.



In 2001, he helped create the first predatory lending remediation/repair MBS security. [3]

Also see:

BLACK LIVES MATTER: CORPORATE AMERICA HAS PLEDGED $1.678 BILLION SO FAR. June 10, 2020. https://www.blackenterprise.com/black-lives-matter-corporate-america-has-pledged-1-678-billion-so-far/

BLACK WOMENOMICS Maternal Mortality Reparation Facility https://blackwomenomics.com/

CHILD TAX CREDIT https://www.childtaxcredit.net/

FIFTEEN DOLLAR MINIMUM WAGE https://fifteendollarminimumwage.com/

THE FAIRNESS ECONOMY https://thefairnesseconomy.com/

The Crisis in Black Housing https://drive.google.com/file/d/11jfEtWfQY5Rpdbpw0s6stHhawY0iero6/view

[3]

Pool	Client	Originator	Social Characteristics
FN374870	Faith-based Pension Fund	National Mortgage Broker	Mortgages originated by minority and women-owned financial institutions serving areas of high social need.
FN296479			
FN300249			
GN440280	Utility Company Pension Fund		
FN374869		Minority-owned financial institutions	
FN376162			
FN254066	Faith-based Pension Fund	Local bank	Predatory lending remediation

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http://www.creativeinvest.com

Appendix B

December 8, 2005

Ms. Elaine M. Hartmann
Division of Market Regulation
U.S. Securities and Exchange Commission
450 5th Street, NW
Washington, DC 20549

Dear Ms. Hartmann,

Creative Investment Research (CIR) has requested that the Division of Market Regulation not recommend enforcement action to the U.S. Securities and Exchange Commission if CIR is recognized as a Nationally Recognized Statistical Rating Organization (NRSRO) for purposes of applying Rule 15c3-1 under the Securities and Exchange Act of 1934, as amended and codified at 17 C.F.R. 240.15c3-1 with respect to rating short term debt vehicles issued by women and minority owned financial institutions.

As part of the NRSRO recognition process, we have provided you and your staff with information regarding our qualifications, including confidential, nonpublic information on our trade secret protected Fully Adjusted Return ® methodology.

Thank you.

Sincerely,

William Michael Cunningham
CEO and Social Investment Advisor

Sample page below

Creative Investment Research
http://www.minorityfinance.com
www.minoritybank.com
http://www.creativeinvest.com

Creative Investment Research, Inc. Minority Bank & Thrift Report Page No.:71

Dryades Saving Bank

233 Carondelet St
New Orleans LA 70130
Route #: 265070516 Certificate #: 1470512650
Phone: (504) 581-5891
Fax: (504) 598-7233
INSTTYPE: Savings Bank

Branches: 4
Employees: 54
Ethnic Group: Black

Community Reinvestment Act Rating:

Latest Rating: Outstanding
Rating t-1: Outstanding
Rating t-2: Satisfactory
Rating t-3: Satisfactory

Management

President: Virgil Robinson
CFO: Frank J Oliveri
Loan Officer: Tomorr LeBeouf
Operations Officer: Hedy Hebert

Fully Adjusted Return *(TM)*: 173

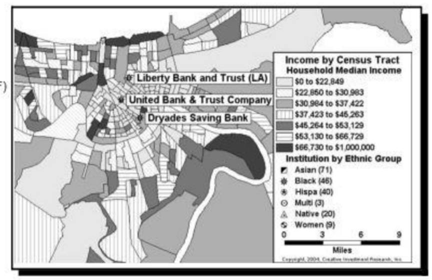
Index of social and financial performance. Range 300 to 0. (Higher is better.)

Regulatory and Business Status

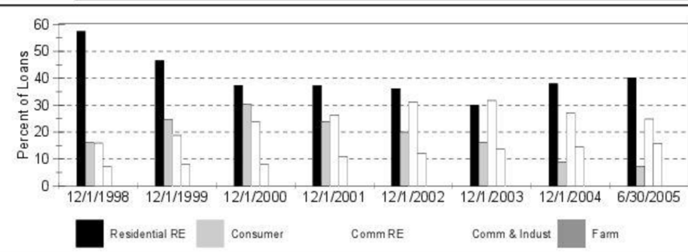
Trading Status: Not Publicly Traded
Insurance Type: Savings Association Insurance Fund(SAIF)
Holding Company: Dryades Bancorp, Inc.

Social Data COUNTY: Orleans

Unemployment, %, 7/1/2005:	5.60
Population, 7/1/04:	462,269
Population change, % 2000 to 2004:	-4.6 %
Offices of FDIC-Insured Inst, 8/22/05:	108
Minority population, % of total in County:	73.4 %
Per Capital personal income, 2003:	$30,152
Minority firms in County, % of total, 1997:	28.6 %
Women-owned firms in County, % of total, 1997:	26.6 %



Year	12/1/1998	12/1/1999	12/1/2000	12/1/2001	12/1/2002	12/1/2003	12/1/2004	6/30/2005
Assets	$88,946	$95,937	$105,717	$122,844	$123,349	$92,773	$103,456	$111,051
GrLns	$68,952	$74,217	$82,735	$76,801	$61,982	$56,390	$62,766	$66,165
Deposits	$79,132	$83,939	$87,046	$116,073	$114,874	$75,938	$86,965	$94,535
Equity	$6,112	$5,886	$5,779	$5,832	$7,119	$8,484	$7,046	$6,978
Salaries	$2,697	$3,039	$3,151	$3,132	$2,921	$2,793	$2,839	$1,428
Net Inc.	$365	$292	$3	($44)	$302	$1,733	($427)	($4)
Net Ch	0.14	0.16	0.61	0.43	0.30	2.16	0.66	1.35
Offs%	0.56	0.82	1.42	1.03	1.50	2.83	2.23	1.34
NonPerfLns %	0.44	0.32	0.00	-0.04	0.23	1.71	-0.42	-0.01
ROA	6.21	4.85	0.05	-0.75	4.66	20.00	-5.35	-0.11
ROE								



Statement for the Record on Behalf of the Financial Technology Association
"An Unprecedented Investment for Historic Results: How Federal Support for MDIs and CDFIs Have Launched a New Era for Disadvantaged Communities."
House Committee on Financial Services
February 16, 2022

The Honorable Maxine Waters
Chairwoman
Committee on Financial Services
United States House of Representatives
Washington, DC 20515

The Honorable Patrick McHenry
Ranking Member
Committee on Financial Services
United States House of Representatives
Washington, DC 20515

Chairwoman Waters, Ranking Member McHenry, and distinguished Members of the Committee, the Financial Technology Association (FTA) appreciates the opportunity to submit a statement for the record for the hearing entitled "An Unprecedented Investment for Historic Results: How Federal Support for MDIs and CDFIs Have Launched a New Era for Disadvantaged Communities." FTA is a nonprofit trade organization representing some of the world's leading technology-centered financial services companies. We focus on informing tomorrow's regulations, policy frameworks, and public understanding to safeguard consumers and advance trusted digital financial markets and services.

We applaud efforts by the Committee to examine the important role played by Minority Depository Institutions (MDIs) and Community Development Financial Institutions (CDFIs) in delivering capital to communities of color and socially and economically disadvantaged individuals. FTA and its members aim to support a financial system that is inclusive and equitable for diverse populations and is proud of the progress yielded by partnerships between MDIs, CDFIs, and financial technology (fintech) firms.

According to data from the Federal Deposit Insurance Corporation (FDIC), gaps in traditional banking particularly impact communities of color: about 14 percent of Black households and 12 percent of Latino households are unbanked, compared to 2.5 percent of white households. Two years into the COVID pandemic, consumers and small and minority-owned businesses continue to face challenges, particularly around access to credit. Also highly problematic are the statistics around minority-owned companies. According to a 2021 U.S. Chamber of Commerce report, 16 percent of minority-owned businesses studied reported that rising costs and lack of capital negatively impacted profits compared to only 10 percent of non-minority-owned businesses. Additionally, Black-owned businesses are only half as likely to get bank financing as white-owned firms.[1] Many small businesses struggle to access the capital needed to start and

[1] https://www.uschamber.com/finance/improving-access-to-capital-for-minority-owned-businesses

grow a company. Only 14 percent of small businesses have enough capital to survive a two-month revenue loss, but traditional lending can take up to 180 days.[2]

CDFIs and MDIs play a critical role in closing the racial wealth gap and extending financial services to traditionally unbanked and underbanked communities. Yet, it is also important to recognize that the demands of banking customers are changing; in 2021, 76 percent of Americans said the ability to connect their accounts to apps and services is a top priority when selecting a bank.[3] In order to meet evolving customer demands, MDIs and CDFIs are increasingly partnering with fintechs to offer more competitive, technology-driven products and services. FTA's members are committed to partnering with these institutions to ensure better access to capital and create a positive impact on underserved communities. On the consumer side, fintech companies fill the existing consumer credit gap by extending credit and opening financial services to historically marginalized communities, helping create a more inclusive and equitable financial system, and offering alternatives to predatory and high-cost loans.

Open banking—a financial ecosystem that gives consumers control over the full range of their financial data to serve consumers better and unlock choice—underpins partnerships between fintechs and MDIs and CDFIs. CDFIs and MDIs that partner with fintechs leverage the benefits of open banking, thereby allowing them to give consumers access to services they desire, like bill payment management and optimization, saving round-up tools, overdraft protection services, and personalized investment advice. To offer the committee more specific examples of how technology is positively impacting consumers:

- **Zest AI**'s AI-driven lending models are helping CDFIs across the country safely approve more protected-class borrowers hampered by the limits of traditional credit scoring.
    - **Zest** helped GreenState Credit Union (Iowa's largest) deploy an auto lending model that approves 25 percent more women and other protected-class citizens.
    - **Zest** also helped Truliant in Winston-Salem, NC, update to AI-based risk models for its auto lending. Truliant then saw a 31 percent average increase in approvals across Black, Hispanic, and other protected-class applicants.

- **Plaid** allows consumers to easily and securely provide their bank account data to CDFIs and MDIs to access more holistic and personalized services, such as tailored financial management. It also allows its consumers to connect to a wide array of fintech services to supplement offerings the banks may not have.

Fintech partnerships also offer solutions for small businesses. Fintechs leverage technology to build a more accurate picture of a small business's creditworthiness, leading to faster and fairer rates and approvals. After securing capital, fintechs also help small businesses build and grow

[2] https://www.fedsmallbusiness.org/medialibrary/FedSmallBusiness/files/2020/2020-sbcs-employer-firms-report
[3] https://www.forbes.com/advisor/banking/digital-banking-survey-mobile-app-valuable-features/

successful companies. Fintechs help small business owners and direct lenders optimize their spend management, whether that's bill payment or expense tracking, build equity for their employees, and create consumer-facing products and services.

Lastly, FTA wishes to take this opportunity to share the importance of Diversity, Equity, and Inclusion (DEI) in the fintech industry. Together with our members, FTA is committed to pursuing industry-wide prioritization of DEI, not only among member companies but as part of our collective mission of ensuring expanded access to credit and opportunity for people, businesses, and communities of color. Initiatives such as the Fintech Equality Pledge aim to address historic inequities by fostering a more inclusive and equitable financial system.[4] FTA member Brex also recently partnered with Plaid and AWS, among others, on Plaid's FinRise initiative, an incubator program designed to provide technical assistance and mentorship to support early-stage founders who identify as Black, Indigenous, or People of Color.[5] Carta, another FTA member,invests in emerging venture fund managers through Carta Ventures dedicating at least half of the capital from its venture funds to support historically excluded General Partners (GPs), specifically GPs who are women or people of color.

* * *

Technology-driven innovation is transforming how we offer, access, and benefit from financial services and markets in the United States. Strong partnerships between FTA members and MDIs and CDFIs will continue to significantly expand access to financial opportunity for minorities, minority- and women-owned small businesses, and other vulnerable populations across the globe. By providing internet and mobile platforms, automation, and other modern technologies, fintechs can partner with MDIs and CDFIs to improve efficiency and transparency, increase opportunities for diverse consumers and businesses, and broaden equity, access, and inclusion.

Again, we thank the Committee for their commitment to these critical issues and for the opportunity to comment. FTA and our member companies stand ready to serve as a resource to the Committee and look forward to opportunities to partner on these essential issues moving forward.

Sincerely,

Penny Lee
Chief Executive Officer
Financial Technology Association

[4] https://www.fintechequality.com/
[5] https://plaid.com/blog/plaid-finrise-second-cohort/

INDEPENDENT COMMUNITY BANKERS of AMERICA®

February 16, 2022

The Critical Role of CDFIs and MDIs in Underserved Communities

The Independent Community Bankers of America, representing community banks across the nation with nearly 50,000 locations, appreciates the opportunity to provide this statement for the record for today's hearing titled: "An Unprecedented Investment for Historic Results: How Federal Support for MDIs and CDFIs Have Launched a New Era for Disadvantaged Communities."

Community bankers are committed to serving their communities, including unbanked populations. A community cannot thrive without inclusive access to the banking system. When a significant population remains outside the banking system, predatory practices flourish. These include high-cost payday loans and car title loans that can trap borrowers in a cycle of debt. Without broadly available bank credit, homeownership rates decline. It becomes harder to build wealth, and the racial and ethnic wealth gap widens. Exclusion from the banking system promotes an underground cash economy. Unbanked individuals who carry cash on their person or keep it in their homes are vulnerable to violent crime. The issue of the unbanked is a significant hurdle to full prosperity.

Minority Depository Institutions and Community Development Financial Institutions

Minority Depository Institutions (MDIs) and Community Development Financial Institutions (CDFIs) specialize in serving minority and low-income communities that are disproportionately unbanked. Without the work of these institutions, the unbanked population would be markedly higher. There are currently 146 MDIs holding over $321.8 billion in assets touching 600 minority-majority communities nationwide. There are 300 CDFI banks, primarily serving low-to-moderate income markets and maintaining accountability to those target markets. Their impact in the communities they serve is significant and must be leveraged for greater reach.

Minority banks are effective in serving their communities because of their understanding of their cultural practices, differences, languages, and norms, allowing them to customize products and services that meet their unique needs. Trust and cultural understanding are the core value propositions such institutions offer. These same qualities also make MDIs effective in reaching the unbanked, which requires the ability to overcome barriers to trust.

Initiatives to Promote and Strengthen CDFIs and MDIs

Congress should enact legislation to promote and strengthen MDIs and support their reach into underserved communities as well as their ability to continue serving their unique customer bases. Measures could include permitting MDIs to utilize nontraditional means of raising capital to support additional lending. MDIs typically lack access to the public capital markets that larger banks enjoy.

Ensure the Emergency Capital Investment Program Fulfills its Potential

The Consolidated Appropriations Act of 2021 created the Emergency Capital Investment Program (ECIP) to revitalize and provide long-term financial products and services in low- and moderate-income and minority communities that have disproportionately suffered from the impacts of the COVID–19 pandemic. ICBA thanks Congress for the adoption of this program, which authorized the Secretary of the Treasury to provide capital investments in MDIs and CDFIs by purchasing senior preferred stock or subordinated debt issued by the eligible institutions.

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Unfortunately, regulatory capital rules issued by the banking agencies provide that while preferred stock qualifies as tier 1 capital, subordinated debt qualifies as tier 2 capital.

ICBA is concerned that regulatory capital treatment of subordinated debt as tier 2 capital will greatly diminish the Program's potential. This will reduce the impact that Congress envisioned for the Program, especially considering that subordinated debt is the only instrument available under this Program for as many as 75 MDIs and CDFIs that are either mutual banking organizations or banks operating as S-corporations. Categorizing subordinated debt as tier 2 capital could result in billions of dollars not being as fully leveraged as it could be, or worse yet, leaving significant sums of money unused.

We thank Chairwoman Waters for her recent letter to Federal Reserve Board Chairman Jerome Powell requesting that he provide clarity on the capital treatment of these funds for CDFIs and MDIs organized as Subchapter S corporations or mutuals.

New Programs

In addition to capital, Congress and the federal banking agencies should create programs to promote investments, technical assistance, mentorship, and collaborative relationships between minority banks and community banks at large. Many of these are included in the Ensuring Diversity in Community Banking Act, which is discussed below.

ICBA also supports House legislation, the Promoting Access to Capital in Underbanked Communities Act of 2021 (H.R. 2561), which is intended to promote de novo community bank formation, including MDIs, by phasing in capital standards over three years. Start-up capital is often the greatest impediment to forming a new bank, and this provision would help spur the creation of new MDIs and Impact Banks. This kind of regulatory flexibility, recognizing the financing disparities of different types of banks, is critical to promoting the formation of additional, mission-driven banks positioned to serve unbanked and underbanked communities.

Additional measures to strengthen CDFIs include: Funding the CDFI Fund's Loan Loss Reserve Fund for small dollar loans and providing additional appropriations for the CDFI Fund to provide technical assistance to CDFIs. Policymakers should also streamline the application and recertification process for MDIs to receive the CDFI designation. This would not only provide the flexibility for these institutions to reach first-time customers, but also encourage the formation of de novo MDIs, increasing the number of private, community banks focused on serving financially underserved communities. MDIs and CDFIs must be a part of the solution to the challenge of the unbanked.

Financial technology

According to FDIC data, 49.5 percent of unbanked households and 83.2 percent of underbanked households have regular access to a smartphone, while 28.5 percent of unbanked households and 76.1 percent of underbanked households have regular access to the internet. Smartphone and internet access can and will continue to expand with the support of targeted policy initiatives. Younger people of all demographics are already predisposed to use mobile banking and mobile payments, according to the Federal Reserve's most recent survey on Consumers and Mobile Financial Services.

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Partnerships between CDFIs and MDIs and fintech providers are a critical part of ensuring greater access to financial services beyond the reach of physical branches. ICBA supports initiatives to expand affordable access to broadband and other technologies and promote the use of fintech as a means for unbanked and underbanked households to access banks with low-cost product offerings. Bank-fintech partnerships are an important feature of the financial landscape, and we must ensure that it expands in an inclusive and affordable manner.

Legislation Before the Committee Today

Below are ICBA's views on legislation before the committee today.

Ensuring Diversity in Community Banking Act (Rep. Meeks). ICBA strongly supports this legislation which would create programs to promote investments, technical assistance, mentorship, and collaborative relationships between minority banks and community banks at large. In particular, this bill would create a new "Impact Designation" for banks with a specified percentage of loans extended to low-income borrowers would ensure that assistance is directed to those institutions that are having the greatest impact in low-income communities. ICBA supported this bill last Congress when it passed the House and welcomes its reintroduction.

Expanding Opportunity for Minority Depository Institutions Act (Rep. Beatty). ICBA supports this legislation which would create a mentor-protege program at Treasury for larger banks to mentor MDIs and community banks under $2 billion. This program will help MDIs and community banks gain operational expertise and experience, ultimately helping them better serve their communities and customers over the long term and across business cycles. ICBA supported this bill last Congress when it passed out of the committee.

CDFI Bond Guarantee Program Improvement Act (Rep. Cleaver). ICBA supports this legislation. Reducing the minimum guarantee amount may make the program more available to smaller CDFIs.

Federal Home Loan Banks' Mission Implementation Act (Rep. Torres). ICBA supports the goal of this legislation to broaden types of collateral that may be pledged for advances. We are concerned about provisions of the legislation would increase the mandatory amount of Affordable Housing Program investments by each FHLB from 10 percent to 20 percent of net earnings as well as the creation of a new Community Development Fund, which would be funded by an additional 10 percent of net earnings. Taken together, these provisions would appropriate 30 percent of net earnings, a 200 percent increase. While we could support a modest increase for these purposes, a sharp increase of 200 percent could cause drive higher costs for advances and other services for member banks and thereby divert resources that they dedicate to their communities.

CDFI Certification Consultation Act. ICBA opposes this legislation as it would add another layer of review and further complicate the certification process. This would contravene efforts to simplify and streamline certification, which will result in more CDFIs supporting their communities.

Advancing Technologies to Support Inclusion Act. ICBA supports the legislation's efforts to address CDFI and MDI technology capabilities and capacity and provide them with additional funds to enhance or adopt technologies that improve their operations and customer experience.

Supporting the Creation of Diverse and Mission-Driven Community Financial Institutions Act. ICBA strongly supports this legislation which would establish a pilot program to provide competitive grants for the creation of minority depository institutions and community development financial institutions. Such grants would have a positive impact on underserved communities.

Understanding Community Financial Institutions' Impact in Underserved Communities Act. ICBA believes that the CDFI Fund report required under this legislation would provide useful information. We would oppose, however, any additional reporting requirements for CDFIs that would divert resources from serving their communities.

Promoting and Advancing Communities of Color Through Inclusive Lending Act (Waters). This bill includes a number of provisions included in bills discussed above. We ask that this committee consider the community bank views of these provisions.

Closing

Thank you for convening today's hearing. Expanding access to vital financial services in underserved communities is a policy priority for ICBA. We welcome this committee's support for CDFIs and MDIs and look forward to working with you on the initiatives discussed in this statement.

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NAFCU
National Association of Federally-Insured Credit Unions

February 15, 2022

The Honorable Maxine Waters	The Honorable Patrick McHenry
Chairwoman	Ranking Member
House Financial Services Committee	House Financial Services Committee
United States House of Representatives	United States House of Representatives
Washington, DC 20515	Washington, DC 20515

Re: Tomorrow's Hearing: "An Unprecedented Investment for Historic Results: How Federal Support for MDIs and CDFIs Have Launched a New Era for Disadvantaged Communities"

Dear Chairwoman Waters and Ranking Member McHenry:

I write to you today on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) regarding tomorrow's hearing. We appreciate the opportunity to share our views on the important role that Community Development Financial Institutions (CDFIs) and Minority Depository Institutions (MDIs) play in the economy and local communities. NAFCU advocates for all federally-insured not-for profit credit unions that, in turn, serve over 127 million consumers with personal and small business financial service products.

Credit unions are proud of their record of diversity. According to the NCUA's "2020 Minority Depository Institutions Report to Congress," at the end of 2020 there were 520 federally-insured credit unions designated as MDIs, 417 of which also have the low-income credit union designation. Credit union MDIs are located in 37 states, Washington, D.C., Puerto Rico, and the U.S. Virgin Islands. These institutions serve over 4.3 million members and tend to be smaller institutions; 82 percent of MDI credit unions have assets of $100 million or less. They also tend to underperform growth in all categories, including asset size, membership, and loan volume, in comparison to the rest of the credit union industry, and the disparity is growing.

Credit unions are also proud of their participation in the CDFI program, which provides grants to allow credit unions to better serve low-income members and underbanked communities. There were 416 CDFI-designated credit unions as of December 28, 2021, up from 285 in November of 2018, serving nearly 17 million predominantly low-income consumers and communities of color. In addition to helping credit unions in low-income areas serve members in need, the CDFI program gives credit unions access to funds that they are not able to raise from the capital markets.

As the Committee examines approaches to aid CDFIs and MDIs, we believe it is important to properly fund federal support for CDFIs and MDIs. This includes increased funding through the annual appropriations process for both the CDFI Fund and the NCUA's Community Development Revolving Loan Fund (CDRLF). The CDRLF is an important tool for credit unions to serve low-income areas by providing grants to low-income credit unions to meet needs in those areas, often to provide technology resources to help members. During the pandemic, CDRLF requests have far outpaced available funding. NCUA Chairman Todd Harper has specifically called for additional CDRLF funding to help low-income credit unions.

Additionally, we would support creating a CDFI Crisis Fund that would automatically make additional capital available to CDFIs to address natural disasters and economic crises when they occur in their community as proposed by Senator Brian Schatz.

Regarding the subject legislation of this hearing, NAFCU would like to offer its support for:

- the *CDFI Bond Guarantee Program Improvement Act*;
- the *Federal Home Loan Banks' Mission Implementation Act*;
- the *Advancing Technologies to Support Inclusion Act*; and
- the *Supporting the Creation of Diverse and Mission-Driven Community Financial Institutions Act*.

NAFCU is generally supportive of the *Promoting and Advancing Communities of Color Through Inclusive Lending Act*, but would like to see further clarity in Section 7. We are concerned that, while well intended, the process could be hindered by the legislation as written. Likewise, NAFCU is supportive of the intentions of the *CDFI Certification Consultation Act*, but is concerned that the legislation, as written, could further slow down the approval process. We look forward to working with the Committee to achieve the intended goals of these pieces of legislation.

Finally, we would urge you to consider the following areas to assist CDFI and MDI credit unions:

Improve the Process for Certification as a CDFI
NAFCU has heard from many credit unions that have been waiting several months for certification as a CDFI with little clarity or insight on their status. While it is important that the CDFI Fund have the resources to handle the volume of applications in a more timely manner, it is also critical that technical issues or overburdensome requirements do not hamper efforts by credit unions to serve those who want to help members in need. We believe that the CDFI Fund is best situated as a resource for institutions, and not a regulator. Additionally, transparency is key. As such, we believe the process for certifying, and maintaining certification, for a credit union, as an insured depository institution (IDI), should recognize their unique nature. Examples of how this can be done include:

- Ensuring that the "primary mission test" is not a hurdle for credit unions as not-for-profit member-owned cooperatives;
- The "target market test" for certification should focus on those to whom the credit union provides a wider range of financial services, and not just to whom it has already made loans, to meet thresholds; and
- Allowing a longer "cure period" to maintain certification that ensures credit unions can keep existing CDFI-backed programs in place. Credit unions, as not-for-profit, member-owned financial institutions, often face limited resources and staffing, which may impact their ability to quickly cure any issues, but they are still required to meet the same

regulatory burdens and subject to the same market pressures as large, for-profit banks. A longer "cure period" for CDFI credit unions will allow them to meet the challenges of unforeseen events like natural disasters and pandemics—and deal with existing regulatory requirements, some of which are unique to credit unions—all while continuing to serve their communities.

Allow all Credit Unions to Serve Underserved Areas
As has been noted by Members of Congress across the political spectrum, credit unions were not the cause of the Great Recession, and an examination of their lending data indicates that credit union mortgage lending outperformed bank mortgage lending during the downturn. This is partly because credit unions did not contribute to the proliferation of subprime loans. Before, during, and after the financial crisis, credit unions continued to make quality loans through sound underwriting practices focused on providing their members with solid products they can afford.

In addition, both during and after the crisis, credit unions have been committed to helping the portions of their communities that are most in need obtain high quality products and services. This has been demonstrated once again during the pandemic. Unfortunately, credit unions that want to do more are limited in who they can serve by the *Federal Credit Union Act* (FCU Act), which restricts credit unions to serving a distinct field of membership. Many credit unions want to help those in underserved areas but the ability to add underserved areas to their fields of membership is limited. Currently, only multiple common bond credit unions have the authority to add underserved areas. We urge the Committee to amend the FCU Act to allow all credit unions the ability to add underserved areas to their fields of membership.

Loan Maturity Limits
The FCU Act has a general statutory limit on federal credit union loans of 15 years, with a limited number of exceptions, such as mortgage loans for a primary residence. The rigid and limited set of exceptions to the FCU Act's general 15-year maturity limit does not provide the NCUA with the ability to expand the types of loans that may be made with a longer maturity limit through regulation. For example, many military members may purchase a home to move to when their service ends, but because it is not their current primary residence, they may be unable to obtain a loan with a term longer than 15 years. Additionally, a number of credit unions have been approached by members wanting to obtain financing for solar loans with a term longer terms. Both of these examples highlight the fact that the current 15-year limit is outdated and does not conform to maturities that are commonly accepted in the market today, resulting in credit unions turning away members in need and losing market share in a growing area of climate-friendly lending. In a rising interest rate environment, it is important that consumers have options for longer maturity products. We urge you to adopt an approach similar to the one found in S.762, the *Expanding Access to Lending Options Act*, introduced by Senators Tim Scott, R-SC, and Catherine Cortez-Masto, D-NV, to address this issue.

Allow GSEs to Purchase Non-Conforming Loans from CDFIs
An important aspect of the CDFI Fund is that it provides awards to CDFI institutions to allow them to finance mortgage lending for first-time homebuyers and be able to provide flexible underwriting for community facilities. CDFIs often provide educational services such as credit counseling and

homebuyer classes to help their borrowers use credit effectively and ensure they are able to keep up with their loan obligations. However, the majority of the mortgages originated by CDFIs are considered non-conforming (as they do not meet the loan-to-value, debt-to-income, FICO score, or other requirements), and Fannie Mae and Freddie Mac (the government-sponsored enterprises (GSEs)) are unable to purchase these loans. NAFCU has urged the Federal Housing Finance Agency (FHFA) to create a pilot program to allow the GSEs to buy such non-conforming loans from CDFIs because they are serving the exact communities that the GSEs aim to serve through their statutorily mandated missions.

Credit unions that are classified as CDFIs are best situated to originate loans to the communities most in need. NAFCU believes that one way to help address the widening homeownership gap for minorities would be for the FHFA to permit the GSEs to purchase mortgages like the ones made by CDFIs to their communities through new pilot programs with less stringent purchase criteria. Establishing such pilot programs will facilitate the development of a vibrant secondary market, thus ensuring the long-term viability and even expansion of such lending programs in the primary mortgage market. This would mean CDFIs could make more of these loans to support their communities and help resolve some of the access and equity issues currently impacting many borrowers. Should the FHFA prove unwilling to allow the GSEs to purchase these mortgages, we urge you to consider taking legislative action on behalf of CDFIs and the underserved areas they serve to bring about this change.

Federal Housing Administration (FHA) Lending

Credit unions in general, and especially credit unions designated as CDFIs and MDIs, play a vital role in supporting underserved communities. As noted above, to obtain and maintain their certification, CDFIs must demonstrate that at least 60 percent of their lending activity is directed to one or a combination of target markets: economically distressed geographies (Investment Areas); low-income targeted populations (LITP); and minority communities, specifically African Americans, Hispanics, and Native Americans (other targeted populations - OTP). One of CDFIs' most important values to these communities is their ability to provide responsible and affordable mortgage lending for first-time homebuyers, lending to small businesses, and offer flexible underwriting for community facilities. The financial products offered by CDFIs are designed to support the specific needs of the borrower, particularly low- and moderate-income, as well as minority borrowers, as most are fixed-rate and self-amortizing with lower origination fees. This keeps payments affordable and allows borrowers to decrease the principal, so the loan is actually paid off at the end of the term. Although these products provide much-needed credit in their respective communities, their specialized nature may set them apart from conventional mortgage products. NAFCU has urged the FHA to introduce additional programs that provide insurance for CDFI loans and that make it easier for these communities to have access to FHA-backed mortgage products.

We recommend that Congress require the U.S. Department of Housing and Urban Development to conduct a study to determine the level of participation of CDFIs in FHA loan insurance programs and offer targeted training and resources to grow the number of CDFIs that are FHA-approved lenders.

The Honorable Maxine Waters, The Honorable Patrick McHenry
February 15, 2022
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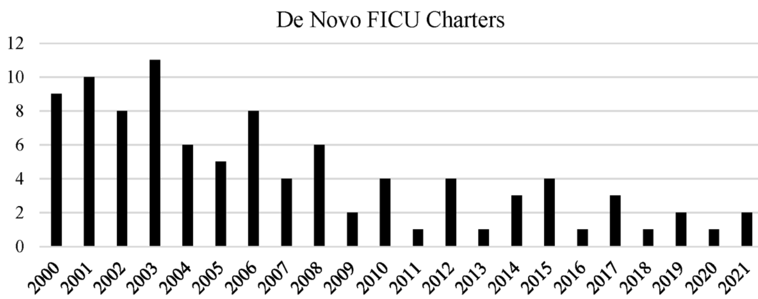
De Novo Credit Unions

The rising cost of compliance deters many would-be *de novo* (start-up) credit unions. Additionally, the initial capital infusion and cash outlays are often too great for many communities and associations, and there is little to no return on investment. Starting a new credit union is essentially an altruistic endeavor, as there is no ultimate financial incentive for those that are successful, and the costs and hurdles can be discouraging. Furthermore, the complex chartering process is relatively easy and straightforward when compared to what a *de novo* credit union will face once it is chartered and operating. All of these factors contribute to a significant decline in the pace of *de novo* credit unions post financial crisis.



A new charter is considered as one with at least one filed call report
Source: NAFCU analysis of NCUA call report data

The chart above outlines the number of *de novo* federally-insured credit unions chartered since the year 2000.

The NCUA takes an active role in helping new credit unions form and provides support. NAFCU appreciates the NCUA's strategic focus on easing barriers to the formation of new credit unions, including streamlining the chartering process, offering assistance to groups attempting to establish a new credit union in earlier stages, and providing newly formed credit unions with additional flexibility in meeting regulatory requirements.

Still, the NCUA's abilities are limited by what is allowed under statute. NAFCU urges Congress to modernize the FCU Act to promote the chartering of *de novo* credit unions and to provide greater flexibility regarding prompt corrective action capital requirements for *de novo* credit unions. Although the FCU Act gives the NCUA the authority to offer some prompt corrective action flexibility for new credit unions, expanding the agency's authority would be helpful.

Subordinated Debt
Congress may provide more flexibility to credit unions' ability to serve low- and moderate-income individuals in their communities by supporting the NCUA in its efforts to permit credit unions to issue subordinated debt. Currently, low-income credit unions are able to offer a form of subordinated debt called secondary capital. Low-income credit unions may issue secondary capital accounts to non-natural persons and these accounts are generally treated as regulatory capital. The approval process to offer secondary capital can, however, be complex. NAFCU appreciates the NCUA's recent supervisory guidance pertaining to the evaluation of secondary capital plans, as it provides valuable insight into why a secondary capital plan may be denied. Nonetheless, NAFCU continues to urge the agency to provide further support and guidance to low-income credit unions so they can better utilize this important resource.

NAFCU advocates for a more streamlined process for the approval of secondary capital applications. Although every secondary capital plan is necessarily different depending on the credit union in question, the process should be more standardized to help credit unions anticipate and better prepare their secondary capital plans for approval. Additional flexibility, guidance, and other resources, particularly on how credit unions can more comprehensively project future performance over a reasonable time horizon would be helpful as many low-income credit unions continue to face obstacles in the approval process. Additionally, NAFCU supports improved flexibility in credit unions' capital framework to enhance consistency across regions regarding the treatment of secondary capital as it applies to a credit union's net worth calculation.

Taking the steps outline above would go a long way to helping meet the needs of CDFIs and allowing them to meet the challenges that arise.

We thank you for the opportunity to share our thoughts and look forward to continuing to work with you on improving CDFIs and MDIs so they can continue to serve the economy and their communities. Should you have any questions or require any additional information, please contact me or Chad Adams, NAFCU's Senior Director of Legislative Affairs, at (703) 842-2265 or cadams@nafcu.org.

Sincerely,

Brad Thaler

Brad Thaler
Vice President of Legislative Affairs

cc: Members of the U.S. House Committee on Financial Services

REGIONS

February 16, 2022

The Honorable Maxine Waters
Chairwoman
Committee on Financial Services
U.S. House of Representatives
2129 Rayburn House Office Building
Washington, D.C. 20510

The Honorable Patrick McHenry
Ranking Member
Committee on Financial Services
U.S. House of Representatives
4340 O'Neill House Office Building
Washington, D.C. 20024

Dear Chairwoman Waters and Ranking Member McHenry,

Regions Financial Corporation ("Regions") appreciates the opportunity to share our views on the topic of Community Development Financial Institutions ("CDFI") and Minority Depository Institutions ("MDI") for the upcoming virtual hearing entitled, *An Unprecedented Investment for Historic Results: How Federal Support for MDIs and CDFIs Have Launched a New Era for Disadvantaged Communities.* We too believe supporting CDFIs and MDIs is important and have a strong commitment to collaborating with and investing in these organizations. Relationships with CDFIs and MDIs help further our shared goals of empowering communities of color and helping close the racial wealth gap.

Regions serves customers across the South, Midwest and Texas, providing a full suite of consumer and commercial banking, wealth management, and mortgage products and services. Today, Regions has a robust catalogue of solutions we use to guide and support our clients' financial needs and serve our communities by supporting initiatives where we can have meaningful impact. This includes an active and innovative set of partnerships with CDFI and MDI institutions throughout our footprint.

For decades, Regions has worked alongside nonprofit organizations, local businesses, and government and service agencies to address social and economic issues, assist in building inclusive economic prosperity, and help more members of our communities benefit from the rewards of a growing economy. Recently, the Regions Foundation, a nonprofit initiative of Regions Bank, provided nearly $15 million in grants, direct equity investments, and community partnerships since being endowed in 2018. Thus far, the Foundation's financial commitment has supported over 270 organizations spanning 13 states as part of our commitment to advance racial equity and economic empowerment. These partnerships help local organizations focus on a range of crucial issues such as education, employment, housing, access to capital, small business assistance, and other issues. Organizations receiving grants from the Regions Foundation include several CDFIs that are providing financial services to businesses in underserved areas in both urban and rural markets. Additionally, various nonprofit community organizations are receiving funding in support of their work with entrepreneurs.

Recently, Regions was able to bolster its longstanding mission to advance economic prosperity for our customers and communities by establishing the Regions Community Development Corporation (RCDC). Established in 2020, RCDC serves as a catalyst to help revitalize communities and improve the lives of economically disadvantaged individuals and families in the Regions footprint by supporting CDFIs and MDIs via debt and/or equity financing.

Despite RCDC's recent launch, it has already had an impact by making strategic investments in MDIs and CDFIs across our footprint, including a $2 million investment last year in Optus Bank, a South Carolina

MDI. RCDC has continued its support for these community institutions in 2022, having closed three additional equity investment deals with CDFIs in Arkansas and Texas and an MDI in Georgia already this year. Regions is excited by this effort, which builds on decades of work in our communities. We are actively working on more such investments through the RCDC, and we look forward to sharing details of that progress with you in the future.

Regions also seeks to be innovative in our support for community partners. One recent example is an alliance with Mobile-based Commonwealth National Bank, a Black-owned CDFI and MDI in Alabama. As persistently low interest rates have compressed the net-interest margin across the CDFI space, Regions identified an opportunity to support Commonwealth's growth by providing funding to support an experienced commercial banker for two years to boost lending efforts at Commonwealth. To ensure Commonwealth has an appropriate level of reserves and liquidity to cover its projected growth, Regions also funded a loan loss reserve. Further, the RCDC also made an investment in Commonwealth to bolster liquidity.

Again, thank you for your attention to this matter and the opportunity to share our views with your committee. Regions is proud to serve each and every one of our customers and looks forward to continuing to help revitalize communities and improve lives throughout our footprint.

Sincerely,

Leroy Abrahams
Executive Vice President
Head of Community Affairs
President, Regions Foundation

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U. S. Bank Statement for the Record by U.S. Bank before the U.S. House Committee on Financial Services

U.S. Bank appreciates the opportunity to submit comments related to the Committee's Feb. 16 virtual hearing, "An Unprecedented Investment for Historic Results: How Federal Support for MDIs and CDFIs Have Launched a New Era for Disadvantaged Communities."

U.S. Bank is a strong supporter of minority depository institutions (MDIs), credit unions and CDFIs, recognizing the important role they play in deploying resources to uniquely address the needs of Black businesses, homeowners and nonprofits, as well as other underserved communities of color.

Through U.S. Bank Access Commitment, we're focused on supporting businesses owned by people of color and helping individuals and communities of color advance economically, starting with the Black community because that is where the persistent racial wealth gap in the United States is the largest (Federal Reserve, 2019). It's a long-term approach to help build wealth while redefining how we serve racially diverse communities and provide more opportunities for racially diverse employees. In 2021, U.S. Bank provided more than $197 million in capital to Black-owned or -led businesses and organizations through U.S. Bancorp Community Development Corporation (USBCDC), the community investment and tax credit division of the bank. As part of Access Commitment, in the coming year we'll explore intentional ways to expand support in Hispanic communities and other communities impacted by wealth gaps.

Our commitment to addressing the racial wealth gap extends to support for Black banks and MDIs. In turn these organizations can lend more to households and businesses in the communities they serve – increasing access to capital for more Americans and helping to close the racial wealth gap.

These institutions face a myriad of challenges. Because of economic declines, only about 20 MDIs remain, leaving too many Americans – and specifically Black Americans – far more likely to be underbanked at a time when the racial wealth gap widens. The lack of access to financial services has forced Black households to rely on costly alternatives such as check-cashing, payday loans, money orders and pre-paid credit cards

U.S. Bank is focused on supporting MDIs in a variety of ways.

First Independence Bank: U.S. Bank has partnered with Detroit-based First Independence Bank since 2019 through the U.S. Department of Treasury Mentor Protégé program, pairing large institutions with smaller minority- and women-owned banks. As a result of this partnership, U.S. Bank has:

- Made a $2 million preferred stock equity investment to First Independence Bank's holding company to assist with capital base and support growth initiatives.
- Supported First Independence Bank's market expansion efforts into the Twin Cities, a collaborative effort across five banks; we're committing $100 million in loans and supporting First Independence with research, marketing and other services to assure long-term success.
- Collaborated through our Payment Services business to deploy a joint credit card program and merchant processing referral program
- Engaged in HR talent consulting with First Independence to assist with sourcing strategies for an HR director, job postings, and employee growth and development

Broader support for MDIs: U.S. Bank is looking across our business at products and services to better address the capital needs and technical assistance required to grow and sustain Black-owned/led MDIs. We're leveraging strategic partners to inform this work through grants to organizations like the African-American Credit Union Coalition, the African American Alliance of CDFI CEOs, National Bankers Association, National Black Bank Fund and others.

Support for CDFIs, and particularly, Black-led CDFIs: CDFIs play a critical role in bringing investment and resources to underserved communities and those who may not be eligible for traditional small business financing, with a focus on women and minority-owned businesses and low-to-moderate income communities. U.S. Bank has been a long-time partner working with CDFIs to provide funding to entrepreneurs and small businesses that need it most, helping ensure that more than $485 million in capital was available for CDFIs and their customers, most of that in the last five years. CDFIs led by those who are from the communities they serve – whether Black, Hispanic, etc. – have a deeper understanding of where and why resource gaps exist within their communities and how best to close those gaps. Through Access Commitment, we've increased our focus here and strengthened partnerships with organizations like the African American Alliance of CDFI CEOs. For example, the Alliance is one of our partners in our $25 million Access Fund supporting more than 30,000 microbusinesses owned by women of color over three years.

U.S. Bank also recently partnered with CDFI Enterprise Community Loan Fund to issue an innovative bond designed for targeted and measurable racial equity results. Noted as the first CDFI-issued racial equity bond of its kind, this $30 million bond will help provide loans to Black, Indigenous and people of color housing developers under Enterprise's Equitable Path Forward initiative. U.S. Bank served as structuring agent, advisor and sustainability coordinator on the design of this unique framework and is purchasing the initial $10 million of the $30 million bond. The introduction of this new social bond framework into the capital markets for mission-driven institutions like CDFIs offers companies the opportunity to directly invest in projects that support racial equity in underinvested communities of color.

Advocate for racial equity in the New Markets Tax Credit (NMTC) industry: U.S. Bank has led the CDFI industry in seeking to expand NMTC eligibility for underrepresented CDFIs by submitting comments to the CDFI Fund and providing feedback about the under-representation of person of color-led CDFIs in the NMTC industry. Our engagement recommended changes to the allocation application process that could help remedy this issue. The U.S. Bank community development entity – USBCDE, LLC – uses our own NMTC allocation to focus on projects that help reduce the racial wealth divide. We're also mentoring other CDEs led by people of color to help them build experience and apply for their own NMTC allocation.

We thank the committee for the opportunity to submit comments and respectfully ask for your consideration in increasing support of MDIs and CDFIs. If you have any questions or would like to discuss further, please contact me at email/phone.

Sincerely,
Greg Cunningham
U.S. Bank Chief Diversity Officer

The Honorable Maxine Waters, Chairwoman
U.S. House Committee on Financial Services
2129 Rayburn House Office Building
Washington D.C. 20515

The Honorable Patrick McHenry, Ranking Member
U.S. House Committee on Financial Services
4340 O'Neill House Office Building
Washington D.C. 20024

March 7, 2022

The undersigned organizations submit this written testimony for the record for the House Financial Services Committee's hearing on February 16, 2022 "An Unprecedented Investment for Historic Results: How Federal Support for MDIs and CDFIs Have Launched a New Era for Disadvantaged Communities." Our organizations represent CDFIs, including loan funds, and MDIs with strong track records of reaching borrowers, businesses, and communities of color.

We appreciate the attention to the critical work of CDFIs and MDIs in reaching people and places typically underserved by other mainstream financial institutions. We applaud the historic levels of investment made by the Consolidated Appropriations Act of 2021, and recognize they are represent a significant step forward in work still ahead of us to close the racial wealth gap.

Mission-focused CDFIs and MDIs, like those we represent, are on the frontlines of providing vital tools and opportunities to people and communities far too often neglected by traditional banks, credit unions and even other CDFIs. Likewise, despite the outsized impacted of organizations with strong track records in reaching people of color, CDFIs and MDIs led or owned by people of color are also under resourced compared to our counterparts, in part driven by disparities in access to federal funding resources that spur the capitalization of CDFIs. In light of the response by mission-focused CDFIs and MDIs to COVID-19, the outsized role they have long-played in extending financial services to people of color, and the unprecedented opportunity to scale this impact, Congress and Treasury must continue efforts to provide sustained and targeted support to reach communities of color.

As such, our organizations support the proposal currently before the Committee to allocate 40% of future CDFI Fund awards to CDFIs with strong reach into communities of color. This provision is necessary to make progress in closing the capital gaps in communities of color and among the financial institutions that serve them. Given that today's racial disparities are rooted in the history of policy decisions at the federal level, it naturally flows for federal policy decisions to fill these gaps.

Additionally, we support the proposed $4 billion investment in CDFIs and MDIs (including CDFI loan funds); the efforts to ensure greater accountability in the deployment of these funds to reach the communities historically overlooked for capital investments; and the recognition of the role of increased resources for accessing technology tools to amplify our work. Collectively, these proposals will fuel the expansion of jobs, small business creation, affordable housing and other community infrastructure in the communities most underserved by other institutions.

The breadth of the racial wealth gap is an indicator of the scale of the resources still needed to close it. Key to closing these gaps is increasing access to financial services, small business ownership and homeownership. While banks and other large financial institutions have a role in closing these gaps, sustained and targeted investment in mission-focused MDIs and CDFIs, including loan funds, with demonstrated a commitment to serving people of color is a proven solution for setting the nation on a path toward inclusive economic prosperity.

Respectfully submitted by:

African American Alliance of CDFI CEOs

Expanding Black Business Credit Initiative

National Association for Latino Community Asset Builders

National Association of Latino Credit Unions and Professionals

Native CDFI Network

Oweesta Corporation

Responses from Michael Faulkender to Questions from Representative Torres

February 16, 2022 Full Committee Hearing

Question: My bill the Federal Home Loan Banks' Mission Implementation Act would provide critically needed investments that will make it a more reliable partner for local financial institutions, governments, nonprofits, farmers and business owners looking for financing to address infrastructure and business challenges. Should the Federal Home Loan Bank, a federally-sponsored government enterprise, serve the housing and community development needs of low-income areas?

Response: While Federal Home Loan Banks served an important role during the Great Depression, the evolution of our financial markets over the last ninety years calls into question whether we need them any longer. In an effort to stay relevant in today's financial structure, they have moved beyond their original function and now are primarily used to capture subsidies arising from the government guarantee. I would support eliminating them.

Question: For low-income communities with a high level of unemployment and poverty, what federal investments do you support? How can federal investments best respond to market failures that result in some communities facing plant closures or loss of jobs?

Response: The most important things that we can do to support low-income communities are to (1) incentivize capital investments in these areas through programs like opportunity zones, (2) encourage employment by requiring that government assistance to prime-age, able-bodied adults come with work requirements, and (3) facilitate competition in education to ensure that both children and adults have access to the skills needed to compete in the modern economy.

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